



Southern Nevada
Water Authority

FINANCIAL SECTION

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION**

Board of Directors
Southern Nevada Water Authority
Las Vegas, Nevada

We have audited the accompanying basic financial statements of the Southern Nevada Water Authority (SNWA) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of SNWA'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, and *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 basic financial statements referred to above present fairly, in all material respects, the financial position of SNWA, as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, on our consideration of SNWA'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 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.

The management's discussion and analysis on pages 2-2 through 2-8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. 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, therefore, express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise SNWA's basic financial statements. The introductory section, statistical section and the United States Securities and Exchange Commission (SEC) disclosure compliance schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audits of the basic financial statements. Accordingly, we express no opinion on them.



December 10, 2008

SOUTHERN NEVADA WATER AUTHORITY

Management's Discussion and Analysis

For the fiscal year ended June 30, 2008, and the fiscal year ended June 30, 2007

The management of the Southern Nevada Water Authority (SNWA), provides readers of SNWA's financial statements this narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2008 and 2007. Readers are encouraged to consider the information presented here in conjunction with the additional information furnished in the letter of transmittal, which begin on page 1-1 of this report, and in our basic financial statements which begin on page 2-10.

Financial Highlights for 2008

- Total assets increased \$49.1 million over the prior year, to a total of over \$3.9 billion.
- Total assets exceed total liabilities at the close of the fiscal year by nearly \$1.6 billion (fund equity). Additions to fund equity for the fiscal year, attributed solely to net income, were \$99.8 million.
- During the fiscal year, major balance sheet resources were generated from a reduction in current assets (\$397.2 million) primarily from liquidation of investments and net income (\$99.8 million). Major balance sheet resources were used during the fiscal year for net additions to capital assets and other noncurrent assets (\$446.3 million), net retirement of debt and associated costs (\$49.4 million) and reduction of accounts payable (\$1.3 million).
- In February 2008, SNWA issued Las Vegas Valley Water District (LVVWD) 2008B refunding bonds to refund the LVVWD 1998 series bonds. SNWA is expected to save approximately \$14.1 million over the life of the LVVWD 2008B debt issue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SNWA's basic financial statements, which are comprised of two components: 1) enterprise fund financial statements, and 2) notes to basic financial statements. This Comprehensive Annual Financial Report also contains other supplementary and statistical information in addition to the basic financial statements.

Enterprise fund financial statements. SNWA's operations are accounted for as a single enterprise fund using the full accrual basis of accounting. In this regard, SNWA's operations are accounted for in a manner similar to a private business enterprise. Within this one enterprise fund, SNWA segregates revenues and expenses in its financial statements for various purposes such as operations, debt service and capital improvements. This segregation is an internal discipline and does not create physically separate funds. The enterprise fund financial statements can be found beginning on page 2-10.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found beginning on page 2-16 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents statistical information and Securities and Exchange disclosure compliance schedules. This information and schedules can be found starting on pages 3-1 and 4-1 respectively of this report.

Financial analysis. One indication of the financial health of SNWA is fund equity, which is the difference between assets and liabilities. Changes in fund equity over time may serve as a useful

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Management's Discussion and Analysis

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indicator of financial health. The following summarized balance sheets present fund equity of SNWA for the fiscal years ended June 30, 2008, 2007, and 2006.

**Southern Nevada Water Authority
Enterprise Fund
Condensed Balance Sheet
June 30, 2008, 2007 and 2006
In Million Dollars**

	<u>June 30, 2008</u>	<u>Change</u>	<u>June 30, 2007</u>	<u>Change</u>	<u>June 30, 2006</u>
Current Assets	\$ 480.5	\$ (397.2)	\$ 877.7	\$ 313.6	\$ 564.1
Noncurrent Assets	3,464.5	446.3	3,018.2	200.5	\$ 2,817.7
Total Assets	<u>\$ 3,945.0</u>	<u>\$ 49.1</u>	<u>\$ 3,895.9</u>	<u>\$ 514.1</u>	<u>\$ 3,381.8</u>
Current Liabilities	\$ 518.7	\$ (1.3)	\$ 520.0	\$ 22.3	\$ 497.7
Noncurrent Liabilities	1,866.8	(49.4)	1,916.2	345.2	1,571.0
Total Liabilities	<u>2,385.5</u>	<u>(50.7)</u>	<u>2,436.2</u>	<u>367.5</u>	<u>2,068.7</u>
Fund Equity					
Invested in Capital Assets, Net of Related Debt	1,061.3	175.4	885.9	158.6	727.3
Restricted for Debt Service / Capital Assets	102.0	51.9	50.1	26.8	23.3
Unrestricted	396.2	(127.5)	523.7	(38.8)	562.5
Total Fund Equity	<u>1,559.5</u>	<u>99.8</u>	<u>1,459.7</u>	<u>146.6</u>	<u>1,313.1</u>
Total Liabilities and Fund Equity	<u>\$ 3,945.0</u>	<u>\$ 49.1</u>	<u>\$ 3,895.9</u>	<u>\$ 514.1</u>	<u>\$ 3,381.8</u>

Fund equity in fiscal 2008 increased \$99.8 million (6.8%) over fiscal 2007, mostly as a result of significant capital contributions during the fiscal year, primarily from regional connection charge collections. Fund equity in 2007 increased \$146.6 million (11.2%) over 2006, again primarily the result of significant capital contributions in excess of debt service requirements.

Total assets in fiscal 2008 increased approximately \$49.1 million (1.3%). The increase includes a \$397.2 million (-45.3%) decrease in current assets and a \$ 446.3 million (14.8 %) increase in noncurrent assets. Total assets in fiscal 2007 increased approximately \$514.1 million (15.2%), which was the net of an increase of \$313.6 million (55.6%) in current assets, and a \$200.5 million (7.1%) increase in noncurrent assets. See Note 7 for further discussion of capital assets.

Total liabilities in fiscal 2008 decreased approximately \$50.7 million (-2.1%). The total decrease includes a \$1.3 million (-0.2%) decrease in current liabilities and the \$49.4 million (-2.6 %) decrease in noncurrent liabilities. The \$22.3 million (4.5%) increase in current liabilities and the \$345.2 million (22.0%) increase in noncurrent liabilities for fiscal 2007 primarily reflects the effect of the \$392.8 million November 2006 bond issue. See Note 13 for further discussion of SNWA's outstanding debt.

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Management's Discussion and Analysis
For the fiscal year ended June 30, 2008, and the fiscal year ended June 30, 2007

The following chart summarizes the statements of revenues, expenses and changes in fund equity for the fiscal years ended June 30, 2008, 2007, and 2006.

Southern Nevada Water Authority
Enterprise Fund
Condensed Statement of Revenue, Expenses, and Changes in Fund Equity
June 30, 2008, 2007 and 2006
In Million Dollars

	June 30, 2008	Variance	June 30, 2007	Variance	June 30, 2006
Operating Revenues					
Wholesale Delivery Charges	\$ 118.8	\$ (2.6)	\$ 121.4	\$ 5.9	\$ 115.5
Other Revenues	5.5	0.7	4.8	1.4	3.4
Total Operating Revenues	124.3	(1.9)	126.2	7.3	118.9
Total Nonoperating Revenues	24.5	(5.8)	30.3	16.4	13.9
Total Revenues	148.8	(7.7)	156.5	23.7	132.8
Operating Expenses					
Personnel and Related	37.4	3.6	33.8	1.7	32.1
Electric Power	35.2	(12.1)	47.3	(9.3)	56.6
Depreciation	57.2	4.2	53.0	2.6	50.4
Operating and Maintenance	63.9	20.8	43.1	4.1	39.0
Total Operating Expenses	193.7	16.5	177.2	(0.9)	178.1
Total Nonoperating Expenses	66.2	(5.7)	71.9	4.9	67.0
Total Expenses	259.9	10.8	249.1	4.0	245.1
Loss Before Capital Contributions	(111.1)	(18.5)	(92.6)	19.7	(112.3)
Capital Contributions	210.9	(28.3)	239.2	(157.2)	396.4
Increase in Fund Equity	99.8	\$ (46.8)	146.6	\$ (137.5)	284.1
Fund Equity Beginning of Year	1,459.7		1,313.1		1,029.0
Fund Equity End of Year	\$ 1,559.5		\$ 1,459.7		\$ 1,313.1

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Management's Discussion and Analysis

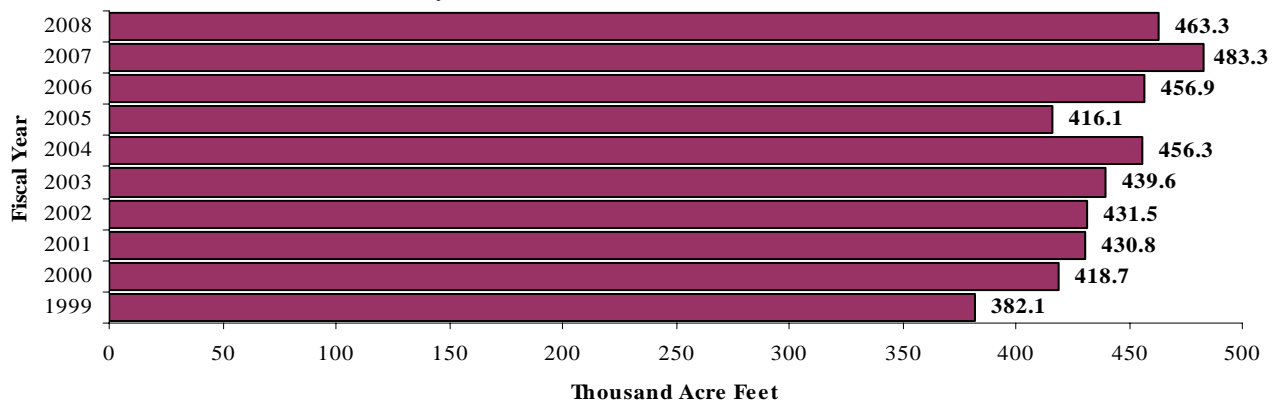
For the fiscal year ended June 30, 2008, and the fiscal year ended June 30, 2007

Operating revenues and expenses are defined as non-capital revenues and expenses incurred in the normal course of business. Examples of operating revenues include non-capital fees and charges collected from purveyor members (wholesale delivery charges, Las Vegas wash operating fees, groundwater fees, etc.). Examples of operating expenses include payroll, power costs, and professional fees.

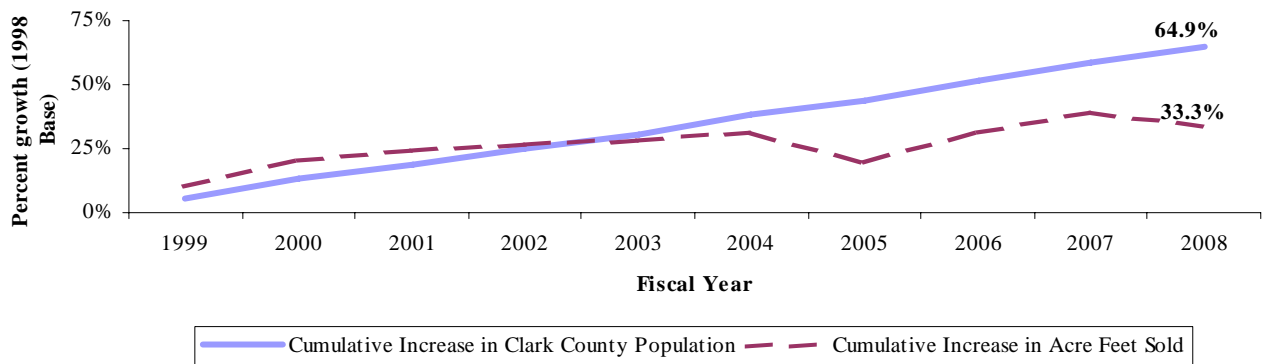
The \$2.6 million (-2.1%) decrease in wholesale delivery charge revenues in fiscal 2008 reflects a decrease in water deliveries during the year (-4.1%) slightly offset by an increase in the wholesale delivery charge. The wholesale delivery charge rate of \$257/acre-foot in fiscal 2008 included an increase of \$5/acre-foot over fiscal 2007's rate. The \$5.9 million (5.1%) increase in wholesale delivery charge revenues in fiscal 2007 reflects a corresponding increase in water deliveries during the year. The wholesale delivery charge rate of \$252/acre-foot in fiscal 2007 was consistent with that of the preceding year.

The following charts present water deliveries by the Southern Nevada Water System over the past ten years and compare the growth in water deliveries to population growth in Clark County, Nevada.

**SOUTHERN NEVADA WATER AUTHORITY
WATER DELIVERIES
By Fiscal Year in Thousand Acre Feet**



**SOUTHERN NEVADA WATER AUTHORITY
COMPARISON OF WATER DELIVERY GROWTH
TO CLARK COUNTY, NEVADA, POPULATION GROWTH**



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Management's Discussion and Analysis

For the fiscal year ended June 30, 2008, and the fiscal year ended June 30, 2007

The \$5.8 million (-19.1%) decrease in nonoperating revenues is due in large part to a reduction in investment income reflecting smaller returns due to a softening of the investment market. The \$16.4 million (118.0%) increase in nonoperating revenues for fiscal 2007 is mainly due to a stronger investment market for the year.

The \$3.6 million (10.7%) increase in personnel and related expenses in fiscal 2008 and the \$1.7 million (5.3%) increase in fiscal 2007 is due to normal cost of living allowance and merit increases, as well as new hires.

Electric power costs decreased \$12.1 million (-25.6%) in fiscal 2008. SNWA used 3.0% fewer MWhs due to lower sales of wholesale water and the cost per unit of electric power was down an average of 20.1% in fiscal 2008. Electric power costs decreased \$9.3 million (-16.4%) in fiscal 2007 even though SNWA used 9.4% more megawatts during the period. The cost per unit of electric power was down an average of 16.0% in fiscal 2007. Electric power is a significant cost of doing business and SNWA aggressively attempts to keep the unit cost of power as low as possible. See Note 12 for a discussion of SNWA's open forward power contracts.

The increases in depreciation for fiscal 2008 and 2007 are a function of increases in property, plant and equipment.

Operating and maintenance expenses increased \$20.8 million (48.3%) in fiscal 2008 due in large part to SNWA's Water Smart Landscapes Program. This program provided more attractive incentives to homeowners and business owners, with these customers using the program in larger numbers. Operating and maintenance expenses increase \$4.1 million (10.5%) in fiscal 2007 due mainly to inflation and system growth.

Nonoperating expenses decreased \$5.7 million (-7.9%) in fiscal 2008 led primarily by a decrease in interest expense costs achieved through past year's refunding of higher cost bond issues. Nonoperating expenses increased \$4.9 million (7.3%) in fiscal 2007 reflecting additional indebtedness issued by SNWA. SNWA's bond counsel regularly reviews SNWA's debt portfolio to identify opportunities to minimize interest expense.

Capital contributions are revenues SNWA receives to fund its \$2.9 billion Capital Improvement Plan (CIP) and other capital projects. SNWA began collection of these revenues in early 1996. In order of the amount of revenue they have generated since 1996, those revenues include: (1) the regional connection charge, (2) sales tax, (3) the Southern Nevada Public Lands Management Act (SNPLMA) funds, (4) the regional commodity charge, (5) the regional reliability charge, and (6) various other small charges.

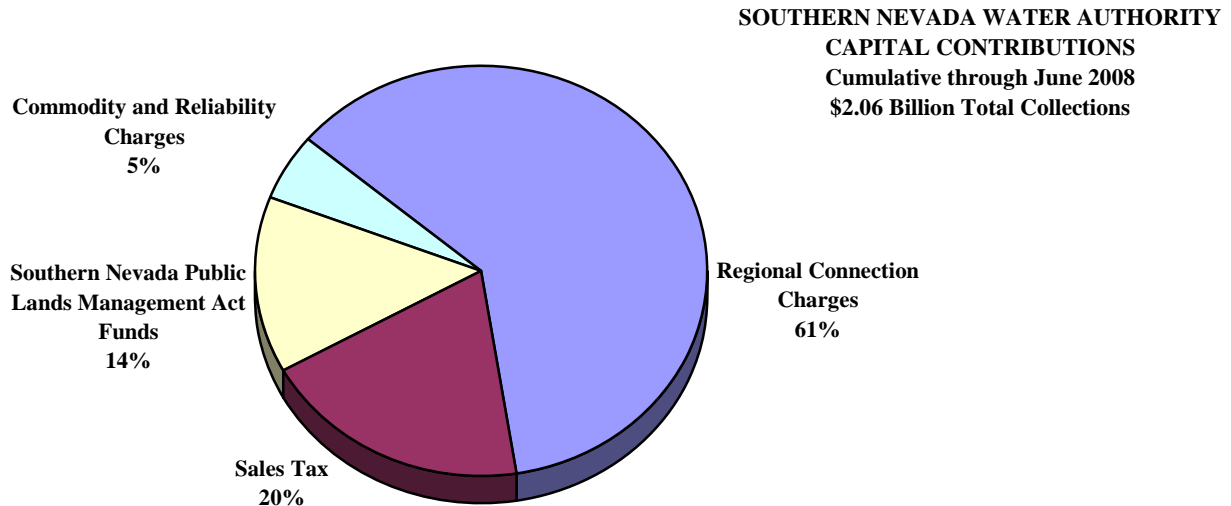
Capital contributions in fiscal 2008 decreased \$28.3 million (-11.8%) over fiscal 2007 primarily due to decreases of \$59.8 million (-49.3%) in regional connection charges reflecting a slowing of growth in the Las Vegas area. Capital contributions in fiscal 2007 decreased \$157.2 million (-39.7%) over fiscal 2006 primarily due to decreases of \$67.1 million (35.6%) in regional connection charges due to a anticipated slowing of growth in the Las Vegas area. See Note 16 for a summary of Capital Contributions.

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The following chart shows the major capital contribution revenue sources and their relation to total capital contributions.



Capital Asset and Debt Administration

Capital Assets. SNWA's investment in capital assets as of June 30, 2008 amounts to \$3.4 billion, net of accumulated depreciation. The investment in capital assets includes land, transmission and distribution lines, pumping stations and equipment, water rights and other natural resources rights. Please see Note 7 to the basic financial statements for additional information on the types and values of SNWA's capital assets.

SNWA's ongoing Capital Improvements Plan (CIP) and Major Construction and Capital Plan (MCCP) consist of items described in the preceding paragraph. Major construction expenditures in fiscal 2008 totaled \$344.8. Contract commitments total an additional \$930.3 million.

Debt Administration. At the end of fiscal 2008, SNWA had general obligation debt totaling \$2.3 billion. Details concerning all debt issues can be found in Note 13 to the basic financial statements.

SNWA issued \$400 million in general obligation bonds and \$6.9 million in subordinate lien revenue, clean renewable energy bonds in July 2008. See Note 18 (Subsequent Events) to the basic financial statements for additional details. SNWA will always be vigilant to changes in the debt market and will, when financially feasible, be receptive to possible refunding of older issues.

Economic Factors and Next Year's Goals

SNWA's financial outlook continues to remain satisfactory. Population growth in the Las Vegas area, while lighter than in previous years, is still comparable to national population trends. As a result, demand for potable water produced by SNWA is projected to remain relatively consistent. SNWA

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continues to maintain its high investment grade credit rating of "AA-" by Standard & Poor's. Construction of the \$3.0 billion CIP and the \$1.8 billion MCCP is on schedule and within budget. The capital contribution revenues designated to fund these capital plans are being collected at or above forecasted levels.

Currently, the major concern for southern Nevada continues to be the multi-year drought affecting the Colorado River basin. Water levels in Lake Mead have declined approximately 100 feet since 2000. Although these levels remain above SNWA's two intakes, the intakes are drawing water closer to the surface, which creates water quality challenges. Lower lake levels have also impacted the amount of water SNWA can withdraw from the Colorado River basin in excess of its 300,000 acre-feet net consumptive allocation. In response to these challenging conditions SNWA has taken steps to accelerate the development of in-state water resources. The fiscal impact associated with the development of these resources will become more clear in the future.

Requests for Information

This financial report is designed to provide a general overview of SNWA's finances. Questions concerning any of the information provided in this report or requests for addition financial information should be addressed to:

The Office of the Director of Finance
Southern Nevada Water Authority
1001 South Valley View Blvd., Mail Stop 320
Las Vegas, Nevada, 89107

The reader is also encouraged to visit the SNWA website at www.snwa.com where this document is presented in its entirety. The website is also a good source for financial and operational information pertaining to SNWA, as well as helpful information concerning conservation and water issues.