



TO: TMWA Board of Directors
FROM: Jeff Tissier, Chief Financial Officer
DATE: December 8, 2010
SUBJECT: **Discussion and Action on adoption of Resolution No. 179 approving the Comprehensive Annual Financial Report for Fiscal Year 2011 and discussion of Financial Performance**

Recommendation

TMWA staff recommends that the Board approve the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011 by resolution and direct the Chief Financial Officer to forward the appropriate documentation to the State of Nevada Department of Taxation within the prescribed deadline.

Background

Pursuant to NRS 354.624, Truckee Meadows Water Authority (TMWA) is required to conclude an audit before November 30, 2011, and submit the audit report to the governing body not later than six months after the close of the fiscal year for which the audit is conducted.

The CAFR for the fiscal year ended June 30, 2011, includes the letter of transmittal, management's discussion and analysis, the audit report, the financial statements, required supplementary information, supplementary information, and the statistical schedules.

The financial statements include the Statement of Net Assets (Balance Sheet) of the Truckee Meadows Water Authority as of June 30, 2011 and related Statements of Revenues, Expenses and Changes in Net Assets (Income Statement) as well as the Statement of Cash Flows for the period from July 1, 2010 through June 30, 2011. The financial statements include comparative information with prior year financial position and results. The financial statements were prepared in conformity with applicable accounting standards.

Of particular importance to TMWA is the auditor's unqualified opinion on the financial statements. TMWA was in compliance with Generally Accepted Accounting Principles and Nevada Revised Statutes for the year ended June 30, 2011. TMWA was not in compliance with reporting requirements for unclaimed property but this condition was corrected in November and TMWA is now in compliance with the NRS 120A.520.

Discussion

This staff report presents a summary of overall financial performance. Complete information is shown in the financial statements and the notes supporting the financial statements. Management's Discussion and Analysis (MD & A) in the financial section provides a detailed discussion of comparative financial performance for the past two years.

Overall financial performance for the fiscal year ended June 30, 2011 has continued to be challenging because of the impact of lower water demands affecting overall water sales, the result of local economic conditions and continued cool spring weather patterns. Total operating revenues were \$1.6 million or 2.0% less than budget. Water sales were \$1.9 million or 2.6% less than budget. The budget reflected the incremental water sales benefit from the June 2010 water rate increase. Offsetting the lower than expected water sales was \$0.6 million (23.8%) greater than expected hydroelectric revenues as a result of greater than expected river flows. Other operating sales were \$0.3 million or 13.1% less than budget.

Total operating expenses were \$3.6 million or 9.8% less than budget and prior year spending which was a significant achievement. Wages and salaries were nearly \$0.9 million less than budget. This was due to not filling vacant positions, and controlling overtime. Employee benefits were also \$0.7 million less than budget due to not filling vacant positions as well as less overall spending on health care premiums. Services and supplies expenses were \$2.0 million under budget and primarily due to significantly less power expenses and the remaining savings were across a multitude of other expense categories including water treatment chemicals. TMWA is now reaping the benefit of reduced power expense from the commissioning of the Highland Canal improvements which has reduced reliance on the Orr Ditch Pump station to feed raw water to the Chalk Bluff Water Treatment Plant as well as revised pumping protocols in the distribution system. Operating expenses for fiscal year 2011 were reduced to fiscal year 2005 levels. TMWA personnel have made a concerted effort to manage spending throughout the organization and will continue with this effort into the future.

Total non-operating net revenues and expenses were \$0.4 million or 1.8% less than budget. This was accomplished by less spending on merger related activities and less than planned spending on the Voluntary Separation Program (VSP). Investment income was somewhat negatively impacted by continued reductions in investment yields especially in the debt service reserves. Offsetting the reduction in investment yields was a comparable reduction in interest expense as a result of very low interest rates on TMWA's outstanding commercial paper. The weighted average interest rate on TMWA's commercial paper was 0.18% as of June 30, 2011. The commercial paper program continues to be an effective natural hedge against reduced investment earnings and an effective asset/liability management tool.

Spending on capital outlays and construction projects for the fiscal year ended June 30, 2011 was approximately \$20.2 million. The most significant construction projects were the completion of the Glendale Diversion and various water main replacement projects. TMWA continues to make strategic improvements to the water system, taking advantage of an excellent construction

bidding environment. This helps benefit the community by promoting construction employment while balancing the need to preserve TMWA's financial stability.

Total cash and investments as of June 30, 2010 was \$121.7 million of which \$73.2 million was restricted by bond indenture requirements and the remaining \$48.5 million was unrestricted and available to pay for future operating and maintenance expenses, construction spending and debt payments. In light of the impact that reduced water demands are having on TMWA's water sales, TMWA's cash reserves are more critical than ever to provide future financial stability during what appears to be a prolonged and severe recession. As of June 30, 2011 TMWA had \$530.0 million in outstanding debt. Of this total \$450.6 million was fixed rate debt and \$79.4 million was variable rate debt. TMWA's senior debt coverage ratio recovered from the lows experienced in the previous few years and stood at 1.46x without developer fees and 1.47x with developer fees. Bond covenants require a ratio of at least 1.25x with developer fees which was experienced in fiscal year 2009. TMWA has now redeemed all of the original 2001A acquisition bonds through a series of bond refinancings (refundings).



NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2011 and 2010

PREPARED BY: Jeffrey P. Tissier, CPA
Chief Financial Officer

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INTRODUCTORY SECTION

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November 28, 2011

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, 2011. 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 (GAAP).

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The CAFR consists of four sections:

Introduction Section- This section is comprised of 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 basic financial statements, supplementary financial information and independent auditor's report on the basic financial statements. In addition, this section includes Management's Discussion and Analysis (MD&A), which provides a narrative overview and explanation of the results reflected in the basic financial statements. The financial statements presented in this section were prepared in accordance with GAAP. TMWA's financial activities are reported as an enterprise fund (proprietary fund type).

Statistical Section- This section is comprised of selected financial, operational and demographic information generally presented on an annual basis since TMWA began water utility operations on June 11, 2001.

Compliance Section- This section consists of information regarding TMWA's compliance with state statutes, in particular conformance with the Local Government Finance Act as well as compliance with requirements of federal granting agencies.

REPORTING ENTITY

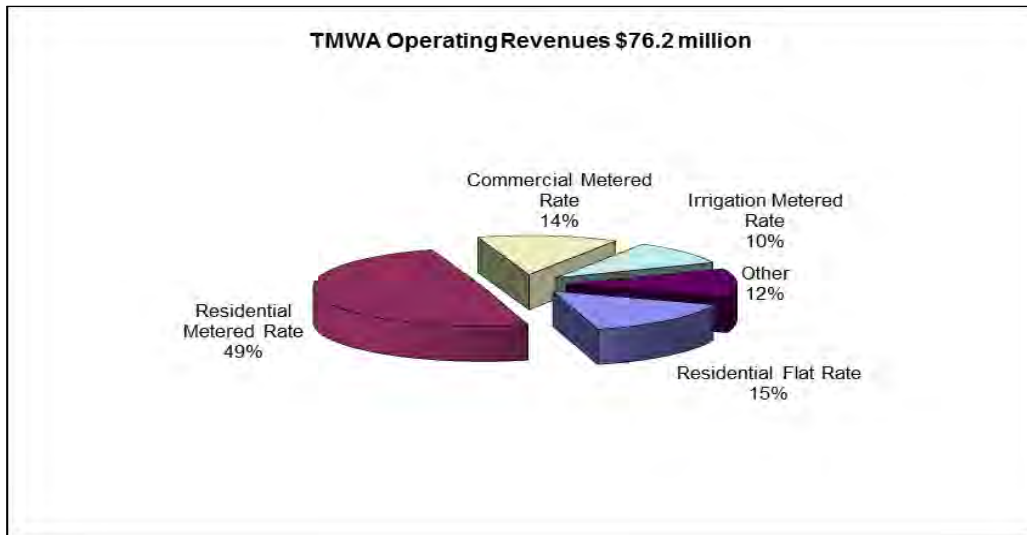
TMWA was formed as a Joint Powers Authority pursuant to chapter 277 of the Nevada Revised Statutes and is a political subdivision of the State of Nevada. TMWA is separate from its member agencies: City of Reno, City of Sparks and Washoe County. TMWA was formed in November 2000 for the purpose of acquiring 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 took over the water system on June 11, 2001. There are no component units associated with this financial reporting entity.

TMWA has no financial interdependence with its member agencies. TMWA has broad powers to finance, construct and operate the water system, for the diversion, treatment, distribution, and sale of treated water to retail and wholesale customers. TMWA has full authority to set water rates for services subject to the approval of the TMWA Board of Directors, without approval by 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 of 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 has approximately 93,000 residential, commercial, irrigation and fire service connections in the Reno-Sparks metropolitan area. TMWA operates in a prescribed retail service area as described in the agreement between SPPCo and Washoe County dated June 25, 1996, as amended. The retail service territory can be modified from time to time pursuant to such agreement. 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 the Reno-Sparks main metropolitan area, is wholly dependent upon TMWA water deliveries since this district has no source of water supply. The WCDWR purchases water from TMWA, however, WCDWR can provide for a significant portion of its own water demands with WCDWR groundwater resources. There are three separate contracts associated with these wholesale customers.

Nevada Revised Statutes require 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, 2011 and June 30, 2010 is 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.

The following graph depicts the proportion of operating revenues by class for fiscal year 2011:



The metering of the water system, which began under Sierra Pacific in 1995, presents a practical solution for TMWA operationally. This practical solution presents the opportunity to collect accurate data on water usage by customer class. This allows TMWA to make more accurate cost of service analyses, to make water rates more equitable across customer classes, and to better anticipate future water resource and water facility requirements. There are still approximately 8,100 customers who continue to pay the flat rate. There are less than 700 water services that remain to have a meter installed, and these represent problematic services with multiple customers on a single service line. TMWA is mindful of the revenue impact from the conversion to metered billing in its financial planning, and also accounts for the changing water demands in its water facility and resource planning efforts. Regardless, system-wide equity in customer rates can only be achieved when all customers are charged based on the water they use.

TMWA honored its commitment to the community that water rates would not be increased during its first two years of operation. In June, 2003, TMWA's Board of Directors adopted facility charges, to collect funds from new developments to pay for the construction of storage, supply and treatment facilities for new and/or expanded service. In September 2003, TMWA's Board of Directors adopted adjusted customer rates designed to increase water sales revenues by \$10 to \$11 million annually, with the rate increase becoming effective on October 1, 2003. In early 2005, the TMWA Board of Directors took under consideration another general water rate increase. The result of that public hearing was board approval of a water rate increase that averaged approximately 3.4% to take effect on March 1, 2005. From that time TMWA had not implemented any retail/wholesale water rate revisions until May of 2009 when a general water rate increase of approximately 4.5% on average was approved by the TMWA Board of Directors and implemented on June 1, 2009. This second installment of the proposed increases was implemented in June 2010.

The goal of TMWA, as adopted by the Board in August 2003, is to maintain a senior lien debt coverage ratio of 1.5 times recurring revenues less operating expenses divided by annual debt

service. This calculation excludes developer facility charges and other fees associated with new development. This coverage target is sufficient to meet minimum debt service coverage requirements, fund reconstruction of the water system on primarily a pay-as-you-go basis and manage TMWA's senior lien bonding capacity to allow for potential future senior lien bond sales if necessary. 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's senior lien coverage (excluding developer fees and charges) was approximately 1.45x as of June 30, 2011 an improvement over the prior year. TMWA's senior lien debt coverage has been impacted by reduced water sales and a significant reduction in investment income. Countering the reduction in water sales and investment income was a continued significant reduction operating expenses.

ECONOMIC OUTLOOK AND WATER RESOURCES

TMWA's service area had experienced steady growth since TMWA's inception in 2001, with overall population gains in Washoe County of nearly 18 percent. After five years of sustained 9 to 10 percent annual growth in county-wide taxable sales, those taxable sales have dipped significantly in fiscal years 2009 through 2011 when compared to the prior years. The Reno-Sparks metropolitan area enjoys a moderate climate, offers a wide variety of year-round recreational opportunities, and has a favorable tax structure. It is also centrally located in the Pacific region affording efficient distribution of goods throughout the western United States. Northern Nevada's favorable business tax environment nurtured steady growth in the entire region and nearby communities in manufacturing, distribution, warehousing and industrial businesses. A surge in residential housing construction through fiscal year 2006 fueled significant new retail development, including several nationally known retailers, however in fiscal years 2008 through 2011, the region has experienced a very difficult recession. TMWA expects the economic conditions to persist for the foreseeable future and will position the water utility accordingly.

To meet water demands in the future, TMWA prepared a very detailed Water Resource Plan (WRP) for the years 2010-2030 during fiscal year 2010. That plan was originally adopted by the Board in March 2003 and previously updated during fiscal year 2007. This extensive plan document 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.

To complement this resource planning effort, a comprehensive Water Facility Plan (WFP) for the years 2010-2030 was developed. The original WFP was adopted by the TMWA Board in December of 2004. The WFP evaluates the infrastructure required to supply, treat and deliver water to customers over the life of the plan and determines the Capital Improvement Plan needs to serve growth based upon population forecasts in the WRP. For fiscal year 2011, TMWA's Board approved a Capital Improvement Plan with a five year spending level of \$74.9 million which focuses spending primarily on water system reconstruction. Spending on the acquisition of water rights has been suspended because TMWA has a sufficient inventory of water rights to issue will-serve commitments for the foreseeable future.

TMWA is a very active supporter and participant in the process of negotiating and implementing the Truckee River Operating Agreement (TROA), as are the TMWA member agencies including the cities of Reno, Sparks, and Washoe County. TMWA is a primary signatory to the TROA along with the Pyramid Lake Paiute Tribe, the States of Nevada and California, and the Federal Government. TROA is intended to provide TMWA customers with certainty regarding the operation of the Truckee River system and additional drought supplies for existing as well as new customers. These lengthy and complex negotiations, which include interstate allocations of Truckee River water rights, were concluded when TROA was signed by the aforementioned parties on September 6, 2008 at a signing ceremony in Reno. It is expected to take several years to implement TROA. TMWA is now progressing with the implementation phase of TROA.

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, a distance of approximately 120-miles. The river's water quality is excellent; however 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 1990's. TMWA owns and operates the 84 million gallons per day (MGD) Chalk Bluff Water Treatment Plant (expanded from 69 MGD in 2005) and the 37.5 MGD Glendale Water Treatment Plant which was expanded from 25 in capacity through a series of improvements.

TMWA spends approximately \$1 million annually monitoring water quality by analyzing nearly 11,000 samples at over 150 locations throughout the TMWA water system. TMWA strictly complies with current drinking water standards, including the recently revised arsenic standards as promulgated by the United States Environmental Protection Agency, and administered by the Nevada Department of Environmental Protection, Bureau of Safe Drinking Water.

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 preserves system capacities. The purpose of water conservation at TMWA is to promote wise use of water through a number of initiatives. TMWA's conservation programs were designed to achieve 10% annual water savings as part of the conservation goal agreed to in the 1996 Water Conservation Agreement between 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 June 30, 2011, TMWA estimates that less than 700 small unit residential and multi-unit metering

facilities remain to be installed. Developers, through a charge of \$1,830 for every acre-foot of new water demand, provide funding for this project. These funds are considered restricted cash assets as represented on TMWA's statement of net assets. Complete metering of TMWA's system will also allow for determination of system losses and focus financial resources to areas of the service territory that may require system rehabilitation.

Assigned Day Watering

Previously on two days a week assigned day watering schedule, TMWA implemented a three days a week watering schedule during the summer of 2010. This new program was well received by the community and is expected to reduce peak day demand on the water system. 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 as part of conservation agreement commitments and remained in place until the summer of 2010. The greatest benefit of this is to more evenly distribute the peak demands for water during a summer week, which translates to less peaking demand on facilities.

Landscape Efficiency Program

This program promotes the use of attractive drought tolerant plants for the high desert climate experienced in Western Nevada. The program includes help with landscape augmentation that is available to institutional irrigation customers 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.

Water Audit Program

This program assists TMWA customers 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 minimize consumption while preserving their landscape. This program also looks for leaks within the home and promotes efficient indoor water use.

Classroom Education

TMWA participates in a number of community events that promote conservation and responsible 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. TMWA has prepared and distributed teaching materials to local schools.

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 is 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 by 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 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 five fiscal year period. 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 approved budget. This authority is conferred upon the General Manager by virtue of the TMWA Cooperative Agreement between the City of Reno, City of Sparks, and the County of Washoe. This arrangement allows for the efficient operation of TMWA.

BUDGET ANALYSIS AND VARIANCES

Actual total operating water revenues were \$1.6 million or 2.0% under budget for fiscal year ended June 30, 2011. Total budgeted revenues were \$77.8 million as compared to \$76.2 million in actual revenue. Charges for water sales were \$1.9 million under budget, while hydroelectric revenues were nearly \$0.6 million over budget. Other operating sales were \$0.3 million under budget. TMWA water sales were impacted by decreasing demands as a result of the cooler weather patterns than historically experienced and persistent residential and commercial vacancies. The incremental water sales expected to be derived from the 4.5% general water rate increase adopted June 2010 was nearly eliminated by these aforementioned conditions.

Total operating expenses of \$55.5 million were approximately \$4.1 million under a budget of

\$59.6 million. Less than planned cash operating expenses of \$3.6 million were augmented by \$0.5 million in less than planned depreciation expense. Operating expenses net of depreciation were \$3.6 million under budget primarily due to slightly lower spending on wages and salaries, employee benefits, and services and supplies. Spending on operating salaries and wages was \$0.9 million less than budget, while employee benefit spending was \$0.8 million less than budget. Lower operating wages and salaries were primarily due to reduction in staffing and not filling vacant positions. Health care expenses did not increase during the fiscal year which helped reduce employee benefit costs as well as vacant positions. Services and supplies expenses were \$2.0 million under budget primarily due to a significant reduction in electric power expenses, completion of reclamation of the Highland Canal around the Mogul residential area and reduced legal expenses associated with the TCID lawsuit. Power expenses have been reduced significantly due to the full year benefit of providing raw water to the Chalk Bluff Water Treatment Plant by gravity flow rather than using the Orr Ditch Pump Station and better utilization of time of use pumping electric rate schedules.

Total net nonoperating expenses, including investment income, were \$0.4 million less than budget. Investment income and decrease in fair value of investments, after capitalization of investment income, as required by FASB 62 was \$0.1 million under budget. This was due to much lower than expected investment returns. Interest expense and amortization of bond/note issuance expenses was \$0.1 million greater than budget, due to less capitalization of interest expense in accordance with FASB 34. Variations in capitalizing interest expense to construction projects creates minor variances between budgeted and actual interest expense.

Capital contributions were \$0.3 million less than budget and these contributions are significantly less than historical levels. A large part of the capital contributions was from dedication of developer funded infrastructure improvements which was the reason for the negative variance. Cash contributions were \$0.4 million greater than budget but still very anemic in comparison to historical levels.

The total augmented capital spending budget was \$21.8 million for fiscal year 2011. TMWA spent approximately \$20.2 million on construction projects and capital outlays which was \$1.6 million less than budget. Construction pricing has been very favorable in addition to less than expected treatment plant improvements.

As reflected in the Statement of Cash Flows, TMWA funded the operating budget and debt service requirements from operating revenues, and capital projects primarily from unrestricted cash reserves and investment income. As of June 30, 2011, TMWA has approximately \$48.5 million of financial resources to fund future operations and capital projects. TMWA only spent \$0.6 million in cash reserves in fiscal year 2011. Looking forward capital spending is expected to be significantly reduced and will focus mainly on rehabilitation of the water system. TMWA has adequate water system capacity and water resources to support growth in the community for the foreseeable future.

TMWA continued funding of required cash reserves as prescribed by TMWA's bond covenants during fiscal year 2011. TMWA's renewal and replacement reserve is fully funded at \$10 million. The operations and maintenance reserve fund, which TMWA is required to maintain at

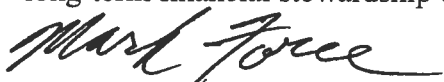
a balance equal to one-sixth of TMWA's revised final operating budget, contained \$6.1 million as of June 30, 2011. TMWA still retains a \$1.8 million water rate stabilization reserve of which \$0.5 million is restricted and \$1.3 million is a reservation of unrestricted net assets. Finally, TMWA remains in possession of \$2.0 million of the Series 2001A bond proceeds for the purchase of the one remaining run-of-river hydroelectric generating facility. Three of the facilities were purchased in the past three years, one during fiscal year 2008 and two in fiscal year 2009. The fourth and final facility, located in Farad, California that was heavily damaged by the 1997 flood, has not yet been restored by NV Energy.

TMWA MILESTONES

TMWA, now in its tenth year of operation, was successful in retaining its credit ratings by the three primary rating agencies (Standard and Poors, Moody's and Fitch).

ACKNOWLEDGEMENTS

The timely preparation of this report could not be done without the assistance of TMWA finance personnel, 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.



Mark Foree, P.E.
General Manager



Jeffrey P. Tissier CPA
Chief Financial Officer

**Truckee Meadows Water Authority
List of Principal Officials
June 30, 2011**

TMWA Board of Directors

Mike Carrigan, City of Sparks Councilman, Chairman of the Board

David Aiazzi, City of Reno Councilman, Vice Chairman of the Board

Bob Cashell, City of Reno Mayor

Geno Martini, City of Sparks Mayor

Mike Cate, City of Reno Appointee

John Breternitz, Washoe County Commissioner

Bob Larkin, Washoe County Commissioner

Management

Mark Foree, PE, General Manager

Scott Estes, PE, Director of Engineering

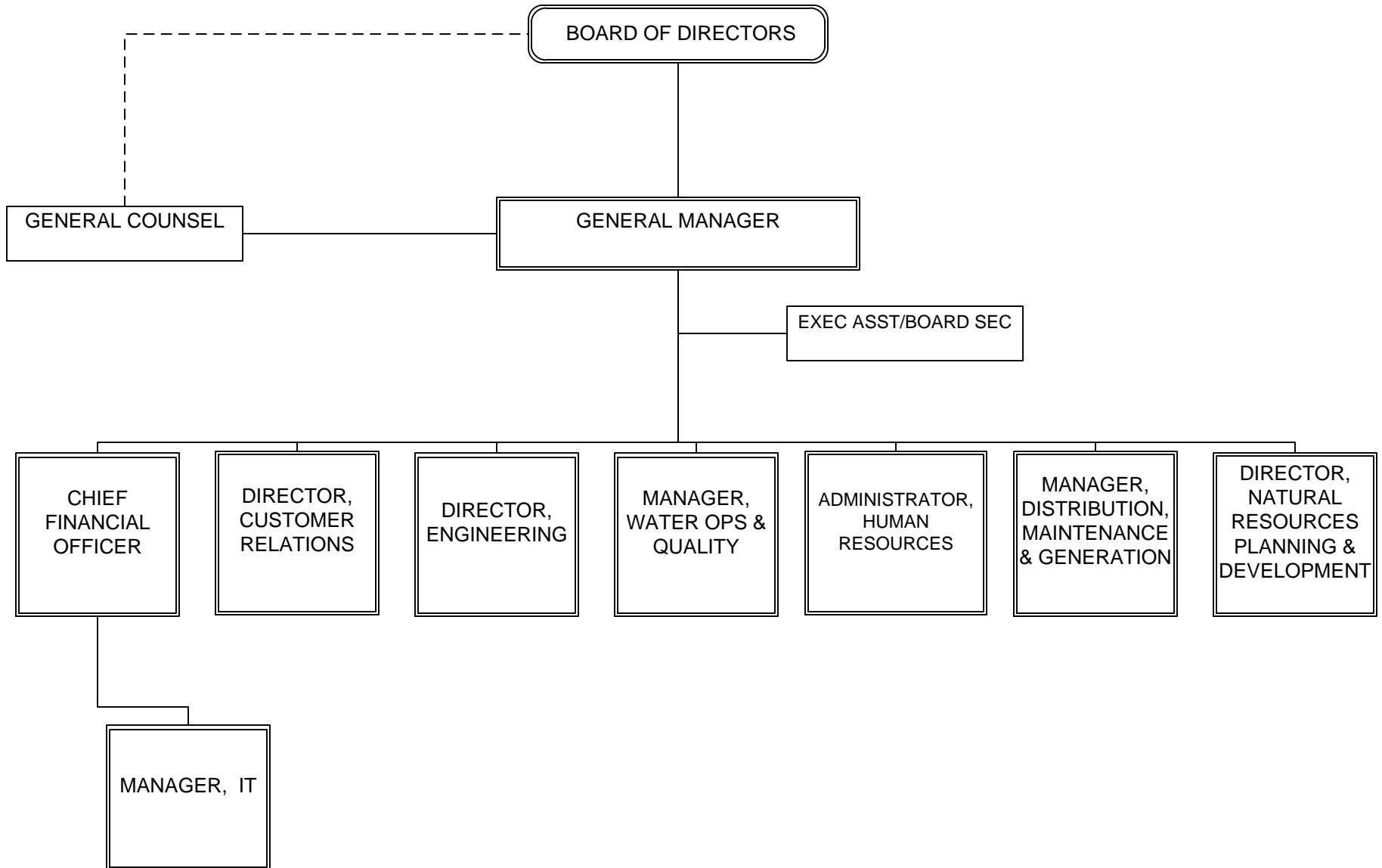
Sylvia Harrison, General Counsel

John Erwin, Director of Natural Resources Planning and Development

Kim Mazeres, Director of Customer Relations

Jeffrey Tissier, CPA, Chief Financial Officer

Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Truckee Meadows Water Authority, Nevada

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Directors of the
Truckee Meadows Water Authority

We have audited the accompanying 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, 2011 and 2010. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 respective financial position of the Truckee Meadows Water Authority at June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of TMWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 3A through 3K and the Schedule of Funding Progress on page 34, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory section, the schedules of revenues, expenses and changes in net assets - budget and actual, the schedule of expenditures of federal awards (as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*), and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of revenues, expenses and changes in net assets - budget and actual and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kafoory, Armstrong & Co.

Reno, Nevada
November 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of TMWA's Comprehensive Annual Financial Report presents management's discussion and analysis of TMWA's financial performance during the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009. 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. The financial presentation and 2010 reflects the adoption of GASB 51, *Accounting and Financial Reporting for Intangible Assets*. As such, fiscal year 2009 financial results have been restated because of the adoption of GASB 51 which reduced operating expenses by \$452,000 and increased capital spending by a comparable amount.

FINANCIAL HIGHLIGHTS

	<u>TMWA's Net Assets</u>		
	<i>(in millions)</i>		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Unrestricted Current Assets	\$ 61.0	\$ 63.3	\$ 75.0
Restricted Current Assets	21.0	21.5	22.0
Long-Term Restricted and Other Assets	56.1	56.9	56.7
Capital Assets, net	<u>687.5</u>	<u>689.7</u>	<u>683.0</u>
Total Assets	<u>825.6</u>	<u>831.4</u>	<u>836.7</u>
Long-Term Debt Outstanding	428.9	445.8	452.3
Other Liabilities	<u>108.5</u>	<u>97.6</u>	<u>99.3</u>
Total Liabilities	<u>537.4</u>	<u>543.4</u>	<u>551.6</u>
Invested in Capital Assets, Net of Related Debt	223.4	220.5	205.0
Restricted	22.9	23.5	23.9
Unrestricted	<u>41.9</u>	<u>44.0</u>	<u>56.2</u>
Total Net Assets	<u>\$288.2</u>	<u>\$288.0</u>	<u>\$285.1</u>

In the fiscal year ended June 30, 2011, TMWA's total net assets increased by approximately \$0.2 million, as a result of capital asset additions essentially offset by depreciation expense. In the fiscal year ended June 30, 2010 total net assets increased by approximately \$2.9 million, the result of developer infrastructure contributions and an increase in capital assets primarily funded from unrestricted cash reserves.

As reported on the Statements of Net Assets, at June 30, 2011, total Unrestricted Current Assets decreased by approximately \$2.3 million from June 30, 2010. The overall decrease was due to a decrease in unrestricted cash of \$0.6 million in addition to decreases in accounts receivable and due from others of \$0.7 million, a decrease in due from other governments of \$0.9 million, and a decrease in prepaid assets of \$0.2 million. Offsetting these decreases was an increase in interest receivable of \$0.1 million. The increase in interest receivable was due to greater accrued investment income at year end. Decreases in accounts receivable and due

from others was due to less water sales and the result of cooler weather patterns. The decrease in prepaid assets was due primarily to the expiration of TMWA's environmental liability policy with no subsequent renewal of this policy.

As reported on the Statements of Net Assets, at June 30, 2010, total Unrestricted Current Assets decreased by approximately \$11.7 million from June 30, 2009. The overall decrease was due to decreases in unrestricted cash of \$12.8 million, and interest receivable of \$0.1 million. These decreases were offset by increases in accounts receivable of \$0.4 million and due from other governments of \$0.8 million. The decrease in unrestricted cash was due to continuing investment in utility infrastructure although at a slower pace than in the previous fiscal year. The decrease in interest receivable was due to reductions in investment rates of return as well as a significant decrease in outstanding investments. The increase in accounts receivable was due to greater water sales in June when compared with the comparable period in the previous fiscal year. The increase in due from other governments was primarily the grant reimbursement for TROA implementation.

As reported on the Statements of Net Assets, at June 30, 2011, total Restricted Current Assets decreased by approximately \$0.5 million from June 30, 2010. This overall decrease was due to a decrease of \$0.6 million in water meter retrofit restricted cash offset by an increase in current bond debt service for \$0.1 million.

As reported on the Statements of Net Assets, at June 30, 2010, total Restricted Current Assets decreased by approximately \$0.5 million from June 30, 2009. This overall decrease was due to a decrease of \$0.5 million in water meter retrofit restricted cash.

At June 30, 2011, Non-Current Restricted and Other Assets decreased by \$0.8 million from fiscal year 2010. A decrease of \$0.5 million in the operations and maintenance reserve fund, combined with a decrease of \$0.3 million in deferred charges was experienced. The decrease in the operations and maintenance reserve is because of a reduction in budgetary expenses of which one sixth is reserved as stipulated in TMWA's long term bond indentures. The decrease in deferred charges is due to the continued amortization of deferred bond and loan issuance expenses.

At June 30, 2010, Non-Current Restricted and Other Assets increased by \$0.2 million from fiscal year 2009. An increase of \$1.0 million in future bond debt service was offset by decreases of \$0.4 million in the operations and maintenance reserve fund, \$0.2 million in deferred charges and \$0.2 million in other assets. The decrease in the operations and maintenance reserve is because of a reduction in budgetary expenses of which one sixth is reserved as stipulated in TMWA's long term bond indentures. The decrease in other assets was due to reclassification of a one year portion of a ten year environmental insurance policy premium from long term to short term. The decrease in deferred charges is due to the amortization of deferred bond issuance expenses.

Capital assets net of accumulated depreciation decreased by \$2.2 million from June 30, 2010 to June 30, 2011. These changes included \$0.6 million in developer infrastructure and other capital contributions, in addition to approximately \$20.2 million in capital spending on

construction projects and capital outlays. These increases in gross capital assets are offset by \$22.3 million in depreciation expense. Capital spending on construction and outlays has been reduced significantly when compared to prior years.

Capital assets net of accumulated depreciation increased by a net \$6.7 million from June 30, 2009 to June 30, 2010. This increase included \$4.1 million in developer infrastructure contributions, \$0.7 million in contributions from others and approximately \$23.9 million in capital spending on construction projects and capital outlays. These increases in gross capital assets are offset by \$22.0 million in depreciation expense. Contributions from others consisted of a final partial valuation of the Panther Valley Water Users Associations' (PVWUA) water utility assets. TMWA took over this water utility in the fourth quarter of fiscal year 2009.

At June 30, 2011, total current liabilities payable from unrestricted assets increased from June 30, 2010 by \$10.8 million. The overall increase was primarily due to an increase in the current portion of long-term debt of \$11.4 million related to the issuance of tax-exempt commercial paper to redeem the remaining outstanding 2001A bonds and increases in accrued interest payable and customer deposits of \$0.2 million. These increases were offset by decreases in contracts and retention payable of \$0.5 million and accounts payable and due to other governments of \$0.3 million. Decreases in accounts payable and contracts and retention were due to lower expenses year over year in both categories.

At June 30, 2010, total current liabilities payable from unrestricted assets decreased from June 30, 2009 by \$1.6 million. The overall decrease was due to a decrease in accounts payable of \$0.2 million, a decrease in contracts and retention payable of \$1.5 million, a decrease in accrued liabilities of \$0.2 million, an increase in due to other governments of \$0.1 million, and a combined decrease in accrued interest payable and customer deposits and amounts due developers for \$0.1 million and an increase in current portion of long term debt of \$0.1 million. The decrease in accounts payable was attributed to less operating expenses year over year. The decrease in contracts and retentions payable was due to a year over year significant reduction in construction activity. The decrease in accrued liabilities was due to TMWA funding its Voluntary Employees Benefits Association (VEBA) for post retirement medical benefits. TMWA funded the Annual Required Contribution (ARC) for this obligation from fiscal year 2009 during fiscal year 2010. The increase in due to other governments was due to increases in Right of Way Toll Fees and Western Regional Water Commission Fees. The decrease in accrued interest payable was due to less accrued interest on TMWA's outstanding commercial paper, the result of significantly reduced interest rates. The reduction in customer deposits was related to customer deposits applied to delinquent accounts. The increase in the current portion of long term debt is due to new principal payments on the 2009 Drinking Water State Revolving Fund (DWSRF) loan.

At June 30, 2011 current liabilities payable from restricted assets increased by \$0.1 million from June 30, 2010. The net increase was due to an increase in senior lien bond principal of \$0.5 million offset by a decrease in interest payable on senior lien bonds of \$0.4 million. These changes are due to the natural changes reflected in the amortization schedules on the outstanding senior lien bonds but also due to transfer of \$0.3 million from debt service reserve funds to the defeasance escrow on the aforementioned 2001A bond redemption. Long term

debt, net of current portion decreased \$16.9 million as a result of reclassifying long term debt to short term debt of \$5.5 million in addition to the defeasance of \$11.4 million of outstanding 2001A bonds. Amortization of bond discounts and premiums as well as refunding valuation allowances also affected this total reduction in long term debt. Please refer to Note 6 of TMWA's Notes to the Financial Statements for additional information regarding these outstanding bonds.

At June 30, 2010 current liabilities payable from restricted assets decreased by less than \$0.1 million from June 30, 2009. The net decrease was due to an increase in senior lien bond principal of \$0.5 million offset by a decrease in interest payable on senior lien bonds of \$0.5 million. These changes are due to the natural changes reflected in the amortization schedules on the outstanding senior lien bonds.

TMWA's Changes in Net Assets

(in millions)

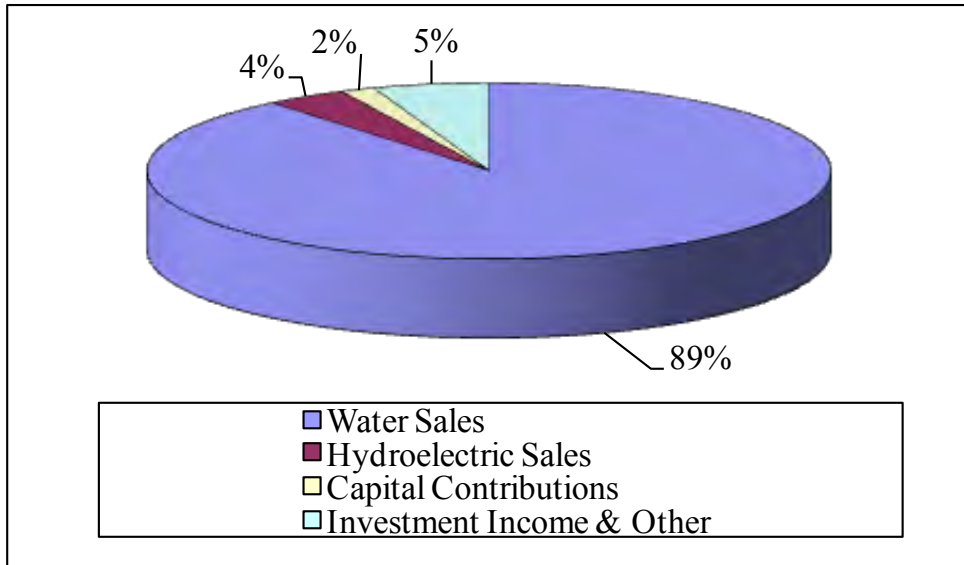
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Operating Revenues	\$ 76.2	\$ 75.7	\$ 75.0
Operating Expenses	<u>55.5</u>	<u>58.4</u>	<u>62.2</u>
Operating Income	20.7	17.3	12.8
Nonoperating Revenues (Expenses) net	<u>(21.8)</u>	<u>(20.3)</u>	<u>(19.9)</u>
Income (Loss) before Capital			
Contributions	(1.1)	(3.0)	(7.1)
Capital Contributions	<u>1.3</u>	<u>5.9</u>	<u>10.6</u>
Change in Net Assets	<u>\$ 0.2</u>	<u>\$ 2.9</u>	<u>\$ 3.5</u>

TMWA's Revenues

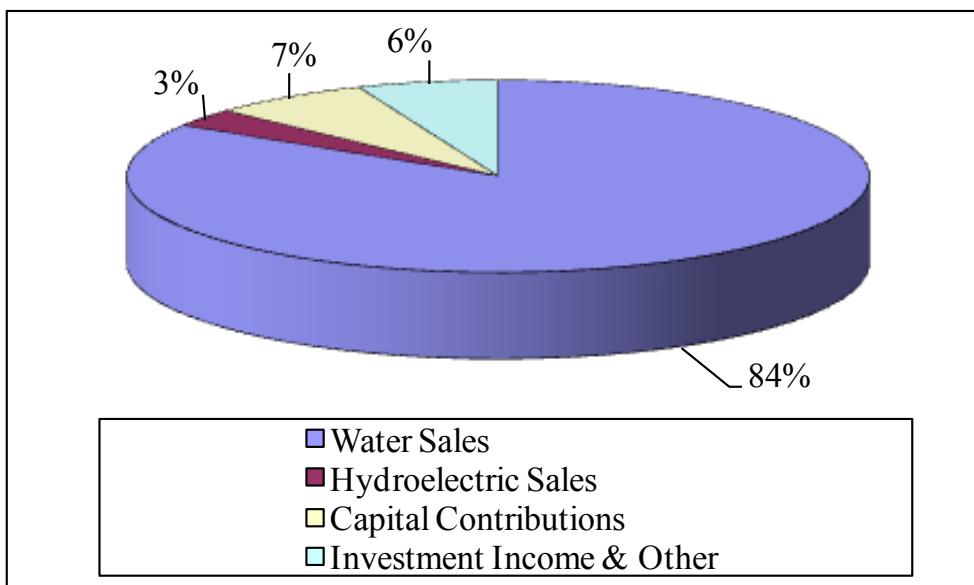
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues (in millions):			
Operating Revenues			
Water Sales	\$ 71.4	\$ 71.2	\$ 70.2
Hydroelectric Sales	3.1	2.6	2.8
Other Operating Revenues	<u>1.7</u>	<u>1.9</u>	<u>2.0</u>
	76.2	75.7	75.0
Non-Operating Revenues			
Investment Earnings	2.3	2.1	3.6
Other	<u>0.4</u>	<u>1.2</u>	<u>0.6</u>
	2.7	3.3	4.2
Capital Contributions	<u>1.3</u>	<u>5.9</u>	<u>10.6</u>
Total Revenues	<u>\$ 80.2</u>	<u>\$ 84.9</u>	<u>\$ 89.8</u>

The table above and the graphs that follow represent the makeup of TMWA's total revenues for fiscal years ended June 30, 2011, 2010 and 2009:

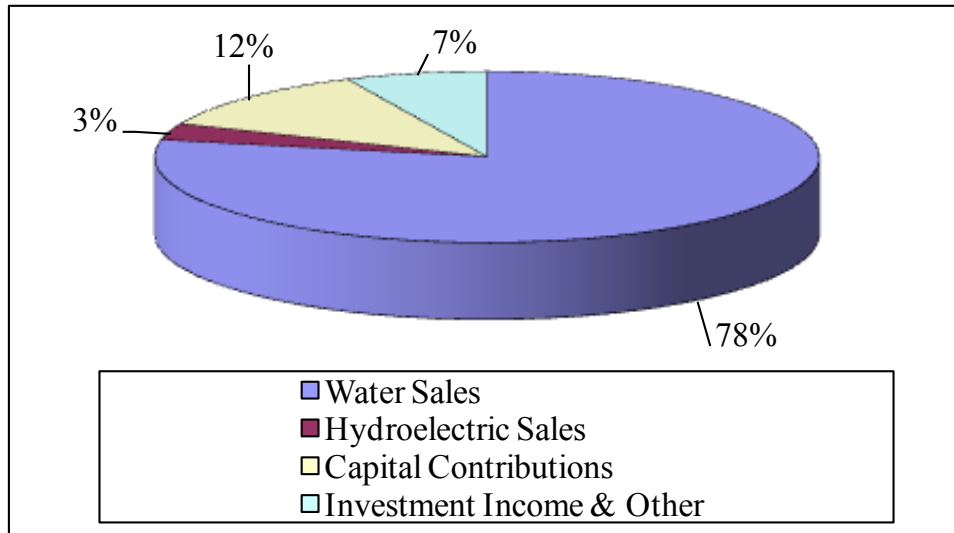
Total Revenues for the Year Ended June 30, 2011



Total Revenues for the Year Ended June 30, 2010



Total Revenues for the Year Ended June 30, 2009



For fiscal year 2011, total operating revenues increased \$0.6 million from fiscal year 2010. Water sales in fiscal year 2011 were \$0.2 million or 0.3% greater than in fiscal year 2010. Reduced water demands offset a 4.4% general water rate increase and was due to once again much cooler weather patterns experienced in the early fall and spring. Hydroelectric revenues were \$0.5 million greater than in fiscal year 2010. The increase was due to much greater river flows because of record heavy winter precipitation. Other operating sales decreased \$0.2 million year over year and was not due to any particular revenue item.

For fiscal year 2010, total operating revenues increased \$0.7 million from fiscal year 2009. Water sales in fiscal year 2010 were \$1.0 million or 1.4% more than in fiscal year 2009 because of a warmer June than the cooler and moist weather pattern in June of 2009. To some degree the 4.5% general rate increase that went into effect in June 2009 added some water sale revenue. Hydroelectric revenues were \$0.2 million less in fiscal year 2010 than in fiscal year 2009 due to lower river flows. Other operating sales decreased \$0.1 million year over year and was due to continued deterioration in collection of inspection fees on new residential and commercial construction.

For fiscal year 2011, capital contributions decreased by \$4.6 million from fiscal year 2010. This decrease was across all developer collections and dedications. Water meter retrofit fees were \$0.1 million less, developer infrastructure contributions were \$3.6 million less, developer will serve commitments and developer capital contributions were virtually unchanged as well as developer facility charges which were \$0.2 million less. Dedication from others was \$0.6 million less. These dedications were reflective of very minimal customer growth.

For fiscal year 2010, capital contributions decreased in total by \$4.7 million from fiscal year 2009. This significant decrease was across all developer collections and dedications with the exception of developer will-serve contributions which was \$0.2 million greater year over year.

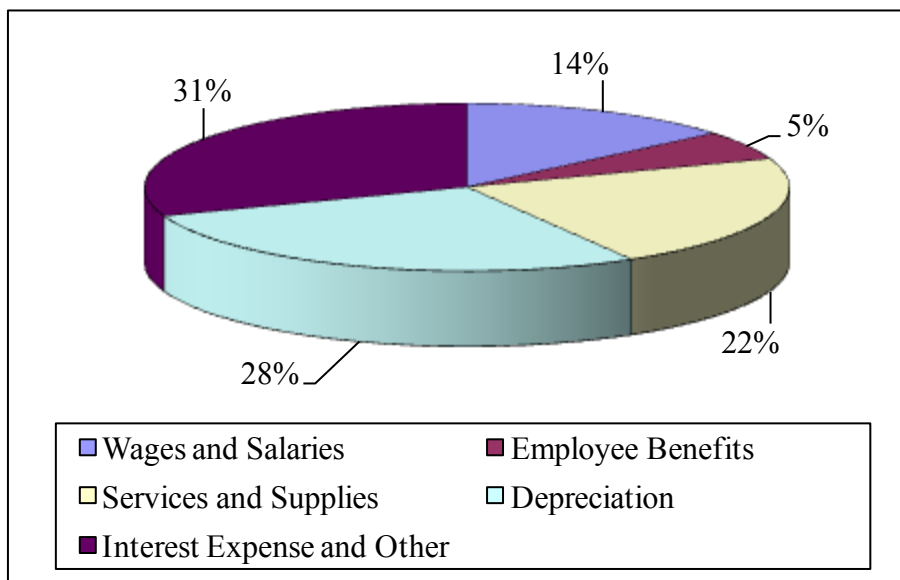
Water meter retrofit fees were \$0.1 million less, developer infrastructure contributions were \$2.8 million less, developer capital contributions were \$0.4 million less and developer facility charges which were \$0.3 million less. Contributions from other governments were \$0.2 million less due to the small one-time payment in fiscal year 2009 for water system capacity. Contributions from others were \$1.1 million less and reflect the final valuation for Panther Valley Water Users Association assets, a small water utility taken over by TMWA.

TMWA's Expenses

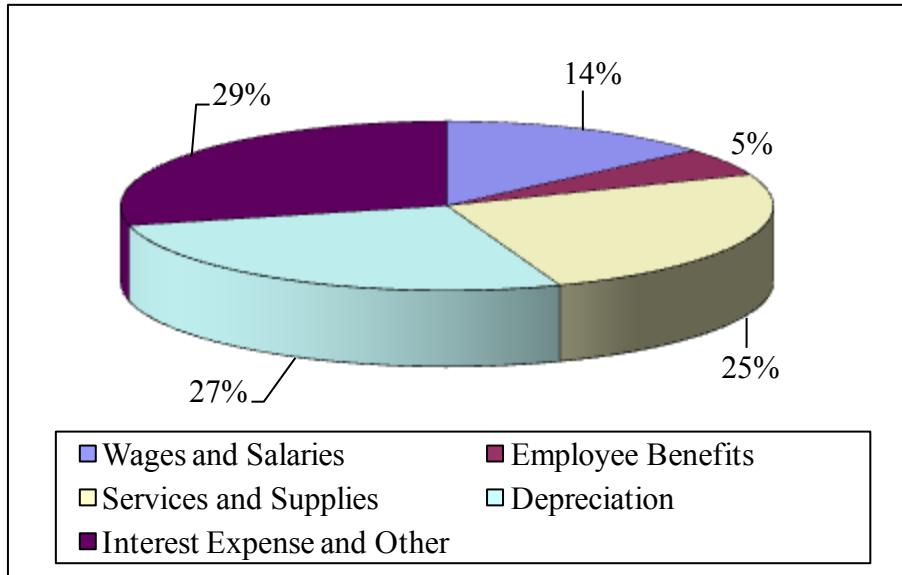
	June 30, 2011	June 30, 2010	June 30, 2009
Expenses (in millions):			
Operating Expenses			
Wages & Salaries	\$ 11.1	\$ 11.2	\$ 11.6
Employee Benefits	4.5	4.4	4.4
Services & Supplies	17.6	20.8	24.0
Depreciation	22.3	22.0	22.2
	55.5	58.4	62.2
Non-Operating Expenses			
Interest Expense	22.4	22.3	23.5
Other Non-operating Expenses	2.1	1.3	0.6
	24.5	23.6	24.1
Total Expenses	\$ 80.0	\$ 82.0	\$ 86.3

The table above and the graphs that follow represent the makeup of total operating and non-operating expenses for the years ended June 30, 2011, 2010 and 2009:

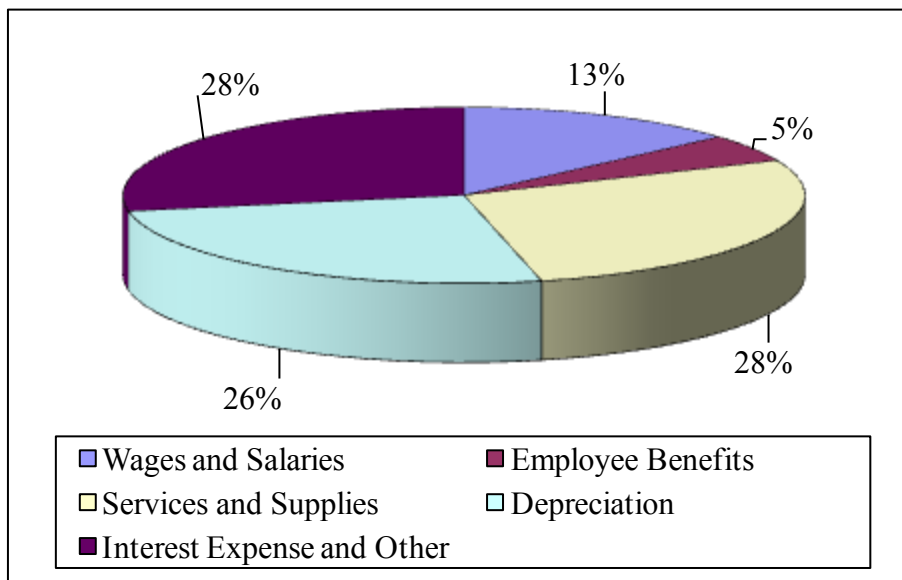
Total Expenses for the Year Ended June 30, 2011



Total Expenses for the Year Ended June 30, 2010



Total Expenses for the Year Ended June 30, 2009



The \$2.9 million or 5.0% decrease in TMWA’s operating expenses from fiscal year 2010 to 2011 is due to a decrease of \$0.1 million in salaries and wages and a \$3.2 million decrease in services and supplies expenses. These decreases offset by \$0.1 million increase in benefit expenses as well as a \$0.3 million increase in depreciation expense. The slight reduction in salaries and wages was due to not filling vacant positions. The slight increase in spending on benefits was due to represented employees receiving a greater deferred compensation match in lieu of receiving their Team Incentive Award (TIA). Of the \$3.2 million reduction in total service and supplies expenses, \$2.2 million of the reduction was electric power due to using gravity flow of raw water to the Chalk Bluff Water Treatment Plant and greater time-of-use

pumping in the water system. Other reductions in service and supplies spending was \$0.5 million in legal fees due to reduced defense costs in the TCID lawsuit (refer to Note 8 to the financial statements), \$0.4 million less in reclamation expenses on the abandoned section of the old Highland Canal and \$0.3 million in less water treatment chemical use due to changes in dosing applications. TMWA will see further future expense reductions in wages, salaries, and benefits due to a Voluntary Separation Plan (VSP) that was introduced in the fourth quarter of fiscal year 2011. Fifteen personnel accepted financial inducements to retire. Depreciation expense was \$0.3 million greater than the previous year as past and current year asset additions were being depreciated. Other non-operating expenses increased by \$0.9 million. TMWA interest expense was \$0.1 million greater than the prior year due to less capitalization of interest on construction projects. Other increases in non-operating expenses were due to the aforementioned VSP for \$0.7 million, and \$0.3 million in greater note issuance expenses related to TMWA's commercial paper program. This was due to higher letter of credit fees from the renewal of the liquidity facility with Lloyds TSB. Offsetting the increases in non-operating expenses was \$0.1 million less spending on merger related activities. Merger related activities involve efforts to merge the water division of Washoe County's Department of Water Resources into TMWA.

The \$3.8 million or 6.2% decrease in TMWA's operating expenses from fiscal year 2009 to 2010 is due to a decrease of \$0.4 million in salaries and wages, a \$3.2 million decrease in services and supplies expenses, as well as a \$0.2 million decrease in depreciation expense due to significant reduction in construction activity. The slight reduction in salaries and wages was due to not filling vacant positions. Service and supplies expenses decreased significantly year over year because of \$0.9 million less emergency spending from earthquake damage to the Highland Canal system, \$0.6 million less in power expenses due to lower water demands and \$0.7 million less spending on contract services. No one particular expense accounts for the remainder of spending reductions. Depreciation expense was essentially the same as last year because additions to fixed assets have been significantly reduced. Other nonoperating expenses decreased by \$0.5 million. Although TMWA experienced a \$1.2 million reduction in interest expense this was offset by \$0.7 million in expenses related to the integration/merger work being conducted on the merger of Washoe County's water division into TMWA. Interest expenses were lower because there was less interest expense related to TMWA's tax-exempt commercial paper program.

CAPITAL ASSETS

At June 30, 2011, TMWA's total capital assets were \$848.2 million before accumulated depreciation of \$160.7 million, for a net book value of \$687.5 million. Included in the total capital assets reported on the Statements of Net Assets was \$4.1 million in construction work in progress. TMWA is significantly reducing spending on construction activity due to poor economic conditions.

At June 30, 2010, TMWA's total capital assets were \$838.5 million before accumulated depreciation of \$148.8 million, for a net book value of \$689.7 million. Included in the total capital assets reported on the Statements of Net Assets was \$9.2 million in construction work in progress.

Detailed information about TMWA's capital assets can be found in Note 5 to TMWA's financial statements.

LONG-TERM DEBT

At June 30, 2011, TMWA had \$519.0 million in total reported debt outstanding. This amount reflects \$530.0 million in total outstanding principal indebtedness, \$3.4 million net bond premium and \$14.5 million in unamortized valuation adjustments from refunding activities. Of the \$519.0 million in total reported debt outstanding \$90.1 million was due in one year and is classified as short term indebtedness. The total outstanding indebtedness was made up of eight series of bonds and loans one of which was the Series 2001A bonds, issued for the acquisition of TMWA from Sierra Pacific Resources. The second indebtedness was a Series 2005 Drinking Water State Revolving Fund (DWSRF) loan provided by the State of Nevada to fund the Arsenic Mitigation Project. In November 2005, TMWA sold \$40.0 million in water revenue bonds, the Series 2005A Bonds, to fund construction projects over the next two to three years. In May 2006, TMWA issued \$150.7 million in refunding bonds to refinance \$146.0 million of outstanding maturities of the Series 2001-A bonds. In January 2007, TMWA issued \$219.0 million in refunding bonds to refinance \$212.3 million of outstanding maturities of the Series 2001A bonds. During fiscal year 2010 TMWA obtained another DWSRF loan funded by American Recovery and Reinvestment Act stimulus funding from the federal government. The final loan amount was \$2.3 million. TMWA also issued \$28.2 million of 2010 Refunding Bonds to refinance \$29.5 million of certain Series 2001-A maturities. Also in fiscal year 2010 TMWA entered into another DWSRF loan arrangement for \$8.5 million. TMWA has only drawn \$3.9 million on this authorization as of June 30, 2011. TMWA inaugurated a Tax-Exempt Commercial Paper (TECP) program in August 2006. TMWA sold in two sales an aggregate of \$43.0 million in TECP notes in fiscal year 2007, and another \$25.0 million in fiscal year 2008. TMWA issued another \$11.4 million on June 28, 2011 for purposes of redeeming the remaining outstanding 2001-A bonds to reduce interest expenses. TMWA intends to re-market the commercial paper as maturities come due and all the TECP is classified as a short term indebtedness since the TECP notes mature equal to or less than 270 days.

At June 30, 2010, TMWA had \$524.0 million in total reported debt outstanding. This amount reflects \$536.4 million in total outstanding principal indebtedness, \$4.4 million net bond premium and \$16.8 million in valuation adjustments from refunding activities. Of the \$524.0 million in total reported debt outstanding \$78.1 million was due in one year and is classified as short term indebtedness.

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

CURRENTLY KNOWN FACTS

TMWA's Board adopted increased retail/wholesale water rates by approximately 4.4%, on average, in June 2010 in addition to the approximately 4.5% increase, on average, in May 2009. The new rates were effective June 1, 2010 to ensure TMWA can comply with bond covenants and generate sufficient revenues to pay for expenses. From June 30, 2008 to June

30, 2009, TMWA's senior lien debt coverage ratios dropped significantly although since then this ratio has recovered.

CONTACTING TMWA's FINANCIAL MANAGEMENT

This financial report was prepared for the benefit of the customers, bond investors, and the Board of Directors of the Truckee Meadows Water Authority. The Comprehensive Annual Financial Report was prepared to provide interested parties with a general overview of the Truckee Meadows Water Authority's accountability for the financial resources it manages. For questions or additional information, please contact the Truckee Meadows Water Authority's Finance Department at P.O. Box 30013, Reno, Nevada 89509-3013.

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BASIC FINANCIAL STATEMENTS

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and investments	\$ 48,452,653	\$ 49,022,359
Accounts receivable, net	10,252,438	10,957,578
Due from others	304,439	320,887
Due from other governments	264,785	1,148,933
Interest receivable	1,104,286	983,537
Prepaid assets	652,492	872,464
	<u>61,031,093</u>	<u>63,305,758</u>
 RESTRICTED CURRENT ASSETS		
Cash and investments:		
Water meter retrofit program	505,729	1,129,297
Current bond debt service	20,455,509	20,326,357
	<u>20,961,238</u>	<u>21,455,654</u>
Total Current Assets	<u>81,992,331</u>	<u>84,761,412</u>
 RESTRICTED NONCURRENT ASSETS		
Cash and investments:		
Future bond debt service	33,633,502	33,636,564
Operations and maintenance	6,142,914	6,670,839
Renewal and replacement	10,000,000	10,000,000
Water rate stabilization	500,000	500,000
Hydro asset purchase	2,000,000	2,000,000
	<u>52,276,416</u>	<u>52,807,403</u>
 NONCURRENT ASSETS		
Capital assets, not depreciated	107,321,750	112,370,404
Capital assets, depreciated	580,218,664	577,373,230
Deferred charges	3,817,753	4,102,548
	<u>691,358,167</u>	<u>693,846,182</u>
Total Noncurrent Assets	<u>743,634,583</u>	<u>746,653,585</u>
Total Assets	<u>\$ 825,626,914</u>	<u>\$ 831,414,997</u>

(CONTINUED)

TRUCKEE MEADOWS WATER AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

LIABILITIES

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED		
CURRENT ASSETS		
Accounts payable	\$ 1,588,065	\$ 1,801,567
Contracts and retention payable	1,148,978	1,631,621
Accrued liabilities	2,728,008	2,722,502
Due to other governments	1,145,865	1,223,222
Accrued interest payable	139,519	85,300
Current portion of long term debt	79,735,770	68,328,959
Customer deposits and amounts due to developers	1,581,349	1,519,031
	<u>88,067,554</u>	<u>77,312,202</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED		
CURRENT ASSETS		
Current portion of long term debt	10,325,000	9,815,000
Interest payable	10,130,509	10,511,357
	<u>20,455,509</u>	<u>20,326,357</u>
Total Current Liabilities	<u>108,523,063</u>	<u>97,638,559</u>
NONCURRENT LIABILITIES		
Long term debt, net of current portion	<u>428,912,634</u>	<u>445,819,382</u>
Total Liabilities	<u>537,435,697</u>	<u>543,457,941</u>
NET ASSETS		
Invested in capital assets, net of related debt	223,410,534	220,473,195
Restricted for water meter retrofit program	505,729	1,129,297
Restricted for debt service	10,325,000	9,815,000
Restricted for operations and maintenance reserve	1,542,914	2,070,839
Restricted for renewal and replacement reserve	10,000,000	10,000,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	41,907,040	43,968,725
Total Net Assets	<u>288,191,217</u>	<u>287,957,056</u>
Total Liabilities and Net Assets	<u>\$ 825,626,914</u>	<u>\$ 831,414,997</u>

**TRUCKEE MEADOWS WATER AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for water sales	\$ 71,408,240	\$ 71,220,707
Hydroelectric sales	3,079,158	2,577,660
Other operating sales	<u>1,759,035</u>	<u>1,869,481</u>
Total Operating Revenues	<u>76,246,433</u>	<u>75,667,848</u>
OPERATING EXPENSES		
Salaries and wages	11,049,337	11,180,101
Employee benefits	4,537,531	4,378,347
Services and supplies	<u>17,633,189</u>	<u>20,839,709</u>
Total Operating Expenses before Depreciation	33,220,057	36,398,157
Depreciation	<u>22,322,217</u>	<u>21,990,618</u>
Total Operating Expenses	<u>55,542,274</u>	<u>58,388,775</u>
Operating Income	<u>20,704,159</u>	<u>17,279,073</u>
NONOPERATING REVENUES (EXPENSES)		
Grants	274,837	861,091
Investment earnings	2,322,169	1,894,518
Net increase (decrease) in fair value of investments	(149,687)	255,111
Gain (loss) on disposal of assets	(4,705)	8,848
Amortization of bond/note issuance costs	(989,593)	(626,476)
Interest expense	(22,431,967)	(22,291,259)
Other nonoperating revenue	150,000	327,659
Other nonoperating expense	<u>(973,993)</u>	<u>(699,042)</u>
Total Nonoperating Revenues (Expenses)	<u>(21,802,939)</u>	<u>(20,269,550)</u>
(Loss) before Capital Contributions	<u>(1,098,780)</u>	<u>(2,990,477)</u>
CAPITAL CONTRIBUTIONS		
Water meter retrofit program	170,201	248,618
Developer infrastructure contributions	507,970	4,088,095
Developer will-serve contributions (net of refunds)	125,123	133,305
Developer capital contributions-other	126,899	184,791
Developer facility charges (net of refunds)	252,748	437,933
Contributions from others	<u>150,000</u>	<u>748,583</u>
Total Capital Contributions	<u>1,332,941</u>	<u>5,841,325</u>
Change in Net Assets	234,161	2,850,848
NET ASSETS , BEGINNING OF YEAR	<u>287,957,056</u>	<u>285,106,208</u>
NET ASSETS , END OF YEAR	<u>\$ 288,191,217</u>	<u>\$ 287,957,056</u>

**TRUCKEE MEADOWS WATER AUTHORITY
 STATEMENTS OF CASH FLOWS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 77,181,124	\$ 75,099,153
Cash paid to employees	(16,262,764)	(15,713,658)
Cash paid to suppliers and others	(17,996,665)	(21,390,213)
Net Cash Provided by Operating Activities	<u>42,921,695</u>	<u>37,995,282</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(20,027,345)	(24,666,618)
Interest paid on financing	(21,288,252)	(22,220,174)
Principal paid on financing	(10,143,959)	(9,538,902)
Proceeds from capital debt issuance	3,963,079	2,359,945
Proceeds from commercial paper note issuances	11,400,000	-
Proceeds from refunding bonds	-	31,815,676
Proceeds transferred to refunding escrow	(11,727,450)	(31,726,088)
Proceeds from capital asset disposal	35,766	9,706
Contributions for water meter retrofit program	170,201	248,618
Contributions from developers-will-serve letters	125,123	133,305
Contributions from developers-other	133,979	184,791
Contributions from developers-facility charges	252,748	437,933
Contributions from others	150,000	-
Grants	1,000,000	335,506
Bond/Note issuance costs	(704,798)	(753,828)
Net Cash (Used) by Capital and Related Financing Activities	<u>(46,660,908)</u>	<u>(53,380,130)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received & net increase (decrease) in fair value of investments	<u>2,144,104</u>	<u>2,604,620</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,595,109)	(12,780,228)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$74,263,057 and \$74,257,884 in restricted accounts for the years ended June 30, 2011 and 2010, respectively)	<u>123,285,416</u>	<u>136,065,644</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$73,237,654 and \$74,263,057 in restricted accounts for the years ended June 30, 2011 and 2010, respectively)	<u>\$ 121,690,307</u>	<u>\$ 123,285,416</u>

(CONTINUED)

**TRUCKEE MEADOWS WATER AUTHORITY
 STATEMENTS OF CASH FLOWS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 20,704,159	\$ 17,279,073
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	22,322,217	21,990,618
Other nonoperating revenues	180,000	-
Other nonoperating expenses	(871,847)	(699,042)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	705,140	(353,486)
Due from others	16,448	13,124
Due from other governments	(22,135)	(183,302)
Prepaid assets	219,972	188,583
Increase (decrease) in:		
Accounts payable	(213,502)	(168,621)
Accrued liabilities	(96,638)	(155,210)
Due to customers and developers	55,238	(45,031)
Due to other governments	(77,357)	128,576
Total Adjustments	<u>22,217,536</u>	<u>20,716,209</u>
Net Cash Provided by Operating Activities	<u>\$ 42,921,695</u>	<u>\$ 37,995,282</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer infrastructure contributions	\$ 507,970	\$ 4,088,095
Amortization of deferred bond/loan issuance expenses	284,795	256,758
Amortization of net bond premium	(931,189)	(624,027)
Amortization of refunding allowances to interest expense	2,298,242	1,969,201
Other infrastructure contributions	-	748,583
SUPPLEMENTAL CASH FLOWS INFORMATION		
Capitalization of interest expense	199,159	717,257
Capitalization of interest revenue	92,363	327,616

**TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity and Purpose:

TMWA is a Joint Powers Authority (JPA) 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 originally operated by Sierra Pacific Power Company (SPPCo), now known as NV Energy, Inc.

TMWA is governed by a seven member Board of Directors appointed by:

- Reno City Council (3 seats)
- Sparks City Council (2 seats)
- Washoe County (2 seats)

The cities and county representatives are not required to be elected officials. Modifications to the JPA were approved by the governing bodies in December 2009 which changed the at-large seat into a second seat for a Washoe County. In addition to the aforementioned change, the Technical Advisory Committee (TAC) was dissolved since TMWA has become an experienced municipal water utility. The amendments to the JPA were approved by the Attorney General's Office of the State of Nevada effective February 3, 2010.

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, 2011 AND 2010**

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

When both restricted and unrestricted resources are available for use, it is TMWA's policy to use unrestricted resources first, and then restricted resources as they are needed.

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

Budgets and Budgetary Accounting:

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

- On or before April 15, the General Manager of TMWA submits to the Board of Directors a tentative budget for the fiscal year commencing the following July 1.
- Public hearings on the tentative budget are held on the third Thursday in May.
- Prior to June 1, at a public hearing, the Board of Directors indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members of the Board. The final budget must then be forwarded to the Nevada Department of Taxation for final approval.
- Any revisions that alter total appropriations must be approved in advance by the Board. Formal budgetary integration is employed as a management control device during the year.
- Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Appropriations lapse at year end.

**TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

- In accordance with State statute, actual expenses may not exceed the sum of operating and nonoperating expenses.

The budget reflected in the financial statements has been amended from the original amounts in accordance with State statute for the years ended June 30, 2011 and 2010. These presentations for fiscal years 2011 and 2010 are included as Supplementary Information.

Cash and Investments:

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

Investments authorized by state statutes and TMWA's bond resolutions include, but are not limited to, guaranteed investment contracts, obligations of the U.S. Treasury, obligations of other U.S. Government agencies, negotiable and non-negotiable certificates of deposit issued by commercial banks or insured savings and loan associations, bankers acceptances, repurchase agreements, "AAA" rated mutual funds that invest in securities of the Federal Government or agencies of the Federal Government, and the State of Nevada Local Government Investment Pool (LGIP), an external investment pool which is administered by the State Treasurer with oversight by the Board of Finance of the State of Nevada. Investments are reported at fair value, including the investment with LGIP in which the value is the same as the value of the pool shares.

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

Cash Equivalents:

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

Accounts Receivable:

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

**TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

Restricted Assets:

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

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

Certain assets of TMWA are classified as restricted assets on the Statements of Net Assets because they were derived from contributions from developers to fund the water meter retrofit program as mandated by Public Law 101-618.

A portion of the proceeds from the TMWA's water revenue bonds are classified as restricted assets on the Statements of Net Assets because their use is limited to the future purchase of Hydroelectric Assets, as stipulated in the Asset Purchase Agreement with NV Energy, Inc. (formerly Sierra Pacific Power Company).

Prepaid Items:

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

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 asset is reflected in the capitalized value of the asset constructed, net of interest earned on

**TRUCKEE MEADOWS WATER AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011 AND 2010**

the invested proceeds over the same period. Developer contributed capital assets are recorded at estimated fair value at the date of contribution to TMWA.

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

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

Compensated Absences:

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

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, grant revenues, and reimbursement for non-operating activities. Developer facility charges, will serve contributions and other contributions reflect payments for water service. Developer infrastructure contributions are an estimation of the value of infrastructure built by developers and permanently dedicated to TMWA.

Reclassification:

Certain accounts in June 30, 2010 financial statements have been reclassified for comparative purposes to conform with the presentation in the June 30, 2011 financial statements.

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

TMWA conformed to all significant statutory constraints on its financial administration during the year, with the following possible exception:

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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TMWA did not submit the annual required reports for its unclaimed property. This is an apparent violation of Nevada Revised Statute 120A.520. TMWA has taken immediate action to correct the oversight.

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Billed amounts	\$ 4,270,468	\$ 4,595,993
Earned, but unbilled amounts	<u>6,582,149</u>	<u>6,874,001</u>
	10,852,617	11,469,994
Allowance for uncollectibles	<u>(600,179)</u>	<u>(512,416)</u>
Accounts receivable, net	<u>\$10,252,438</u>	<u>\$10,957,578</u>

NOTE 4 – CASH AND INVESTMENTS

Deposits:

In accordance with state statutes, TMWA's cash is deposited with insured banks. All money deposited by TMWA that is not within the limits of insurance must be secured by collateral. At June 30, 2011, the carrying amount of TMWA's deposits of \$8,635,448 was less than the respective bank balance of \$9,385,127 by \$749,679. At June 30, 2010, the carrying amount of TMWA's deposits of \$9,860,297 was more than the respective bank balance of \$9,804,017 by \$56,280. The difference between the carrying amount and bank balance results from outstanding checks and deposits not yet reflected in the bank's records.

Investments:

As of June 30, 2011 TMWA had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>
INVESTMENTS:			
U.S. Agencies	\$ 33,411,123	\$ 10,742,340	\$ 22,668,783
U.S. Treasuries	2,138,026	2,138,026	-
Guaranteed Investment Contracts	34,355,718	34,355,718	-
LGIP	1,366,468	1,366,468	-
Money Market Mutual Funds	31,675,712	31,675,712	-
Corporate Notes (TLGP)	<u>10,103,512</u>	<u>10,103,512</u>	-
Total Investments	<u>\$113,050,559</u>	<u>\$ 90,381,776</u>	<u>\$ 22,668,783</u>

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

As of June 30, 2010 TMWA had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>
INVESTMENTS:			
U.S. Agencies	\$ 35,857,450	\$ 17,157,265	\$ 18,700,185
U.S. Treasuries	7,560,169	7,560,169	-
Guaranteed Investment Contracts	34,355,718	34,355,718	-
LGIP	1,363,634	1,363,634	-
Money Market Mutual Funds	25,092,566	25,092,566	-
Corporate Notes (TLGP)	<u>9,191,282</u>	<u>6,499,830</u>	<u>2,691,452</u>
Total Investments	<u>\$113,420,819</u>	<u>\$ 92,029,182</u>	<u>\$ 21,391,637</u>

Nevada Revised Statutes (NRS 355.170) set forth acceptable investments for Nevada governments. On July 7, 2005 the TMWA Board adopted an investment policy which further limited its investment choices. Nevada Revised Statutes and TMWA's investment policy set portfolio component thresholds to further limit its exposure to certain risks as set forth below. TMWA's investment policy does not allow for investment in asset backed securities even though such investments are permitted under state law.

Interest Rate Risk:

Interest rate risk is the risk of possible reduction in the value of a security, especially a bond, resulting from a rise in interest rates. This risk can be mitigated by diversification of durations of fixed rate investments held in the investment portfolio. As a means of limiting TMWA's exposure to this risk, TMWA constantly monitors the bond futures market and ladders investments accordingly to maximize investment returns while balancing the investment maturities with spending requirements. TMWA follows state statute limits of investment in obligations of an agency of the United States or a corporation sponsored by the United States government to those maturing within ten years from the date of purchase.

**TRUCKEE MEADOWS WATER AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011 AND 2010**

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations and is a function of the credit quality ratings of investments. TMWA follows state statute for reducing exposure to investment credit risk by investing in guaranteed investment contracts, U.S. Agency securities, “AAA” rated money market mutual funds that invest in securities issued by the U.S. Government or agencies of the U.S. Government, and the State of Nevada Local Government Pooled Investment Fund (LGIP). TMWA has a debt reserve fund with LGIP, which is an unrated external investment pool and has an investment duration of 69 days. In addition, the guaranteed investment contracts in which TMWA invests are unrated. Investments in U.S. Agencies are rated “AAA” and when investments are made in corporate commercial paper these investments are rated “A-1+”/“P-1”. Investments in corporate notes under the Temporary Liquidity Guarantee Program (TLGP) are rated “AAA”.

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Securities held by TMWA or by TMWA’s custodians are diversified to eliminate risk of loss from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

At June 30, 2011 and 2010, the following investments by issuer, exceeded 5% of TMWA’s total investments:

	June 30, 2011	
Bank of America Guaranteed Investment Contract	\$29,755,718	26.32%
Federal National Mortgage Association	\$11,188,786	9.90%
Federal Home Loan Bank	\$16,814,734	14.87%
Federal Home Loan Mortgage Corporation	\$10,103,512	8.94%
General Electric	\$ 5,868,191	5.19%
	June 30, 2010	
Bank of America Guaranteed Investment Contract	\$29,755,718	26.23%
U.S. Treasuries	\$ 7,554,986	6.66%
Federal National Mortgage Association	\$11,169,440	9.85%
Federal Home Loan Bank	\$12,998,780	11.46%
Federal Home Loan Mortgage Corporation	\$11,799,555	10.40%

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets not Being Depreciated:				
Construction in progress	\$ 9,225,924	\$ 2,389,980	\$ (7,547,155)	\$ 4,068,749
Land	11,029,827	108,521	-	11,138,348
Water rights	92,114,653	-	-	92,114,653
Total Capital Assets not Being Depreciated	<u>112,370,404</u>	<u>2,498,501</u>	<u>(7,547,155)</u>	<u>107,321,750</u>
Capital Assets Being Depreciated:				
Distribution mains	273,958,999	8,189,184	(1,786,454)	280,361,729
Plant	145,871,250	8,507,431	-	154,378,681
Services	106,363,553	1,571,366	(2,269,972)	105,664,947
Booster pump stations	36,579,640	1,286,554	(1,257,988)	36,608,206
Tanks	57,153,591	644,365	(52,529)	57,745,427
Wells	22,731,053	2,544,129	(516,197)	24,758,985
Pressure reducing valves	5,260,013	136,284	(235,195)	5,161,102
Canals/Siphons	34,899,224	1,451,356	(6,152)	36,344,428
Reservoirs	11,897,134	-	(897,265)	10,999,869
Vehicles	3,283,944	36,334	(4,046)	3,316,232
Furniture and fixtures	686,955	9,042	(138)	695,859
Computer hardware and software	5,046,722	206,456	(3,470,010)	1,783,168
Lab equipment	59,199	-	(33,593)	25,606
Hydroelectric facilities	13,701,136	437,696	-	14,138,832
Corporate building	8,712,910	187,925	-	8,900,835
Total Capital Assets Being Depreciated	<u>726,205,323</u>	<u>25,208,122</u>	<u>(10,529,539)</u>	<u>740,883,906</u>
Accumulated Depreciation:				
Distribution mains	(33,860,444)	(5,054,976)	1,767,118	(37,148,302)
Plant	(39,255,924)	(4,952,952)	-	(44,208,876)
Services	(35,389,620)	(5,628,344)	2,269,971	(38,747,993)

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

	Beginning Balances	Increases	Decreases	Ending Balances
Booster pump stations	\$ (7,767,451)	\$ (1,321,977)	\$ 1,244,552	\$ (7,844,876)
Tanks	(7,257,736)	(1,273,494)	51,162	(8,480,068)
Wells	(8,243,715)	(1,413,236)	516,197	(9,140,754)
Pressure reducing valves	(2,137,138)	(323,427)	234,273	(2,226,292)
Canals/Siphons	(3,089,123)	(840,360)	6,152	(3,923,331)
Reservoirs	(3,647,900)	(376,415)	892,098	(3,132,217)
Vehicles	(2,136,055)	(297,775)	3,810	(2,430,020)
Furniture and fixtures	(428,598)	(68,920)	132	(497,386)
Computer hardware and software	(4,065,578)	(272,651)	3,470,010	(868,219)
Lab equipment	(33,593)	(5,121)	33,593	(5,121)
Hydroelectric facilities	(781,149)	(315,463)	-	(1,096,612)
Corporate building	(738,069)	(177,106)	-	(915,175)
Total Accumulated Depreciation	<u>(148,832,093)</u>	<u>(22,322,217)</u>	<u>10,489,068</u>	<u>(160,665,242)</u>
Total Capital Assets Being Depreciated, Net	<u>577,373,230</u>	<u>2,885,905</u>	<u>(40,471)</u>	<u>580,218,664</u>
Total Capital Assets, Net	<u><u>\$ 689,743,634</u></u>	<u><u>\$ 5,384,406</u></u>	<u><u>\$ (7,587,626)</u></u>	<u><u>\$ 687,540,414</u></u>

Capital asset activity for the year ended June 30, 2010 follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets not Being Depreciated:				
Construction in progress	\$ 20,482,964	\$ 4,559,866	\$ (15,816,906)	\$ 9,225,924
Land	10,863,596	166,231	-	11,029,827
Water rights	92,114,653	-	-	92,114,653
Total Capital Assets not Being Depreciated	<u>123,461,213</u>	<u>4,726,097</u>	<u>(15,816,906)</u>	<u>112,370,404</u>

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Being Depreciated:				
Distribution mains	\$ 263,821,863	\$ 10,137,136	\$ -	\$ 273,958,999
Plant	145,650,572	220,678	-	145,871,250
Services	104,532,714	1,830,839	-	106,363,553
Booster pump stations	35,115,481	1,464,159	-	36,579,640
Tanks	46,419,788	10,733,803	-	57,153,591
Wells	22,503,719	227,334	-	22,731,053
Pressure reducing valves	5,258,195	1,818	-	5,260,013
Canals	20,300,977	14,598,247	-	34,899,224
Reservoirs	11,897,134	-	-	11,897,134
Vehicles	4,187,616	-	(903,672)	3,283,944
Furniture and fixtures	654,773	32,348	(166)	686,955
Computer hardware and software	6,369,607	217,763	(1,540,648)	5,046,722
Lab equipment	33,593	25,606	-	59,199
Hydroelectric facilities	13,397,963	303,173	-	13,701,136
Corporate building	8,686,805	26,105	-	8,712,910
Total Capital Assets Being Depreciated	688,830,800	39,819,009	(2,444,486)	726,205,323
Accumulated Depreciation:				
Distribution mains	(28,933,739)	(4,926,705)	-	(33,860,444)
Plant	(34,268,150)	(4,987,774)	-	(39,255,924)
Services	(29,853,676)	(5,535,944)	-	(35,389,620)
Booster pump stations	(6,446,018)	(1,321,433)	-	(7,767,451)
Tanks	(6,140,167)	(1,117,569)	-	(7,257,736)
Wells	(6,867,129)	(1,376,586)	-	(8,243,715)
Pressure reducing valves	(1,809,063)	(328,075)	-	(2,137,138)
Canals	(2,541,404)	(547,719)	-	(3,089,123)
Reservoirs	(3,271,400)	(376,500)	-	(3,647,900)
Vehicles	(2,705,668)	(333,252)	902,865	(2,136,055)
Furniture and fixtures	(361,620)	(67,093)	115	(428,598)
Computer hardware and software	(5,028,055)	(578,171)	1,540,648	(4,065,578)
Lab equipment	(26,875)	(6,718)	-	(33,593)
Hydroelectric facilities	(470,308)	(310,841)	-	(781,149)
Corporate building	(561,831)	(176,238)	-	(738,069)

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	Beginning Balances	Increases	Decreases	Ending Balances
Total Accumulated Depreciation	\$ (129,285,103)	\$ (21,990,618)	\$ 2,443,628	\$ (148,832,093)
Total Capital Assets Being Depreciated, Net	<u>559,545,697</u>	<u>17,828,391</u>	<u>(858)</u>	<u>577,373,230</u>
Total Capital Assets, Net	<u>\$ 683,006,910</u>	<u>\$ 22,554,488</u>	<u>\$ (15,817,764)</u>	<u>\$ 689,743,634</u>

NOTE 6 – LONG-TERM DEBT

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

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

On November 15, 2005 TMWA issued \$40,000,000 in Series 2005A water revenue bonds which constitute special limited obligations of TMWA. The principal and interest are payable solely from, and secured by an irrevocable pledge of the net revenues derived by TMWA from the operation of the Water System. The bonds do not constitute a general obligation of TMWA, and do not constitute a general obligation of the City of Reno, the City of Sparks, Washoe County, or the State of Nevada. The bonds have a term of 30 years. These senior lien bonds were sold on senior lien parity with the 2001A bonds.

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On May 3, 2006 TMWA issued \$150,745,000 in Series 2006 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to refund \$145,970,000 in maturities of the Series 2001A Bonds. The proceeds of the refunding bond issue were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating financial resources for the future debt service payments of the refunded Series 2001A Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$5,901,299. The unamortized balance was netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the newly issued debt, which has a shorter remaining life than the refunded debt. This advance refunding was undertaken to reduce total debt service payments over 27 years by \$10,016,065, and resulted in an economic gain of \$5,152,424. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2011 and 2010 was \$147,385,982 and \$147,796,530, respectively.

On August 15, 2006 TMWA began an inaugural Tax-Exempt Commercial Paper (TECP) program that authorized the issuance of up to \$160,000,000 in TECP notes. Of the total authorization, TMWA has issued \$79,400,000 and \$68,000,000 as of June 30, 2011 and June 30, 2010, respectively. The first draw was on August 16, 2006 for \$30,000,000, a second draw was on December 5, 2006 for \$13,000,000, a third draw was made on February 15, 2008 for \$25,000,000, and a fourth draw was made on June 28, 2011 for \$11,400,000, for a total issuance of \$79,400,000 which was outstanding as of June 30, 2011. The proceeds from the first two draws were used solely to purchase water rights for future sale of will serve commitments to developers. The third draw was to fund certain construction projects on an interim basis. The fourth draw was to refund four maturities totaling \$11,425,000 of the 2001A Bonds. The proceeds of the tax-exempt commercial paper notes combined with \$25,000 in unrestricted cash were transferred to an irrevocable trust. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. This refunding was undertaken to reduce total debt service payments over 5 years by \$876,725, and resulted in an economic gain of \$829,538. The reacquisition price approximated the net carrying amount of the old debt. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2011 was \$11,727,450. The TECP program is facilitated by a direct pay letter of credit between TMWA and Lloyds TSB Bank PLC. The letter of credit expired, was renegotiated and extended to August 16, 2012. The average interest rate on the outstanding balance of TECP as of June 30, 2011 and June 30, 2010 was 0.21% and 0.33% respectively. As of June 30, 2011 the total TECP notes outstanding were comprised of 12 tranches ranging in size from \$0.4 million to \$27.1 million and ranging in maturities from 21 to 154 days. As of June 30, 2010 the total TECP notes outstanding were composed of 5 tranches ranging in size from \$2.0 million to \$21.3 million and ranging in maturities from 71 to 92 days.

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On January 17, 2007 TMWA issued \$218,975,000 in Series 2007 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to refund \$212,275,000 in maturities of the Series 2001A Bonds. The proceeds of the refunding bond issue were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating financial resources for the future debt service payments of the refunded Series 2001A Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$15,284,819. The unamortized balance was netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the old debt, which has a shorter remaining life in comparison to the remaining life of the refunding bonds. This advance refunding was undertaken to reduce total debt service payments over 24 years by \$18,192,500, and resulted in an economic gain of \$10,439,350. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2011 and June 30, 2010 was \$215,602,215 and \$216,185,541, respectively.

On July 25, 2009 TMWA entered into a loan contract with the State of Nevada Drinking Water State Revolving Fund (DWSRF) to partially fund TMWA's Mogul Bypass Siphon Project. The loan was provided through the American Recovery and Reinvestment Act (ARRA) stimulus funding provided by the federal government. TMWA made draws on this contract as construction proceeded, totaling \$2,309,945. An additional draw was made in fiscal year 2011 for \$91,175 which brought the total draws on the loan balance to \$2,401,120. The loan constitutes a special limited obligation of TMWA and the principal and interest on the loan is payable solely from and secured by an irrevocable pledge of the net revenues derived from the operation of the Water System. This loan has a term of 20 years. This loan is subordinate to the senior lien 2001A Bonds, the 2005A Bonds, 2006 Refunding Bonds, the 2007 Refunding Bonds, and the 2010 Refunding Bonds, as well as future senior lien bonds.

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On January 28, 2010 TMWA issued \$28,240,000 in Series 2010 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to refund \$29,515,000 in maturities of the Series 2001A Bonds. The proceeds of the refunding bond issue were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating financial resources for the future debt service payments of the refunded Series 2001A Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,657,234. The unamortized balance has been netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the old and new debt, which has the same remaining life. This advance refunding was undertaken to reduce total debt service payments over approximately 3.5 years by \$2,332,160, and resulted in an economic gain of \$1,947,941. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2011 and June 30, 2010 was \$30,326,663 and \$32,282,836, respectively.

On February 11, 2010 TMWA entered into a loan contract with the State of Nevada Drinking Water State Revolving Fund (DWSRF) to fund TMWA's Glendale Water Treatment Plant Diversion Project. TMWA is making draws on this contract as construction proceeds, with a total authorization of \$8,500,000. Total construction costs for the Glendale Diversion Project were less than expected. Consequently TMWA requested and was granted that the remaining loan authorization be able to fund final improvements on the Highland Canal. As of June 30, 2011 total draws on the loan were \$3,921,904. The loan constitutes a special limited obligation of TMWA and the principal and interest on the loan will be payable solely from and secured by an irrevocable pledge of the net revenues derived from the operation of the Water System. This loan has a term of 20 years. This loan is subordinate to the senior lien 2001A Bonds, the 2005A Bonds, 2006 Refunding Bonds, 2007 Refunding Bonds, and the 2010 Refunding Bonds, as well as future senior lien bonds.

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The following schedules summarize the changes in long-term obligations as of June 30, 2011 and 2010.

June 30,2011	Final Maturity Date	Authorized	Balance July 1,2010	Additions	Deletions	Balance June 30,2011	Due in 2011-2012
Supported by User Charges:							
2001 A Water Revenue (Tax Exempt) Bonds, 3.70%-5.5%	7/1/2016	\$ 448,810,000	\$ 28,590,000	\$ -	\$ 19,780,000	\$ 8,810,000	\$ 8,810,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	7/1/2025	4,669,565	3,983,431	-	210,500	3,772,931	217,311
2005 A Water Revenue (Tax Exempt) Bonds 4.25%-5.00%	7/1/2036	40,000,000	37,920,000	-	740,000	37,180,000	765,000
2006 Water Revenue (Tax Exempt) Refunding Bonds 3.50%-4.875%	7/1/2034	150,745,000	150,135,000	-	320,000	149,815,000	330,000
2007 Water Revenue (Tax Exempt) Refunding Bonds 4.00%-5.00%	7/1/2030	218,975,000	217,005,000	-	400,000	216,605,000	420,000
2009 A Water Revenue DWSRF ARRA (Tax Exempt) Bonds 0%	7/1/2029	2,401,120	2,309,945	91,175	118,459	2,282,661	118,459
2010 Water Revenue (Tax Exempt) Refunding Bonds 5.00%	7/1/2015	28,240,000	28,240,000	-	-	28,240,000	-
2010 A Water Revenue DWSRF (Tax Exempt) Bonds 3.25%	TBD	8,500,000	201,110	3,720,794	-	3,921,904	-
Subtotal		902,340,685	468,384,486	3,811,969	21,568,959	450,627,496	10,660,770
Less: Unamortized net bond discount (premium)			(4,371,510)	-	(931,189)	(3,440,321)	
Less: Unamortized losses on refundings			16,792,655	-	2,298,242	14,494,413	
Total Debt Before Tax Exempt Commercial Paper			455,963,341	3,811,969	20,201,906	439,573,404	
TMWA Tax-Exempt Commercial Paper		160,000,000	68,000,000	11,400,000	-	79,400,000	79,400,000
Total Debt		\$ 1,062,340,685	\$ 523,963,341	\$ 15,211,969	\$ 20,201,906	\$ 518,973,404	\$ 90,060,770

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June 30,2010	Final Maturity Date	Authorized	Balance July 1,2009	Additions	Deletions	Balance June 30,2010	Due in 2010-2011
Supported by User Charges:							
2001 A Water Revenue (Tax Exempt) Bonds, 3.70%-5.5%	7/1/2016	\$ 448,810,000	\$ 66,035,000	\$ -	\$ 37,445,000	\$ 28,590,000	\$ 8,355,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	7/1/2025	4,669,565	4,187,333	-	203,902	3,983,431	210,500
2005 A Water Revenue (Tax Exempt) Bonds 4.25%-5.00%	7/1/2036	40,000,000	38,635,000	-	715,000	37,920,000	740,000
2006 Water Revenue (Tax Exempt) Refunding Bonds 3.50%-4.875%	7/1/2034	150,745,000	150,445,000	-	310,000	150,135,000	320,000
2007 Water Revenue (Tax Exempt) Refunding Bonds 4.00%-5.00%	7/1/2030	218,975,000	217,385,000	-	380,000	217,005,000	400,000
2009 Water Revenue DWSRF ARRA (Tax Exempt) Bonds 0%	7/1/2029	2,309,945	-	2,309,945	-	2,309,945	118,459
2010 Water Revenue (Tax Exempt) Refunding Bonds 5.00%	7/1/2015	28,240,000	-	28,240,000	-	28,240,000	-
2010 Water Revenue DWSRF (Tax Exempt) Bonds 3.25%	TBD	8,500,000	-	201,110	-	201,110	-
Subtotal		902,249,510	476,687,333	30,751,055	39,053,902	468,384,486	10,143,959
Less: Unamortized net bond discount (premium)			(2,267,963)	(3,575,676)	(1,472,129)	(4,371,510)	
Less: Unamortized losses on refundings			17,104,622	1,657,234	1,969,201	16,792,655	
Total Debt Before Tax Exempt Commercial Paper			461,850,674	32,669,497	38,556,830	455,963,341	
TMWA Tax-Exempt Commercial Paper		160,000,000	68,000,000	-	-	68,000,000	68,000,000
Total Debt		\$ 1,062,249,510	\$ 529,850,674	\$ 32,669,497	\$ 38,556,830	\$ 523,963,341	\$ 78,143,959

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

<u>Debt to Maturity</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
June 30:			
2012	\$ 90,060,770	\$ 20,410,006	\$ 110,470,776
2013	2,230,219	20,067,410	22,297,629
2014	10,692,562	19,769,948	30,462,510
2015	12,815,471	19,208,089	32,023,560
2016	11,923,965	18,616,165	30,540,130
2017-2021	76,489,033	83,404,700	159,893,733
2022-2026	94,966,306	65,111,050	160,077,356
2027-2031	115,879,645	42,269,041	158,148,686
2032-2036	117,092,621	12,568,552	129,661,173
2037	2,455,000	61,375	2,516,375
Subtotal	<u>534,605,592</u>	<u>301,486,336</u>	<u>836,091,928</u>
Less: amounts authorized but unissued	<u>4,578,096</u>	<u>-</u>	<u>4,578,096</u>
Total	<u><u>\$ 530,027,496</u></u>	<u><u>\$ 301,486,336</u></u>	<u><u>\$ 831,513,832</u></u>

Because commercial paper notes have a maturity of less than 270 days, they are presented as maturing in fiscal year 2012. It is the intent of TMWA that as TECP matures, the interest and principal will be remarketed into new commercial paper notes.

NOTE 7 – NET ASSETS

Restricted Net Assets:

TMWA records the following restrictions of net assets:

Restricted in accordance with bond covenants: TMWA's bond covenants require certain restrictions of TMWA's net assets for operations and maintenance, debt service, renewal and replacement, and water rate stabilization.

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

**TRUCKEE MEADOWS WATER AUTHORITY
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Board Designation:

The TMWA Board of Directors has designated \$1,848,864 for the water rate stabilization. This designation is not reflected as restricted net assets, but is considered a designated portion of unrestricted net assets.

NOTE 8 – CONTINGENT LIABILITIES

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

On August 31, 2006, the Truckee-Carson Irrigation District (TCID) filed an action in California against NV Energy, Inc. and TMWA seeking damages and enforcement of a 1943 agreement (the 1943 Operating Agreement) between TCID and TMWA (as successor to NV Energy, Inc.). The 1943 Operating Agreement relates to the operation and maintenance of certain interests, including a water right established by storage in Donner Lake (the Deeded Donner Lake Water Right). TCID and TMWA own the Deeded Donner Lake Water Right as tenants-in-common, and the 1943 Operating Agreement includes provisions concerning use of water from that water right for domestic purposes, irrigation, and for hydroelectric generation. The action concerns whether the 1943 Operating Agreement is still controlling, whether prior operations not consistent with it constitute a breach of contract, and whether TCID has been damaged. TCID claims damages for prior losses of use of the Donner Lake Water Right that exceed \$50,000,000.

TMWA answered TCID's complaint and filed a cross-complaint seeking partition of the Deeded Donner Lake Water Right and monetary relief from TCID for its failure to contribute to the expense of operation and maintenance of the Donner Lake Dam facilities. The court separated the claims for partition and declaratory relief, which are equitable claims, from the claims for damages and contribution for purposes of trial. The trial on TMWA's claim for partition of the Deeded Donner Lake Water Right and on TCID's claim for declaratory relief took place October, November, and December of 2009. In its Statement of Decision of March 22, 2010, the Court concluded that the Deeded Donner Lake Water Right should be partitioned. It also found that a provision of the 1943 Operating Agreement on which TCID's damage claims are based was unenforceable. On June 9, 2010, the court entered an Interlocutory Judgment portioning the Deeded Donner Lake Water Right in kind so that TCID and TMWA are now owners in kind of divided, equal one-half shares of that water right. TCID filed a timely appeal from that Interlocutory Judgment.

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The Court had scheduled a trial beginning November 3, 2010 on TCID's claim for damages and TMWA's claim for contribution. However, by order dated August 30, 2010, all proceedings at the trial court level are now stayed pending the outcome of the appeal discussed above.

It is not possible at this time to predict the final outcome of the litigation. However, TMWA will continue to vigorously defend the matter and counsel for TMWA believes that TCID's allegations that damages are or exceed \$50 million are greatly exaggerated.

NOTE 9 – RISK MANAGEMENT

TMWA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. TMWA is responsible for group health insurance premiums payable to the City of Reno for coverage in the City's self-funded health insurance program. All other risks are covered by commercial insurance purchased from independent third parties. There have been no settlements in excess of insurance coverage for the past three years.

NOTE 10 – TERMINATION BENEFITS

TMWA established a Voluntary Separation Program (VSP) which was offered to eligible employees from February 1, 2011 to March 4, 2011. The purpose of the VSP was to encourage eligible employees to consider an early leave decision to accelerate their retirement plans. Eligible employees included those age 55 with 5 years of service at the time of separation. The offered benefit was calculated based upon years of service to separation date. Fifteen employees elected to voluntarily resign from TMWA employment no later than August 26, 2011. The liability and expense to TMWA was approximately \$682,000 which reflects payments made prior to fiscal year end and within 7 months after the fiscal year ended June 30, 2011. In addition to the inducement, TMWA also paid all vested vacation and sick leave, if applicable. TMWA recorded the entire liability and associated expense in fiscal year 2011, the year the VSP was offered to eligible employees.

NOTE 11 – 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). 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

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Statutes establishes the benefit provisions provided to participants of PERS. These benefit provisions may only be amended through legislation. PERS issues a publicly available financial report that includes the financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, NV 89703-1599 or by calling (775) 687-4200.

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

Fiscal Year	Contribution Rate		Total Contribution
	Employer Pay Plan	Employee-Employer Plan	
2010/2011	21.50%	11.25%	\$ 2,740,899
2009/2010	21.50%	11.25%	\$ 2,762,370
2008/2009	20.50%	10.50%	\$ 2,633,279

Deferred Compensation Plans:

All employees of TMWA are eligible to participate in a Section 457 Deferred Compensation Plan, monies of which are maintained in a trust, separate from the general assets of TMWA. In addition to the Section 457 Deferred Compensation Plan, all 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. As of June 30, 2011 TMWA had matching contributions totaling \$743,758 and \$577,314 as of June 30, 2010.

Other Post-Employment Benefit Plan (OPEB):

Plan Description. The Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust (Plan), a single-employer defined benefit OPEB plan was established to provide eligible TMWA employees with post-employment health benefits. The Plan was amended to provide post-retirement life insurance benefits in July 2011. Pursuant to Nevada State Administrative Regulations, adopted in September 2008, the Plan is governed by not less than three but not more than five trustees. Four trustees were appointed by the TMWA

**TRUCKEE MEADOWS WATER AUTHORITY
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Board of Directors, two from non-represented employees and two from represented employees. The Plan issues a financial report that includes the financial statements and required supplementary information. That report may be obtained by contacting TMWA in writing at P.O. Box 30013, Reno, NV 89520-3013.

Eligibility. There are three employee classifications eligible for benefits: a pre-January 1, 1998 collective bargaining unit group, a post-December 31, 1997 collective bargaining unit group, and a group for management, professional, and administrative (MPAT) personnel regardless of date of hire. Eligibility requirements, benefit levels, employee contributions and employer contributions are amended through TMWA's collective bargaining agreements for its represented employees and by the TMWA Board of Directors with respect to MPAT employees.

Employees must have at least ten years of service to be eligible for benefits and must be at least 55 years of age. The pre-January 1, 1998 group of represented employees will receive a subsidy as a percentage of the total health premium, dependent upon years of service and age of retirement, with a maximum subsidy of 85% with 20 years of credited service. Employees with 20 or more years of service electing Medicare Risk Contract would pay nothing towards health premiums. For this group dependents are also covered. The post-December 31, 1997 group of represented employees will receive a total subsidy of \$1,250 times years of service towards health care premiums. This amount does not grow with interest and once exhausted a retiree may convert to COBRA, but only for the 18 month continuation period. For MPAT employees, the annual subsidy is \$235 times years of service, up to 30 years prorated for each month of retirement while under the age of 65. On or after the age of 65, the subsidy is \$105 times years of service prorated for each month of retirement while age 65 and older. If an MPAT employee retires and draws benefits before age 62 the subsidy is reduced by 5% for each full year retirement precedes 62. There is no extra subsidy for spousal or dependent coverage except continuation benefits provided for under COBRA. Retirees are responsible for the remaining portion of premiums.

The number of participants and retirees as of March 1, 2010, the effective date of the OPEB valuation was 168, and six, respectively. TMWA offered to employees an early retirement incentive Voluntary Separation Plan (VSP). This increased the number of retirees receiving benefits from the plan to 16 retirees as of June 30, 2011.

Funding Policy, Annual OPEB Cost and Net OPEB Obligation. For the year ended June 30, 2010 TMWA paid \$44,853 on behalf of retirees. Since that year, the Plan has funded retiree benefits through its Voluntary Employee Benefit Association (VEBA) that TMWA established as an irrevocable trust for funding of the post-employment health benefits.

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TMWA's annual OPEB cost, the percentage and amount of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 185,251	\$ 185,251	100%	\$ -
2010	\$ 191,950	\$ 191,950	100%	\$ -
2009	\$ 518,064	\$ 518,064	100%	\$ -

The net OPEB obligation as of June 30, 2011 and 2010 was calculated as follows:

	2011	2010
Annual Required Contribution (ARC):		
Normal cost	\$ 216,360	\$ 3,346
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	(31,109)	188,604
Annual Required Contribution (ARC)	<u>\$ 185,251</u>	<u>\$ 191,950</u>
Determination of Net OPEB Obligation		
Annual Required Contribution (ARC)	<u>\$ 185,251</u>	<u>\$ 191,950</u>
Annual OPEB Cost	\$ 185,251	\$ 191,950
Retiree Benefit Payments Paid	-	(44,853)
Contributions Made to Trust	<u>(185,251)</u>	<u>(147,097)</u>
Increase (Decrease) in Net OPEB Obligation	-	-
Net OPEB Obligation, Beginning of Year	-	-
Net OPEB Obligation, End of Year	<u>\$ -</u>	<u>\$ -</u>

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Funded Status and Funding Progress. The funded status of the Plan as of the most recent actuarial valuation (March 1, 2010) was as follows:

Actuarial Accrued Liability (AAL) (a)	\$ 4,615,337
Actuarial Value of Plan Assets (b)	<u>4,967,671</u>
Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	<u>\$ (352,334)</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL) (b) / (a)	<u>107.63%</u>
Covered Payroll (c)	<u>\$ 12,685,048</u>
UAAL as a Percentage of Covered Payroll [(a) - (b)] / (c)	<u>(2.78)%</u>

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuations and the historical pattern of sharing of benefit costs between the employer and the plan members to that point in time. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. Significant methods and assumptions were as follows:

Actuarial valuation date	March 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	29 years
Investment rate of return	8.00%
Projected salary increases	3.50%
Healthcare inflation rate	6.00%

TRUCKEE MEADOWS WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 12 – COMMITMENTS

At June 30, 2011, TMWA was committed under the Asset Purchase Agreement to expend \$8,000,000 for the purchase of Hydroelectric Assets. NV Energy, Inc. and TMWA have agreed to pro-rate this sum equally among the four run-of-river hydroelectric plants so the plants could be purchased individually. As of June 30, 2011 TMWA had completed the purchase of three of the four run-of-river hydroelectric plants for \$6,000,000 or two million dollars each. One hydro plant was purchased in fiscal year 2008 and the other two hydro plants were purchased in fiscal year 2009. The purchase of the fourth and last hydro plant is at an unspecified future date.

TMWA has committed \$1,400,000 to further enhancement of the Truckee River as mitigation for operation of the Farad hydroelectric plant which has yet to be transferred.

TMWA has committed a maximum of 1.5% of its combined operating expense budget and total annual debt service in fiscal year 2012 as a contribution in fiscal year 2012 to the Truckee River Fund of the Community Foundation of Western Nevada for the purposes of water shed protection and enhancements to the Truckee River that will benefit the water customers of TMWA.

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REQUIRED SUPPLEMENTARY INFORMATION

**TRUCKEE MEADOWS WATER AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2011**

SCHEDULE OF FUNDING PROGRESS

	(a)	(b)	(b - a)	(a / b)	(c)	[(b - a) / c]
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%

As of the March 1, 2010 Actuarial Valuation, assets were deposited into the Retirement Benefits Investment Fund (RBIF) sponsored through the State of Nevada. The RBIF portfolio is designed to generate an 8% annual return over long-term time frames. Accordingly, the discount rate was increased to 8% from 4.25%, materially reducing the actuarial accrued liability.

SUPPLEMENTARY INFORMATION

**TRUCKEE MEADOWS WATER AUTHORITY
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES
 IN NET ASSETS - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>AUGMENTED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
Charges for water sales	\$ 73,292,907	\$ 71,408,240	\$ (1,884,667)
Hydroelectric sales	2,487,495	3,079,158	591,663
Other operating sales	2,024,738	1,759,035	(265,703)
Total Operating Revenues	<u>77,805,140</u>	<u>76,246,433</u>	<u>(1,558,707)</u>
OPERATING EXPENSES			
Salaries and wages	11,921,928	11,049,337	872,591
Employee benefits	5,225,668	4,537,531	688,137
Services and supplies	19,709,890	17,633,189	2,076,701
Total Operating Expenses before Depreciation	<u>36,857,486</u>	<u>33,220,057</u>	<u>3,637,429</u>
Depreciation	22,765,656	22,322,217	443,439
Total Operating Expenses	<u>59,623,142</u>	<u>55,542,274</u>	<u>4,080,868</u>
Operating Income	<u>18,181,998</u>	<u>20,704,159</u>	<u>2,522,161</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	274,837	274,837	-
Investment earnings	2,385,391	2,322,169	(63,222)
Net increase (decrease) in fair value of investments	-	(149,687)	(149,687)
Gain (loss) on disposal of assets	-	(4,705)	(4,705)
Amortization of bond/note issuance costs	(938,568)	(989,593)	(51,025)
Interest expense	(22,568,333)	(22,431,967)	136,366
Other nonoperating revenue	-	150,000	150,000
Other nonoperating expense	(1,350,000)	(973,993)	376,007
Total Nonoperating Revenues (Expenses)	<u>(22,196,673)</u>	<u>(21,802,939)</u>	<u>393,734</u>
(Loss) before Capital Contributions	<u>(4,014,675)</u>	<u>(1,098,780)</u>	<u>2,915,895</u>
CAPITAL CONTRIBUTIONS			
Water meter retrofit program	59,328	170,201	110,873
Developer infrastructure contributions	1,200,000	507,970	(692,030)
Developer will-serve contributions (net of refunds)	132,888	125,123	(7,765)
Developer capital contributions-other	90,600	126,899	36,299
Developer facility charges (net of refunds)	162,264	252,748	90,484
Contributions from others	-	150,000	150,000
Total Capital Contributions	<u>1,645,080</u>	<u>1,332,941</u>	<u>(312,139)</u>
Change in Net Assets	<u>\$ (2,369,595)</u>	234,161	<u>\$ 2,603,756</u>
NET ASSETS , BEGINNING OF YEAR		<u>287,957,056</u>	
NET ASSETS , END OF YEAR		<u>\$ 288,191,217</u>	

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	AUGMENTED BUDGET	ACTUAL	VARIANCE
OPERATING REVENUES			
Charges for water sales	\$ 71,959,040	\$ 71,220,707	\$ (738,333)
Hydroelectric sales	2,340,857	2,577,660	236,803
Other operating sales	2,003,119	1,869,481	(133,638)
Total Operating Revenues	<u>76,303,016</u>	<u>75,667,848</u>	<u>(635,168)</u>
OPERATING EXPENSES			
Salaries and wages	12,079,968	11,180,101	899,867
Employee benefits	5,161,929	4,378,347	783,582
Services and supplies	22,783,139	20,839,709	1,943,430
Total Operating Expenses before Depreciation	<u>40,025,036</u>	<u>36,398,157</u>	<u>3,626,879</u>
Depreciation	21,468,108	21,990,618	(522,510)
Total Operating Expenses	<u>61,493,144</u>	<u>58,388,775</u>	<u>3,104,369</u>
Operating Income	<u>14,809,872</u>	<u>17,279,073</u>	<u>2,469,201</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	861,091	861,091	-
Investment earnings	3,217,300	1,894,518	(1,322,782)
Unrealized gain on investments	-	255,111	255,111
Gain (loss) on disposal of assets	(600,000)	8,848	608,848
Amortization of bond/note issuance costs	(586,104)	(626,476)	(40,372)
Interest expense	(24,055,377)	(22,291,259)	1,764,118
Other non-operating revenue	-	327,659	327,659
Other non-operating expense	(625,000)	(699,042)	(74,042)
Total Nonoperating Revenues (Expenses)	<u>(21,788,090)</u>	<u>(20,269,550)</u>	<u>1,518,540</u>
(Loss) before Capital Contributions	<u>(6,978,218)</u>	<u>(2,990,477)</u>	<u>3,987,741</u>
CAPITAL CONTRIBUTIONS			
Water meter retrofit program	59,328	248,618	189,290
Developer infrastructure contributions	1,200,000	4,088,095	2,888,095
Developer will-serve contributions (net of refunds)	132,888	133,305	417
Developer capital contributions-other	90,600	184,791	94,191
Developer facility charges (net of refunds)	162,264	437,933	275,669
Contributions from others	-	748,583	748,583
Total Capital Contributions	<u>1,645,080</u>	<u>5,841,325</u>	<u>4,196,245</u>
Change in Net Assets	<u>\$ (5,333,138)</u>	<u>2,850,848</u>	<u>\$ 8,183,986</u>
NET ASSETS , BEGINNING OF YEAR		<u>285,106,208</u>	
NET ASSETS , END OF YEAR		<u>\$ 287,957,056</u>	

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STATISTICAL SECTION

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**TRUCKEE MEADOWS WATER AUTHORITY
STATISTICAL SECTION
(UNAUDITED)**

This part of the Truckee Meadows Water Authority comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Section Contents

Schedule No.

Financial Trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

1-6

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the Authority's ability to generate its water sales and other revenues.

7-8

Debt Capacity

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt, and its ability to issue additional future debt.

9

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time and with other utilities.

10-12

Operating Information

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the services it provides and the activities it performs.

13-17

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Authority implemented GASB Statement No. 34 in 2003, and schedules presenting government-wide information include information beginning in that year.*

TRUCKEE MEADOWS WATER AUTHORITY
NET ASSETS BY COMPONENT
FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004 AND 2003
(UNAUDITED)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Net Assets:					
Invested in capital assets, net of related debt	\$ 223,410,534	\$220,473,195	\$204,972,595	\$177,972,803	\$152,295,208
Restricted	22,873,643	23,515,136	23,947,116	16,387,385	15,707,241
Unrestricted	<u>41,907,040</u>	<u>43,968,725</u>	<u>56,186,497</u>	<u>87,278,594</u>	<u>87,347,874</u>
Total net assets	<u><u>\$288,191,217</u></u>	<u><u>\$287,957,056</u></u>	<u><u>\$285,106,208</u></u>	<u><u>\$281,638,782</u></u>	<u><u>\$255,350,323</u></u>

Note: The Authority was formed in November 2000 and acquired its water system assets on June 11, 2001. Implementation of GASB Statement No. 34 occurred in fiscal year ended June 30, 2003.

<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
\$108,459,961	\$58,708,815	\$9,715,119	(\$16,502,825)
12,684,812	9,283,636	7,474,084	5,218,506
<u>79,963,807</u>	<u>50,545,732</u>	<u>47,670,208</u>	<u>41,665,539</u>
<u>\$201,108,580</u>	<u>\$118,538,183</u>	<u>\$64,859,411</u>	<u>\$30,381,220</u>

**TRUCKEE MEADOWS WATER AUTHORITY
 CHANGES IN NET ASSETS
 FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
 (UNAUDITED)**

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Nonoperating Revenues/ (Expenses)	Income/(Loss) before Capital Contributions	Capital Contributions	Change in Net Assets
2011	\$ 76,246,433	\$ 55,542,274	\$ 20,704,159	\$ (21,802,939)	\$ (1,098,780)	\$ 1,332,941	\$ 234,161
2010	75,667,848	58,388,775	17,279,073	(20,269,550)	(2,990,477)	5,841,325	2,850,848
2009	75,013,826	62,216,261	12,797,565	(19,873,120)	(7,075,555)	10,542,981	3,467,426
2008	78,220,168	60,591,754	17,628,414	(17,224,464)	403,950	25,884,509	26,288,459
2007	81,020,289	55,553,506	25,466,783	(15,626,417)	9,840,366	44,401,377	54,241,743
2006	76,667,478	52,254,652	24,412,826	(17,555,437)	6,857,389	75,713,007	82,570,396
2005	73,813,294	48,434,832	25,378,462	(19,135,162)	6,243,300	47,435,472	53,678,772
2004	73,614,496	44,724,139	28,890,357	(19,890,167)	9,000,190	25,478,001	34,478,191
2003	62,475,728	42,027,221	20,448,507	(19,239,738)	1,208,769	17,169,746	18,398,066
2002	60,438,298	37,719,609	22,718,689	(19,126,305)	3,592,384	9,312,091	12,904,475

Note: The Authority was formed in November 2000 and acquired its water system assets on June 11, 2001. Implementation of GASB Statement No. 34 occurred in fiscal year ended June 30, 2003.

TRUCKEE MEADOWS WATER AUTHORITY
OPERATING REVENUES BY CUSTOMER CLASS
FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, AND 2002
(UNAUDITED)

OPERATING REVENUES	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
Revenues from water sales:					
Residential unmetered water sales	\$11,611,351	\$13,115,143	\$14,216,666	\$ 15,310,296	\$ 16,612,010
Residential metered water sales	37,636,859	35,962,518	34,646,185	34,940,141	35,085,859
Commercial metered water sales	10,214,401	10,112,854	9,812,718	10,326,007	10,415,049
Irrigation metered & fire protection	9,007,523	8,894,110	8,716,187	8,880,817	9,076,013
Wholesale sales	2,938,106	3,136,081	2,833,330	3,228,785	3,083,877
Total Water Sales	71,408,240	71,220,706	70,225,086	72,686,046	74,272,808
Hydroelectric revenue	3,079,158	2,577,660	2,769,918	2,836,521	3,136,806
Other operating revenues	1,759,035	1,869,482	2,018,822	2,697,601	3,610,675
Total Operating Revenues	<u>\$ 76,246,433</u>	<u>\$ 75,667,848</u>	<u>\$ 75,013,826</u>	<u>\$ 78,220,168</u>	<u>\$ 81,020,289</u>

OPERATING REVENUES	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
Revenues from water sales:					
Residential unmetered water sales	\$ 18,536,414	\$ 21,382,048	\$ 24,406,744	\$ 23,403,951	\$ 24,253,164
Residential metered water sales	30,513,084	26,350,944	22,469,394	16,739,327	14,850,902
Commercial metered water sales	10,302,813	10,501,889	10,933,077	9,826,890	9,950,116
Irrigation metered & fire protection	8,225,084	8,185,580	8,582,050	5,783,422	5,952,224
Wholesale sales	2,892,864	2,539,129	2,225,690	1,988,566	1,743,441
Total Water Sales	70,470,259	68,959,590	68,616,955	57,742,156	56,749,847
Hydroelectric revenue	2,442,953	1,091,843	1,965,825	1,822,052	2,336,863
Other operating revenues	3,754,266	3,761,861	3,031,716	2,911,520	1,351,588
Total Operating Revenues	<u>\$ 76,667,478</u>	<u>\$ 73,813,294</u>	<u>\$ 73,614,496</u>	<u>\$ 62,475,728</u>	<u>\$ 60,438,298</u>

Note: The Authority was formed in November 2000 and acquired its water system assets on June 11, 2001.

TRUCKEE MEADOWS WATER AUTHORITY
OPERATING EXPENSES
FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
(UNAUDITED)

	June 30,2011	June 30,2010	June 30,2009	June 30,2008	June 30,2007
Salaries and wages	\$ 11,049,337	\$ 11,180,101	\$ 11,619,701	\$ 11,665,974	\$ 10,083,912
Employee benefits	4,537,531	4,378,347	4,429,266	4,528,891	3,967,687
Contract services	5,090,741	5,488,432	6,623,576	5,848,255	5,489,563
Utilities/power	4,432,932	6,639,620	7,384,879	7,292,830	7,055,167
Professional services- ((gen, legal, media, leg)	1,254,751	1,909,575	2,751,236	2,755,823	2,331,511
Supplies	1,155,351	1,112,419	1,319,905	1,496,065	1,427,467
Chemicals	1,361,144	1,653,424	1,443,177	1,231,681	1,165,321
Insurance and claims	608,352	647,983	611,405	644,638	645,064
Leases and rentals	84,843	69,472	124,563	-	58,181
Other expenses	3,645,075	3,318,784	3,754,603	4,310,112	4,087,764
Total Operating Expenses before Depreciation	33,220,057	36,398,157	40,062,310	39,774,269	36,311,637
Depreciation	22,322,217	21,990,618	22,153,951	20,817,485	19,241,869
Total Operating Expenses	\$ 55,542,274	\$ 58,388,775	\$ 62,216,261	\$ 60,591,754	\$ 55,553,506
	June 30,2006	June 30,2005	June 30,2004	June 30,2003	June 30,2002
Salaries and wages	\$ 9,852,372	\$ 9,625,252	\$ 8,786,618	\$ 8,278,246	\$ 7,371,557
Employee benefits	3,868,295	3,946,913	3,452,864	2,992,281	2,790,226
Contract services	6,054,308	5,427,544	5,845,224	5,952,053	3,873,710
Utilities/power	5,763,686	5,644,007	5,739,559	5,525,292	4,937,396
Professional services	2,591,223	2,051,063	1,351,164	1,049,773	1,806,866
Supplies	1,456,754	1,185,896	986,372	947,413	1,339,689
Chemicals	1,295,165	1,079,829	964,991	883,589	740,827
Insurance and claims	584,651	541,744	662,798	637,276	495,788
Leases and rentals	189,674	307,562	286,206	464,010	735,899
Other expenses	3,665,756	3,342,049	3,042,608	2,933,191	2,273,166
Total Operating Expenses before Depreciation	35,321,884	33,151,859	31,118,404	29,663,124	26,365,124
Depreciation	16,932,768	15,282,973	13,605,735	12,364,097	11,354,485
Total Operating Expenses	\$ 52,254,652	\$ 48,434,832	\$ 44,724,139	\$ 42,027,221	\$ 37,719,609

Note: The Authority was formed in November 2000 and acquired its water system assets on June 11, 2001.

**TRUCKEE MEADOWS WATER AUTHORITY
 NONOPERATING REVENUES AND EXPENSES
 FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
 (UNAUDITED)**

Fiscal Year	Investment Earnings	Interest Expense	Grants	Gain/(Loss) on Disposal of Assets	Other Revenue or Expenses	Total Nonoperating Expenses
2011	\$2,322,169	(\$22,431,967)	\$274,837	(\$4,705)	(\$1,963,273)	(\$21,802,939)
2010	\$1,894,518	(\$22,291,259)	\$861,091	\$8,848	(\$742,748)	(\$20,269,550)
2009	\$3,635,126	(\$23,481,043)	\$564,277	\$3,557	(\$595,037)	(\$19,873,120)
2008	\$6,841,981	(\$24,106,569)	\$483,631	(\$91,170)	(\$352,337)	(\$17,224,464)
2007	7,558,263	(23,937,895)	330,378	(83,894)	506,231	(15,626,917)
2006	6,149,397	(23,655,038)	41,967	97,249	(189,012)	(17,555,437)
2005	3,493,471	22,895,351	440,559	4,636	(178,477)	(19,135,162)
2004	3,938,551	(23,163,457)	197,608	(684,392)	(178,477)	(19,890,167)
2003	4,597,774	(23,552,125)	152,973	3,357	(441,717)	(19,239,738)
2002	4,572,853	(23,525,010)	0	4,526	(178,674)	(19,126,305)

Note: The Authority was formed in November 2000 and acquired its water system assets on June 11, 2001.

**TRUCKEE MEADOWS WATER AUTHORITY
 CAPITAL CONTRIBUTIONS BY SOURCE
 FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, AND 2002
 (UNAUDITED)**

<u>Fiscal Year</u>	<u>Developer Water Rights/ Will Serves</u>	<u>Developer Infrastructure</u>	<u>Developer Other</u>	<u>Water Meter Retrofit Program</u>	<u>Developer Facility Charges</u>	<u>From Other Governments</u>	<u>From Others</u>	<u>Total</u>
2011	\$125,123	\$507,970	\$126,899	\$170,201	\$252,748	-	\$150,000	\$1,332,941
2010	\$133,305	\$4,088,095	\$184,791	\$248,618	\$437,933	-	\$748,583	\$5,841,325
2009	(\$25,229)	\$6,905,953	\$541,325	\$359,297	\$773,955	\$179,242	\$1,808,438	\$10,542,980
2008	\$2,978,057	\$8,092,373	\$2,401,248	\$1,408,879	\$3,412,118	\$7,591,834	-	\$25,884,509
2007	13,664,518	15,489,637	5,199,992	2,539,844	5,683,715	1,823,671	-	\$44,401,377
2006	44,901,700	13,209,519	5,933,186	4,274,819	7,393,783	-	-	\$75,713,007
2005	9,365,576	17,529,161	5,629,172	4,855,415	10,056,148	-	-	\$47,435,472
2004	7,532,758	5,873,397	3,596,996	5,198,577	2,748,668	527,605	-	\$25,478,001
2003	4,724,860	5,778,366	3,474,348	3,192,172	-	-	-	\$17,169,746
2002	3,047,602	1,882,008	2,137,489	2,244,992	-	-	-	\$9,312,091

Note: The Authority was formed in November 2000 and acquired its water system assets on June 11, 2001.

TRUCKEE MEADOWS WATER AUTHORITY
GALLONS OF WATER SOLD AND REVENUES BY CATEGORY
FOR FISCAL YEARS ENDED 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
(UNAUDITED)

Category	Fiscal Year Ended June 30, 2011		Fiscal Year Ended June 30, 2010	
	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue
Residential-Unmetered (1)	--(1)	\$ 11,611,351	--(1)	\$ 13,115,143
Residential Metered	10,233,494	37,636,859	9,940,587	35,962,518
Commercial	3,925,081	10,214,401	4,642,286	10,112,854
Other (2)	2,279,226	9,007,523	1,858,589	8,894,110
Wholesale	1,573,720	2,938,106	1,284,293	3,136,081
Total	18,011,521	\$ 71,408,240	17,725,755	\$ 71,220,706
Category	Fiscal Year Ended June 30, 2009		Fiscal Year Ended June 30, 2008	
	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue
Residential-Unmetered (1)	--(1)	\$ 14,216,666	--(1)	\$ 15,310,296
Residential Metered	11,319,330	34,646,185	10,385,949	34,940,141
Commercial	3,051,746	9,812,718	4,547,882	10,326,007
Other (2)	3,059,335	8,716,187	2,677,005	8,880,817
Wholesale	1,659,709	2,833,330	1,763,412	3,228,785
Total	19,090,120	\$ 70,225,086	19,374,248	\$ 72,686,046
Category	Fiscal Year Ended June 30, 2007		Fiscal Year Ended June 30, 2006	
	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue
Residential-Unmetered (1)	--(1)	\$ 16,612,009	--(1)	\$ 18,536,414
Residential Metered	10,219,912	35,085,858	8,695,642	30,513,084
Commercial	4,397,648	10,415,048	4,365,760	10,302,813
Other (2)	2,665,330	9,076,013	2,388,314	8,225,084
Wholesale	1,773,874	3,083,877	1,581,576	2,892,864
Total	19,056,764	\$ 74,272,805	17,031,292	\$ 70,470,259
Category	Fiscal Year Ended June 30, 2005		Fiscal Year Ended June 30, 2004	
	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue
Residential-Unmetered (1)	--(1)	\$ 21,383,048	--(1)	\$ 24,406,744
Residential Metered	7,808,216	26,350,944	7,166,222	22,469,394
Commercial	4,483,265	10,501,889	4,832,724	10,933,077
Other (2)	2,448,526	8,185,580	2,869,795	8,582,050
Wholesale	1,432,520	2,539,129	1,282,857	2,225,690
Total	16,172,527	\$ 68,960,590	16,151,598	\$ 68,616,955
Category	Fiscal Year Ended June 30, 2003		Fiscal Year Ended June 30, 2002	
	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue
Residential-Unmetered (1)	--(1)	\$ 23,403,951	--(1)	\$ 24,253,164
Residential Metered	6,014,347	16,739,327	5,439,891	14,850,902
Commercial	4,634,532	9,826,890	4,163,228	9,950,116
Other (2)	1,933,611	5,783,422	2,119,840	5,952,224
Wholesale	1,361,691	1,988,566	1,259,208	1,743,441
Total	13,944,181	\$ 57,742,156	12,982,167	\$ 56,749,847

TMWA was formed June 11, 2001.

(1) Complete consumption information is not available for unmetered customers.

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

TRUCKEE MEADOWS WATER AUTHORITY
TEN LARGEST CUSTOMERS
JUNE 30, 2011
(UNAUDITED)

Customer Name	Water Used (000s Gallons)	Total Revenue	% of Total Water Sales
1 Washoe County (total)	1,279,298	\$ 2,349,845	3.3%
2 Sun Valley General Improvement District	1,081,444	979,613	1.4%
3 Washoe County School District	316,305	821,391	1.1%
4 City of Reno	227,425	725,421	1.0%
5 City of Sparks	134,548	439,754	0.6%
6 University of Nevada Reno	159,102	331,030	0.5%
7 Prologis	98,691	317,101	0.4%
8 Washoe Health Systems	133,542	313,087	0.4%
9 Nevada Properties (Peppermill Casino)	242,496	310,964	0.4%
10 Credit Markets Real Estate	155,005	306,627	0.4%
Totals	3,827,856	\$ 6,894,833	9.6%

TMWA was formed June 11, 2001.
 City of Reno includes the Reno Housing Authority

TRUCKEE MEADOWS WATER AUTHORITY
DEBT SERVICE COVERAGE RATIOS
FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
(Amounts in 000's)
(UNAUDITED)

	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
Operating Revenues (1)	\$ 71,408	\$ 71,221	\$ 70,225	\$ 72,686	\$ 74,272	\$ 70,470	\$ 68,960	\$ 68,617	\$ 57,742	\$ 56,750
Nonoperating Revenues (2)	7,253	6,669	9,197	13,822	14,451	12,487	8,236	8,876	6,249	7,262
Gross Revenues	<u>78,661</u>	<u>77,890</u>	<u>79,422</u>	<u>86,508</u>	<u>88,723</u>	<u>82,957</u>	<u>77,196</u>	<u>77,493</u>	<u>63,991</u>	<u>64,012</u>
Operation and Maintenance Expenses (3)	32,802	35,979	39,646	39,342	35,855	34,869	32,710	30,632	29,332	26,093
Contribution to Water Rate Stabilization	-	-	-	-	-	-	-	1,385	-	-
Taxes other than Income Taxes (4)	418	419	416	432	457	453	442	486	331	272
Total Expenses	<u>33,220</u>	<u>36,398</u>	<u>40,062</u>	<u>39,774</u>	<u>36,312</u>	<u>35,322</u>	<u>33,152</u>	<u>32,503</u>	<u>29,663</u>	<u>26,365</u>
Net Revenues	<u>\$ 45,441</u>	<u>\$ 41,492</u>	<u>\$ 39,360</u>	<u>\$ 46,734</u>	<u>\$ 52,411</u>	<u>\$ 47,635</u>	<u>\$ 44,044</u>	<u>\$ 44,990</u>	<u>\$ 34,328</u>	<u>\$ 37,647</u>
Senior Lien Annual Debt Service (5)	<u>\$ 31,191</u>	<u>\$ 31,124</u>	<u>\$ 31,420</u>	<u>\$ 31,427</u>	<u>\$ 33,525</u>	<u>\$ 31,202</u>	<u>\$ 30,114</u>	<u>\$ 23,594</u>	<u>\$ 23,594</u>	<u>\$ 23,594</u>
Senior Lien Debt Coverage excluding SDCs	<u>1.46</u>	<u>1.33</u>	<u>1.25</u>	<u>1.49</u>	<u>1.56</u>	<u>1.53</u>	<u>1.46</u>	<u>1.91</u>	<u>1.45</u>	<u>1.60</u>
System Development Charges (SDCs):										
Developer facility charges	\$ 253	\$ 438	\$ 774	\$ 3,412	\$ 5,684	\$ 7,394	\$ 10,056	\$ 2,749	\$ -	\$ -
Developer capital contributions - other	127	185	541	2,401	5,802	6,515	6,219	4,113	3,703	2,137
Senior Lien Debt Coverage including SDCs (6)	<u>1.47</u>	<u>1.35</u>	<u>1.29</u>	<u>1.67</u>	<u>1.91</u>	<u>1.97</u>	<u>2.00</u>	<u>2.20</u>	<u>1.61</u>	<u>1.69</u>

TMWA was formed June 11, 2001. All of TMWA's outstanding debt is water revenue bonds.

- (1) Includes retail residential, commercial, irrigation water sales and wholesale water sales net of bad debt expense
- (2) Reflects hydroelectric revenues, other miscellaneous operating revenues from fees and charges as well as gross investment income before reduction by capitalized investment income as required by Financial Accounting Standards Board Pronouncement (FASB) 62.
- (3) Includes water supply, treatment, distribution, hydroelectric power plant maintenance customer Service, water resource planning, conservation programs, administration, and inspection services. Wages and salaries, employee benefits and services and supplies comprise these expenses.
- (4) The Authority is required to pay property taxes on water rights and storage facilities located in California. During the reported fiscal years TMWA paid various counties in California for hydroelectric facilities, and water storage rights in California.
- (5) The debt service for the fiscal years ended June 30, 2004, 2003 and 2002 was interest only. On July 1, 2005, TMWA paid its first principal payment of \$6,520,000 on the 2001-A & B Series Bonds. This schedule does not include the payments on the DWSRF loan or the tax-exempt commercial paper, which are subordinate to the 2001-A and 2005-A Bonds, and the 2006, 2007 and 2010 Refunding Bonds.

Excludes capitalized interest expense which would reduce total interest expense pursuant to FASB 34

- (6) TMWA's bond covenants require a minimum coverage of 1.25x total principal and interest payments.

**TRUCKEE MEADOWS WATER AUTHORITY
 SCHEDULE OF TOTAL BUILDING PERMITS ISSUED
 BY JURISDICTION/MEMBER ENTITY
 FOR FISCAL YEARS 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
 (UNAUDITED)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Washoe County	1,272	1,279	1,586	2,222	2,829
City of Reno	2,919	3,030	3,592	4,744	6,737
City of Sparks	1,763	2,007	2,579	3,636	4,544
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Washoe County	3,492	3,521	3,447	3,512	3,551
City of Reno	9,947	9,335	7,197	5,986	6,017
City of Sparks	6,067	4,974	5,809	6,107	4,429

TMWA was formed June 11, 2001.

Source: As reported by each local governmental entity

**TRUCKEE MEADOWS WATER AUTHORITY
 SELECTED DEMOGRAPHIC AND ECONOMIC STATISTICS
 FOR WASHOE COUNTY
 FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, AND 2002
 (UNAUDITED)**

Fiscal Year Ended June 30,	POPULATION ⁽¹⁾	PER CAPITA INCOME ⁽²⁾	MEDIAN AGE ⁽³⁾	SCHOOL ENROLLMENT ⁽⁴⁾	TOTAL PERSONAL INCOME ⁽²⁾	UNEMPLOYMENT RATE (PERCENT) ⁽⁵⁾
2011	428,735	\$49	36.4	62,324	\$17,944,975	12.9%
2010	421,407	47	37.5	62,452	17,421,365	13.6%
2009	414,820	45	36.4	63,310	18,550,337	11.7%
2008	412,219	46	36.5	63,635	19,392,856	6.8%
2007	406,335	44	34.5	63,044	18,378,021	4.5%
2006	398,236	\$43	36.5	62,390	17,510,758	4.0%
2005	390,863	42	36.1	62,098	16,700,497	3.8%
2004	381,377	41	35.1	60,411	15,532,986	4.2%
2003	371,231	37	35.8	58,908	13,900,375	4.6%
2002	361,841	37	35.6	57,404	13,273,476	4.9%

Fiscal Year Ended June 30,	TOTAL LABOR FORCE ⁽⁵⁾	CONSTRUCTION ACTIVITY - TOTAL VALUE ⁽⁶⁾	NUMBER OF NEW FAMILY UNITS ⁽⁶⁾	TAXABLE SALES ⁽⁷⁾	GROSS INCOME GAMING REVENUE ⁽⁸⁾	TOTAL PASSENGER AIR TRAFFIC ⁽⁹⁾
2011	212,480	\$67,721,019	55	\$5,282,935,192	\$751,466,957	3,795,421
2010	221,954	55,952,010	35	5,176,981,699	788,545,658	3,777,701
2009	224,089	85,657,662	103	5,707,791,051	867,202,273	3,979,015
2008	221,785	202,519,159	240	6,823,701,000	996,615,975	4,841,257
2007	222,610	225,084,828	557	7,202,640,557	1,069,608,365	5,014,382
2006	219,400	307,685,955	851	7,268,593,250	1,072,936,817	5,149,700
2005	212,400	368,356,469	1,113	6,687,446,995	1,016,864,082	5,097,170
2004	208,800	345,640,310	1,009	6,023,436,676	1,011,657,616	4,918,829
2003	201,200	305,249,144	1,217	5,481,582,915	1,032,987,724	4,514,225
2002	203,149	294,355,860	1,324	5,292,178,588	1,049,151,610	4,485,369

Sources:

⁽¹⁾ Nevada State Demographer (adjusted after 2010 census); 2011 data from Washoe County 2011 CAFR

⁽²⁾ U.S. Department of Commerce, Bureau of Economic Analysis; 2006 and prior As of 2007, Washoe County Community Development Demographic Information

⁽³⁾ Nevada State Demographer 2001-2007; Center for Regional Studies, UNR, 2008-2011

⁽⁴⁾ Washoe County School District.

⁽⁵⁾ State Department of Employment, Training and Rehabilitation (DETR)

⁽⁶⁾ Washoe County Building and Safety Department.

⁽⁷⁾ Nevada State Department of Taxation

⁽⁸⁾ Nevada State Gaming Control Board

⁽⁹⁾ Reno/Tahoe International Airport

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**TRUCKEE MEADOWS WATER AUTHORITY
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO**

Employer	December, 2010		
	Employees ⁽¹⁾	Rank	Percentage of Total County Employment
Washoe County School District	7,750	1	4.22%
University of Nevada - Reno	4,750	2	2.58%
Washoe County	2,750	3	1.50%
Renown Regional Medical Center/Washoe Medical Center ⁽²⁾	2,250	4	1.22%
Peppermill Hotel-Casino	2,250	5	1.22%
International Game Technology	2,250	6	1.22%
Silver Legacy Resort Casino	1,750	7	0.95%
Atlantis Casino Resort	1,750	8	0.95%
Grand Sierra Resort Casino	1,750	9	0.95%
St. Mary's	1,750	10	0.95%
Reno Hilton	-	-	-
Sparks Nugget, Inc.	-	-	-
Eldorado Hotel & Casino	-	-	-

Employer	December, 2001		
	Employees ⁽¹⁾	Rank	Percentage of Total County Employment
Washoe County School District	6,250	1	3.23%
University of Nevada - Reno	3,250	3	1.68%
Washoe County	2,750	5	1.42%
Renown Regional Medical Center/Washoe Medical Center ⁽²⁾	2,750	6	1.42%
Peppermill Hotel-Casino	4,250	2	2.20%
International Game Technology	2,750	7	1.42%
Silver Legacy Resort Casino	2,750	8	1.42%
Atlantis Casino Resort	-	-	-
Grand Sierra Resort Casino	-	-	-
St. Mary's	-	-	-
Reno Hilton	2,750	4	1.42%
Sparks Nugget, Inc.	2,250	9	1.16%
Eldorado Hotel & Casino	2,250	10	1.16%

Source: Washoe County

⁽¹⁾Nevada Revised Statutes Chapter 612 stipulate that actual employment for individual employers may not be published. The Nevada Department of Employment Training and Rehabilitation publishes employee counts in ranges of 500. The number of employees shown are estimated using the midpoint.

⁽²⁾In 2007, Washoe Medical Center became Renown Medical Center.

TRUCKEE MEADOWS WATER AUTHORITY
CUSTOMERS AND WATER SALES BY CATEGORY
FOR THE FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 AND 2002
(UNAUDITED)

Customers by Category as of June 30, 2011

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	8,685	9.3%	\$ 11,611,351	16.3%
Residential Metered	72,457	77.3%	37,636,859	52.7%
Commercial and Irrigation	8,564	9.1%	17,939,507	25.1%
Other (2)	4,078	4.3%	1,282,417	1.8%
Wholesale	2	0.0%	2,938,106	4.1%
Total	93,786	100.0%	\$ 71,408,240	100.0%

Customers by Category as of June 30, 2010

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	10,403	11.1%	\$ 13,115,143	18.4%
Residential Metered	70,556	75.6%	35,962,518	50.5%
Commercial and Irrigation	8,465	9.1%	17,872,178	25.1%
Other (2)	3,943	4.2%	1,134,786	1.6%
Wholesale	7	0.0%	3,136,081	4.4%
Total	93,374	100.0%	\$ 71,220,706	100.0%

Customers by Category as of June 30, 2009

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	12,590	13.5%	\$ 14,216,666	20.2%
Residential Metered	68,557	73.4%	34,646,185	49.3%
Commercial and Irrigation	8,397	9.0%	17,573,511	25.0%
Other (2)	3,808	4.1%	955,394	1.4%
Wholesale	7	0.0%	2,833,330	4.0%
Total	93,359	100.0%	\$ 70,225,086	100.0%

Customers by Category as of June 30, 2008

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	14,063	15.1%	\$ 15,310,296	21.1%
Residential Metered	67,357	72.3%	34,940,141	48.1%
Commercial and Irrigation	8,203	8.8%	18,305,887	25.2%
Other (2)	3,595	3.9%	900,937	1.2%
Wholesale	7	0.0%	3,228,785	4.4%
Total	93,225	100.0%	\$ 72,686,046	100.0%

Customers by Category as of June 30, 2007

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	15,488	16.7%	\$ 16,612,009	22.4%
Residential Metered	65,749	70.9%	35,085,858	47.2%
Commercial and Irrigation	7,966	8.6%	18,602,006	25.0%
Other (2)	3,469	3.7%	889,055	1.2%
Wholesale	7	0.0%	3,083,877	4.2%
Total	92,679	100.0%	\$ 74,272,805	100.0%

(continued)

Customers by Category as of June 30, 2006

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	16,466	18.0%	\$ 18,536,414	26.3%
Residential Metered	63,744	69.7%	30,513,084	43.3%
Commercial and Irrigation	7,787	8.5%	17,670,604	25.1%
Other (2)	3,407	3.7%	857,293	1.2%
Wholesale	7	0.0%	2,892,864	4.1%
Total	<u>91,411</u>	<u>100.0%</u>	<u>\$ 70,470,259</u>	<u>100.0%</u>

Customers by Category as of June 30, 2005

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	19,945	22.9%	\$ 21,382,048	31.0%
Residential Metered	56,555	64.8%	26,350,944	38.2%
Commercial and Irrigation	5,296	6.1%	18,022,769	26.1%
Other (2)	5,449	6.2%	664,700	1.0%
Wholesale	4	0.0%	2,539,129	3.7%
Total	<u>87,249</u>	<u>100.0%</u>	<u>\$ 68,959,590</u>	<u>100.0%</u>

Customers by Category as of June 30, 2004

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	25,855	30.5%	\$ 24,406,744	35.6%
Residential Metered	48,214	56.9%	22,469,394	32.7%
Commercial and Irrigation	5,276	6.2%	19,055,226	27.8%
Other (2)	5,342	6.3%	459,901	0.7%
Wholesale	4	0.1%	2,225,690	3.2%
Total	<u>84,691</u>	<u>100.0%</u>	<u>\$ 68,616,955</u>	<u>100.0%</u>

Customers by Category as of June 30, 2003

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	30,975	38.3%	\$ 23,403,951	40.5%
Residential Metered	40,585	50.1%	16,739,327	29.0%
Commercial and Irrigation	4,960	6.1%	15,390,414	17.0%
Other (2)	4,489	5.5%	219,898	0.3%
Wholesale	4	0.1%	1,988,566	3.5%
Total	<u>81,013</u>	<u>100.0%</u>	<u>\$ 57,742,156</u>	<u>100.0%</u>

Customers by Category as of June 30, 2002

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Fiscal Year Water Revenues (1)</u>	<u>% of Total Revenues</u>
Residential -Unmetered	34,781	44.2%	\$ 24,253,164	42.7%
Residential Metered	34,745	44.1%	14,850,902	26.2%
Commercial and Irrigation	6,821	8.7%	15,398,106	17.5%
Other (2)	2,330	3.0%	504,234	10.5%
Wholesale	4	0.1%	1,743,441	3.1%
Total	<u>78,681</u>	<u>100.0%</u>	<u>\$ 56,749,847</u>	<u>100.0%</u>

TMWA was formed June 11, 2001.

- (1) Water Revenues are revenues that are billed and estimated for the fiscal year periods.
 Estimated revenues are revenues for water deliveries just prior to fiscal year end that are unbilled until July of the next fiscal year.
- (2) Includes private fire protection services located on the premises of commercial and some residential customers.

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**TRUCKEE MEADOWS WATER AUTHORITY
 SCHEDULE OF INSURANCE COVERAGE
 June 30, 2011
 (UNAUDITED)**

<u>Coverage</u>	<u>Carrier/Policy</u>	<u>Term</u>	<u>Limits/Deductible</u>
Property/Boiler and Machinery Policy	Affiliated FM Insurance Company	6/11/11 to 6/11/2012	Blanket limit of \$266,500,000 per occurrence with sub-limits of \$100,000,000 for earthquake for Earth Movement (excluding CA properties) and \$25,000,000 for flood (excluding Glendale plant). Coverage includes Business Interruption and Extra Expense. Deductibles for flood and earth movement are \$100,000 per occurrence for each location; general policy deductible is \$25,000.
General Liability and Business Automobile Policy	Arch Insurance Company	6/11/11 to 6/11/2012	First \$1,000,000 in liability limits. General Liability Aggregate limit of \$3,000,000. General liability deductible of \$25,000 per occurrence. Auto Physical Damage deductible of \$1,000.
Excess Umbrella Liability Policy	Arch Insurance Company	6/11/11 to 6/11/2012	\$20,000,000 excess liability limit.
Workers' Compensation	Employer's Insurance Company of Nevada	6/11/11 to 6/11/2012	Fully insured for statutory limits under Workers' Compensation laws with no deductible. Policy also provides \$1,000,000 limit for Employer's Liability.
Employee Health Insurance	By contract with the City of Reno's health insurance programs	6/11/11 to 6/11/2012	Varies by plan selected.
Commercial Pollution Liability	American International Specialty Lines Insurance Company	6/11/11 to 6/11/2012	\$50,000,000 limit \$100,000 deductible each incident. Products Pollution coverage limited to \$35,00,000

TRUCKEE MEADOWS WATER AUTHORITY
NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY
FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, AND 2002
(UNAUDITED)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Administration/IT	22	22	25	23
Supply/Treatment Operations	28	28	32	28
Distribution Maintenance	42	45	45	45
Hydroelectric	7	5	6	7
Customer Service/Conservation	28	41	42	39
Water Planning/Resources	13	14	11	10
Engineering/Construction	<u>14</u>	<u>15</u>	<u>17</u>	<u>22</u>
Total Authorized Employees	<u><u>154</u></u>	<u><u>170</u></u>	<u><u>178</u></u>	<u><u>174</u></u>

TMWA was formed June 11, 2001.

During fiscal year 2007, the IT/GIS functions were moved to Administration.

<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
15	12	11	9	8	9
32	34	35	35	35	36
44	43	39	36	32	32
7	7	7	7	7	8
33	31	31	29	27	17
11	10	10	10	10	10
27	27	29	28	25	21
<u>169</u>	<u>164</u>	<u>162</u>	<u>154</u>	<u>144</u>	<u>133</u>

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**TRUCKEE MEADOWS WATER AUTHORITY
 CURRENT AND HISTORICAL WATER RATES
 FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, AND 2002
 (UNAUDITED)**

	<u>6/30/2011</u>	<u>6/30/2010*</u>	<u>6/30/2009*</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005*</u>	<u>6/30/2004*</u>	<u>6/30/2003</u>	<u>6/30/2002</u>
Monthly Customer Charges By Meter Size										
3/4"	\$15.70	\$15.70	\$15.70	\$15.70	\$15.70	\$15.70	\$15.70	\$14.80	\$10.02	\$10.02
1"	17.30	17.30	17.30	17.20	17.20	17.20	17.20	16.30	10.61	10.61
1 1/2"	19.60	19.60	19.60	19.60	19.60	19.60	19.60	18.50	12.24	12.24
2"	22.80	22.80	22.80	22.80	22.80	22.80	22.80	21.50	14.34	14.34
3"	25.90	25.90	25.90	25.90	25.90	25.90	25.90	24.40	21.91	21.91
4"	29.80	29.80	29.80	29.80	29.80	29.80	29.80	28.10	n/a	n/a
6"	34.50	34.50	34.50	34.50	34.50	34.50	34.50	32.60	n/a	n/a
Commodity Charge (all meter sizes)										
Tier 1	1.72	1.72	1.63	1.58	1.58	1.58	1.58	1.56	1.56	1.56
Tier 2	2.78	2.78	2.64	2.50	2.50	2.50	2.50	2.43	2.43	2.43
Tier 3	3.25	3.25	3.05	2.91	2.91	2.91	2.91	2.90	2.43	2.43

Above rates are for metered single family residential service.

Monthly Base Rates (Meter Size)

3/4"	\$86.30	\$86.30	\$84.20	\$74.90	\$74.90	\$74.90	\$74.90	\$67.50	\$49.19	\$49.19
1"	124.30	124.30	121.20	106.20	106.20	106.20	106.20	93.50	68.14	68.14
1 1/2"	225.20	225.20	219.80	184.90	184.90	184.90	184.90	152.60	111.22	111.22
2"	321.00	321.00	313.20	264.10	264.10	264.10	264.10	218.90	159.50	159.50
3"	403.00	403.00	393.20	331.90	331.90	331.90	331.90	275.00	200.84	200.84
4"	510.00	510.00	498.50	420.30	420.30	420.30	420.30	348.30	253.82	253.82
6"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	495.30	360.97	360.97

Above rates are for unmetered single family residential service

*TMWA rates took effect on June 11, 2001, and were revised effective October 2003, March 2005, and May, 2009 and 2010.

TRUCKEE MEADOWS WATER AUTHORITY
SELECTED OPERATING AND CAPITAL INDICATORS
FOR FISCAL YEARS ENDED JUNE 30, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, AND 2002
(UNAUDITED)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Miles of water mains	1,339	1,332	1,330	1,310	1,258
Number of storage tanks	42	42	42	38	37
Number of pump stations	91	93	105	93	94
Number of wells	32	32	32	32	33
Treatment capacity (MGD)					
Glendale Plant	25	25	25	25	25
Chalk Bluff	95	95	89	89	89

Notes:
 TMWA's water system was purchased from Sierra Pacific on June 11, 2001
 MGD = millions of gallons per day

<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
1,252	1,227	1,175	1,127	1,090
35	34	34	33	33
93	93	92	92	90
33	33	32	31	31
25	25	25	25	25
89	89	89	69	69

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COMPLIANCE SECTION

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
of the Truckee Meadows Water Authority

We have audited the financial statements of Truckee Meadows Water Authority, a Joint Powers Authority (TMWA) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered TMWA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TMWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TMWA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TMWA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly,

we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of TMWA, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kafoury, Armstrong & Co." The signature is written in a cursive, slightly slanted style.

Reno, Nevada
November 28, 2011



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors of the
Truckee Meadows Water Authority

Compliance

We have audited Truckee Meadows Water Authority's, a Joint Powers Authority (TMWA), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on TMWA's major program for the year ended June 30, 2011. TMWA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of TMWA's management. Our responsibility is to express an opinion on TMWA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TMWA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of TMWA's compliance with those requirements.

In our opinion, TMWA complied, in all material respects, with the compliance requirements referred to above that could have direct and material effect on its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as findings 11-2 and 11-3.

Internal Control Over Compliance

Management of TMWA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered TMWA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance

in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TMWA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 11-1, 11-2 and 11-3. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness in internal control over compliance*, yet important enough to merit attention by those charged with governance.

TMWA's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit TMWA's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors of TMWA, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kafoury, Armstrong & Co.

Reno, Nevada
November 28, 2011

**TRUCKEE MEADOWS WATER AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	Federal CFDA No.	Project/ Pass-Through Grantor's No.	Expenditures 2010-2011
U.S. Department of the Interior			
Bureau of Reclamation:			
Direct Award:			
Providing Water to At-Risk Natural Desert Terminal Lakes - Truckee River Operating Agreement (TROA) - Desert Terminal Lakes Program - TROA Completion and Implementation	15.508	R10AP20768	<u>\$ 274,837</u>
U.S. Environmental Protection Agency			
Office of Water:			
Passed through State of Nevada Department of Conservation and Natural Resources - Division of Environmental Protection:			
ARRA - Capitalization Grants for Drinking Water State Revolving Funds - Mogul Bypass Siphon Project	66.468A	ARRA TMWA-1	91,175
Capitalization Grants for Drinking Water State Revolving Funds - Glendale Water Supply Improvement Project	66.468	TMWA-2	<u>2,558,084</u>
Total U.S. Environmental Protection Agency			<u>2,649,259</u>
Total Federal Financial Assistance			<u>\$ 2,924,096</u>

Note 1 - Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents fairly the activity of all federal award programs of Truckee Meadows Water Authority. The Truckee Meadows Water Authority reporting entity is defined in Note 1 to the financial statements. All expenditures of awards from federal agencies are included in the schedule.

Note 2 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Note 3 - Capitalization Grants for Drinking Water State Revolving Funds (66.468A)

The reported ARRA amount includes expenditures incurred and paid for with non-federal funds in fiscal year 2010 which were subsequently re-characterized as Federal expenditures when the ARRA award was received in fiscal year 2011 as follows:

Fiscal year 2010	<u>\$ 91,175</u>
Total Reported	<u><u>\$ 91,175</u></u>

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditor's Results

Financial Statements

Kafoury, Armstrong & Co. issued an unqualified opinion on the financial statements of the Truckee Meadows Water Authority for the year ended June 30, 2011.

Internal control over financial reporting:

- No material weaknesses were identified.
- No significant deficiencies were identified.

No material noncompliance to the financial statements was noted.

Federal Awards

Internal control over major programs:

- No material weaknesses were identified.
- Significant deficiencies were reported.

Kafoury, Armstrong & Co. issued an unqualified opinion on compliance for the major program of the Truckee Meadows Water Authority.

Audit findings, relative to the major Federal award program for Truckee Meadows Water Authority, which is required to be reported under section .510(a) of OMB Circular A-133, are included on the following pages.

Identification of major program:

- Capitalization Grants for Drinking Water State Revolving Funds, CFDA 66.468

The dollar threshold used to distinguish between Type A and Type B programs for the year ended June 30, 2011 was \$300,000.

Truckee Meadows Water Authority qualified as a low risk auditee for the year ended June 30, 2011 under the criteria set forth in section .530 of OMB Circular A-133.

Section II – Financial Statement Findings

There were no findings disclosed during the audit as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the year ended June 30, 2011.

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section III – Federal Award Finding and Questioned Costs

U.S. Environmental Protection Agency; passed through from the Nevada Department of Conservation and Natural Resources:

Finding 11-1:

Capitalization Grants for Drinking Water State Revolving Funds, CFDA 66.468

Grant Award Number: Affects the grant award TMWA-2 included under CFDA 66.468 on the Schedule of Expenditures of Federal Awards.

Criteria: As noted in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, costs charged to the Federal program must be for allowable costs. To be allowable under Federal awards, costs must not be included as a cost of any other Federal award, except as specifically provided by Federal law or regulation.

Condition and Context: In response to prior year finding 10-1, Truckee Meadows Water Authority represented the following corrective action procedures would be implemented:

For multiple federal and state grants funding a single project TMWA will utilize task accounting codes with the project accounting code to accurately isolate expenses to be reimbursed by different grants.

Our testing of the corrective action implemented in response to prior year finding 10-1 included reviewing Federal expenditure detail in the accounting system. We noted that Federal expenditures were not separately identified. Truckee Meadows Water Authority did not account for transactions related to Federal expenditures using an accounting method that isolates Federal expenditures. As claims for reimbursement are supported by invoices that are not coded to a specific Federal program, charges could be made against multiple awards.

Questioned Costs: None.

Effect: Claims for reimbursement could include costs charged to other Federal programs.

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Cause: Adequate control procedures are not in place to ensure that expenditures charged to a Federal program are not already included as expenditures of another Federal award.

Recommendation: We recommend Truckee Meadows Water Authority implement controls to ensure that Federal expenditures charged to a Federal program are not also charged as an expenditure of another Federal award.

Management's Response: See management's response on page 68.

U.S. Environmental Protection Agency; passed through from the Nevada Department of Conservation and Natural Resources:

Finding 11-2:

Capitalization Grants for Drinking Water State Revolving Funds, CFDA 66.468

Grant Award Number: Affects the grant award TMWA-2 included under CFDA 66.468 on the Schedule of Expenditures of Federal Awards.

Criteria: The *OMB Circular A-133 Compliance Supplement* requires that non-Federal entities include in their construction contracts subject to the Davis-Bacon Act, a requirement that the contractor and subcontractors comply with the requirements of the Davis-Bacon Act, and DOL regulations (29 CFR Part 5.5(a)(3)(ii)(A), "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor and subcontractors to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) and that Truckee Meadows Water Authority management monitor submissions to ensure that certified payrolls are received timely.

Condition and Context: Our testing of the construction contract included reviewing the bid documents and contract for the Davis-Bacon Act provisions, and reviewing the payroll data received and monitored by Truckee Meadows Water Authority. We noted several instances where the certified payrolls for multiple weeks were submitted at once, rather than each week being submitted separately and timely as prescribed by the Davis-Bacon Act and in accordance with their contract. We were

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

unable to obtain evidence that Truckee Meadows Water Authority personnel monitored that all subcontractor's submissions were filed timely.

Questioned Costs: None.

Effect: Material noncompliance with the Davis-Bacon Act by a contractor or subcontractor could occur and not be detected or followed up on by Truckee Meadows Water Authority management in a timely manner.

Cause: Adequate control procedures were not in place to ensure that all required certified payrolls were timely received as prescribed by the Davis-Bacon Act.

Recommendation: We recommend Truckee Meadows Water Authority enhance procedures to ensure that certified payrolls are received timely as prescribed by the Davis-Bacon Act.

Management's Response: See management's response on page 68.

U.S. Environmental Protection Agency; passed through from the Nevada Department of Conservation and Natural Resources:

Finding 11-3:

Capitalization Grants for Drinking Water State Revolving Funds, CFDA 66.468

Grant Award Number: Affects the grant award TMWA-2 included under CFDA 66.468 on the Schedule of Expenditures of Federal Awards.

Criteria: *OMB Circular A-133* requires Truckee Meadows Water Authority to prepare a Schedule of Expenditures of Federal Awards (Schedule) showing total Federal expenditures for the year and to maintain internal control over preparation of the Schedule that provides reasonable assurance the Schedule is complete and accurate. The Schedule should include the expenditures of Federal awards for the period covered by Truckee Meadows Water Authority's financial statements.

Condition and Context: Our testing of the Schedule included reconciling expenditures to Truckee Meadows Water Authority's accounting system and to Project Draw Report-Glendale Diversion prepared by

**TRUCKEE MEADOWS WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

the Nevada Department of Conservation and Natural Resources. We noted that the Schedule included State funded expenditures and Federal expenditures reported in the prior period.

Questioned Costs:

None.

Effect:

Federal expenditures were overstated. Thus, the Schedule was not prepared in accordance with *OMB Circular A-133*.

Cause:

The report which distinguishes the amount of Federal and State funds was not obtained from the pass-through entity prior to the preparation of the Schedule. In addition, adequate control procedures were not in place to ensure that Federal expenditures were reported accurately on the Schedule.

Recommendation:

We recommend Truckee Meadows Water Authority implement controls to ensure that Federal expenditures are accurately reported in order to comply with the requirements of *OMB Circular A-133*.

Management's Response:

See management's response on page 69.



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November 28, 2011

Grantor Agencies

Re: Capitalization Grants for Drinking Water State Revolving Funds, CFDA #66.468

This letter is in response to the Fiscal Year 2010-2011 Findings 11-1, 11-2 and 11-3

Response to the Fiscal Year 2010-2011 Finding 11-1

The Truckee Meadows Water Authority (TMWA) has implemented the following corrective action procedures:

- The prior corrective action procedure was to address multiple grants funding one project. This finding is specific to only certain project expenses being reimbursed out of a much larger population of construction expenses within a project.
- TMWA will establish a specific expense code for grant reimbursable expenses to meet A-133 audit requirements.
- Construction project expenses not submitted for reimbursement will be charged to separate expense codes than those expenses being submitted for reimbursement.

Response to the Fiscal Year 2010-2011 Finding 11-2

TMWA has implemented the following corrective action procedures:

- TMWA will establish a tracking mechanism that documents TMWA's request for certified payrolls on a weekly basis.
- TMWA has implemented software, called LCP tracker that will provide reports on a weekly basis that identifies when certified payrolls are submitted.
- If certified payrolls are not submitted on a timely basis, TMWA will clearly document all attempts to obtain certified payrolls through written request by e-mail or facsimile.
- Before any Notice of Completion is submitted to the State of Nevada Labor Commissioner's Office, TMWA has always insured that all certified payrolls have been submitted, audited, and any discrepancies addressed.

This matter is more of an improvement on an administrative process.

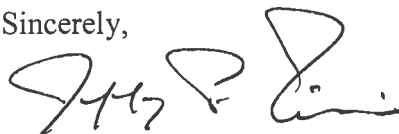
Grantor Agencies
November 28, 2011
Page 2

Response to the Fiscal Year 2010-2011 Finding 11-3

TMWA has implemented the following corrective action procedures:

- TMWA added control procedures to ensure that grant reimbursements, through a pass-through entity, be accompanied by a letter from the granting agency identifying the proportion of state and federal funding for that particular reimbursement.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeffrey P. Tissier', written over a faint, illegible stamp or background.

Jeffrey P. Tissier
Truckee Meadows Water Authority
Chief Financial Officer

**TRUCKEE MEADOWS WATER AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Award Findings and Questioned Costs

U.S. Environmental Protection Agency; passed through from the Nevada Department of Conservation and Natural Resources:

Finding 10-1:

Capitalization Grants for Drinking Water State Revolving Funds, CFDA 66.468

Grant Award Number: Affects the grant award TMWA-2 included under CFDA 66.468 on the Schedule of Expenditures of Federal Awards.

Criteria and Condition: As noted in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, costs charged to the Federal program must be for allowable costs. To be allowable under Federal awards, costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

As part of our testing over Allowable Costs/Cost Principles, we tested a sample of transactions for conformance with the criteria contained in the “Basic Guidelines” section of OMB Circular A-87. For one of the transactions tested, we noted that an identical invoice was used as supporting documentation for expenditures under another Federal Award, the Fish Passage and Protection Task (CFDA 15.650).

Questioned Costs: \$19,691.

Context: The condition above appears to be a systemic problem.

Effect: Unallowable costs have been charged to the Federal program.

Cause: Truckee Meadows Water Authority does not have adequate procedures in place to ensure that expenditures charged to a Federal award program are not already reported as an expenditure of another Federal award program.

Recommendation: We recommend Truckee Meadows Water Authority implement a preventative control by means of creating sub-account numbers for recording and capturing Federal expenditures, by federal award program, in the accounting information system.

Status: Partially corrected during the year ended June 30, 2011. See item 11-1 on page 64.

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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, 2011 (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 conformed to significant statutory and regulatory constraints on its financial administration during the year ended June 30, 2011 (except as previously noted in Note 2 to the financial statements).
- The net assets of the fund 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
November 28, 2011

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

TMWA conformed to all significant statutory constraints on its financial administration during the year ended June 30, 2010.

PRIOR YEAR RECOMMENDATIONS

Our recommendation for the prior year is included in the Summary Schedule of Prior Audit Findings.

CURRENT YEAR RECOMMENDATIONS

Our recommendations for the current year are included in the Schedule of Findings and Questioned Costs.

TRUCKEE MEADOWS WATER AUTHORITY
(TMWA)

RESOLUTION NO. 179

**A RESOLUTION APPROVING THE FINANCIAL STATEMENTS OF THE TRUCKEE
MEADOWS WATER AUTHORITY FOR FISCAL YEAR 2010-2011**

WHEREAS, TMWA is responsible for filing financial statements with various agencies; and

WHEREAS, the Board has determined that having audited financial statements to file with the appropriate agencies is deemed prudent and in accordance with state law; and

WHEREAS, pursuant to NRS 354.624, TMWA is required to file audited financial statements with the Nevada Department of Taxation, not later than six months after the close of the fiscal year being audited; and

WHEREAS, the TMWA Board is required to accept and approve the financial statements prior to filing of said statements with the Nevada Department of Taxation.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Truckee Meadows Water Authority that the audited financial statements for the period ending June 30, 2011, attached hereto as Exhibit A, is hereby accepted and approved and staff is directed to submit such information to the Nevada Department of Taxation.

Upon motion of _____, seconded by _____, the foregoing Resolution was passed and adopted December 21, 2011, by the following vote of the Board:

Ayes: _____

Nays: _____

Abstain: _____ Absent: _____

Approved this 21st day of December, 2011

Mike Carrigan, Chairman