

**Washoe County – Comprehensive Annual Financial Report  
For the Fiscal Year ended June 30, 2011  
Report to the Audit Committee**  
*All \$ in Millions unless otherwise noted.*

**INTRODUCTION**

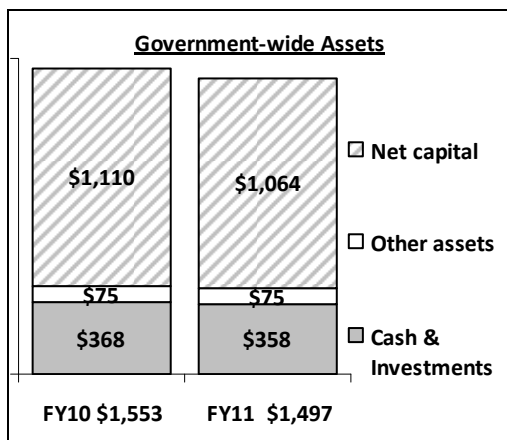
We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for Washoe County, Nevada for the fiscal year ended June 30, 2011. The CAFR is a thorough, detailed presentation of the County's financial position and results of operations for the fiscal year. The County has been awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) for the last 29 years and we believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements.

The following analysis is being provided as an overview of the County's financial position and activities as of June 30, 2011. This information is highly summarized and we encourage you to review it in conjunction with the CAFR to gain a more complete picture of the information presented.

**FINANCIAL HIGHLIGHTS**

- The auditor's report offers an unqualified opinion, and no significant deficiencies or material weaknesses in internal control were identified during the financial statement audit. One finding was identified during the Single Audit; however, this was not considered a material weakness. Details of this finding can be found beginning on page C-23 of the CAFR.
- One new accounting pronouncement, Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year.
- Government-wide financial results remain favorable: Government-wide cash ratio is 3.6; net capital assets decreased \$45.8 million; outstanding debt of \$247.7 million is \$1.1 billion below the legal debt limit; and the County's bond rating remained unchanged and continues to be among the highest in northern Nevada.
- Total revenues declined 3%, with general revenues, before transfers, declining 6% primarily as a result of declining ad valorem taxes. Expenses increased 2% as a result of increased other postemployment benefits (OPEB) and the Incline Village property tax refunds.
- A special item of \$8.1 million was recognized during the year for write-off of construction in progress balances in the Water Resources Fund due to construction stoppage.
- Two compliance issues were noted for excess uncommitted fund balances for administrative assessment and Enhanced 911 fees. Additional information can be found on page 39 of the CAFR.

**GOVERNMENT-WIDE ASSETS**



- **Government-wide Assets** are 4% under prior year.
- Cash and investments declined \$10 million or 3% due primarily to decreases in ad valorem tax receipts and payments for debt service, including \$6.7 million for the prior-to-maturity redemption of medium-term bonds for the Sparks Justice Court using unspent bond proceeds and \$1.4 million for golf course bonds using unspent proceeds from groundwater rights sales. The decline was offset by increased receipts of amounts from other governments for grants and restricted revenues.
- Declines in net capital assets are a result of depreciation and disposals of capital assets in excess of acquisitions.

**Washoe County – Comprehensive Annual Financial Report  
For the Fiscal Year ended June 30, 2011**

**Report to the Audit Committee**

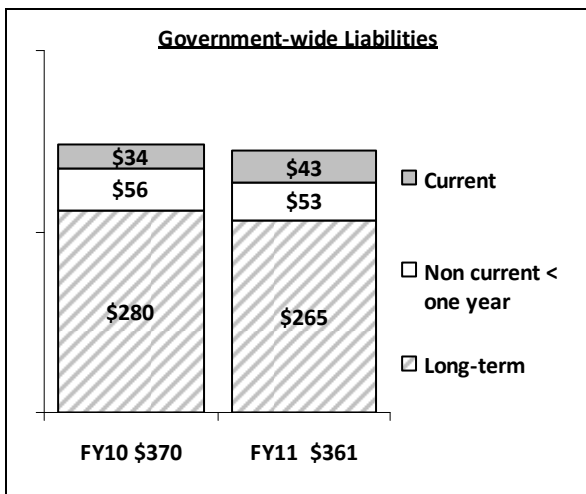
*All \$ in Millions unless otherwise noted.*

**GOVERNMENT-WIDE ASSETS (continued)**

	<u>Net Capital Assets</u>			
	<u>FY10</u>	<u>% of Total</u>	<u>FY11</u>	<u>% of Total</u>
Land/other non-depreciable	\$ 208	19%	\$ 208	20%
Construction in progress	17	2%	8	0%
Land improvements	31	3%	27	3%
Building/improvements	272	24%	265	24%
Infrastructure	534	48%	510	48%
Equipment	31	2%	31	3%
Software	8	1%	7	1%
Intangibles	9	1%	8	1%
<b>Total Capital</b>	<b>\$ 1,110</b>		<b>\$ 1,064</b>	

- Capital assets, net of accumulated depreciation, declined \$46 million or 4%.
- The decline is a result of depreciation expense of \$51.5 million and disposals outpacing the acquisition of new capital assets.
- Construction in progress declined as a result of the write-off of \$8.1 million in projects in the Water Resources fund. The write-off was the result of work stoppages due to the rapid and unforeseen decline in construction and development caused by the economic crises, eliminating the need to expand water/wastewater utility capacity.

**GOVERNMENT-WIDE LIABILITIES**



	<u>Components of Long-Term Liabilities</u>		<u>Increase/Decrease</u>
	<u>FY10</u>	<u>FY11</u>	
General Obligation Bonds	\$ 225	\$ 201	\$ (24)
Special Assessment Bonds	3	3	-
Revenue Bonds	45	44	(1)
Certificates of Participation	2	-	(2)
<b>Subtotal Debt</b>	<b>275</b>	<b>248</b>	<b>(27)</b>
Net OPEB Obligation	3	1	(2)
Compensated Absences	28	27	(1)
Pollution Remediation	8	9	1
Claims, judgements, other	22	33	11
<b>Total Long-term Liabilities</b>	<b>\$ 336</b>	<b>\$ 318</b>	<b>\$ (18)</b>

- **Government-wide liabilities** declined \$18 million or 5% from the prior year. Current outstanding debt of \$248 million declined by \$27 million as a result of principal payments on existing debt, including \$6.7 million paid for a prior-to-maturity redemption of general obligation medium-term bonds and \$1.4 million for general obligation golf course bonds. The decrease of \$2 million in net OPEB obligation is due to the pre-funding of OPEB for the Truckee Meadows and Sierra Fire Protection Districts. Of the \$318 million in long-term liabilities, \$53 million is due within one year.

**GOVERNMENT-WIDE NET ASSETS**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>FY11</u>	<u>Chg vs FY10</u>	<u>FY11</u>	<u>Chg vs FY10</u>	<u>FY11</u>	<u>Chg vs FY10</u>
<b>Net Assets</b>						
Invested in capital, net	\$ 533	\$ (26)	\$ 317	\$ (8)	\$ 850	\$ (34)
Restricted	165	(15)	12	2	177	(13)
Unrestricted	(7)	(7)	116	7	109	-
<b>Total net assets</b>	<b>\$ 691</b>	<b>\$ (48)</b>	<b>\$ 445</b>	<b>\$ 1</b>	<b>\$ 1,136</b>	<b>\$ (47)</b>

- Total net assets decreased 4%. The portion of net assets subject to external restrictions decreased 7% led by use of restricted resources in governmental funds for capital projects, pre-funding of OPEB by the fire districts and program support activities. Unrestricted net assets are 10% of the total.
- For governmental activities, unrestricted net assets declined \$7 million to a deficit of \$7 million. A key factor in this decrease was a decline in the OPEB asset from prior year. The decrease in governmental activities was offset by a \$7 million increase for business-type activities primarily in utility operations.

**Washoe County – Comprehensive Annual Financial Report  
For the Fiscal Year ended June 30, 2011**

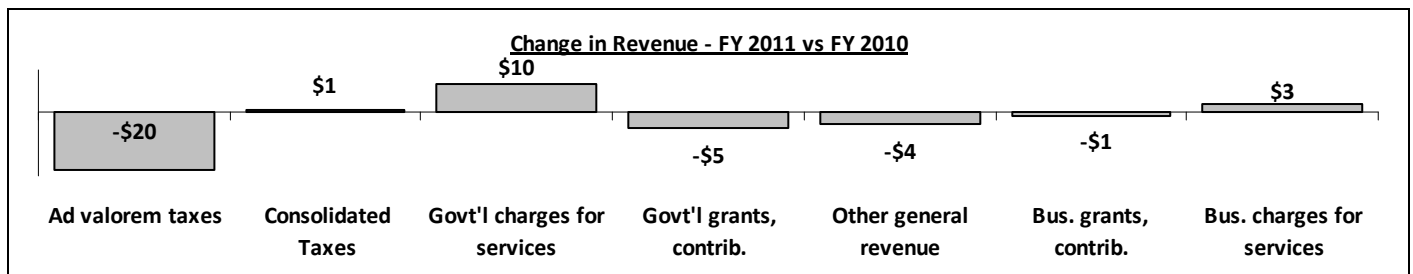
**Report to the Audit Committee**

*All \$ in Millions unless otherwise noted.*

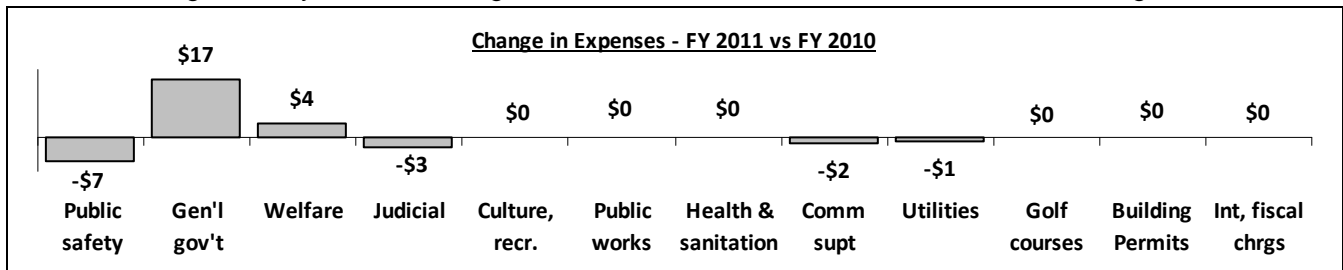
**CHANGE IN GOVERNMENT-WIDE NET ASSETS**

	<u>Change in Government-wide Net Assets</u>			
	<u>Fiscal Year</u>		<u>Increase/(Decrease)</u>	
	<u>2010</u>	<u>2011</u>	<u>Amount</u>	<u>% Change</u>
<b><u>Revenue</u></b>				
Governmental	\$ 464	\$ 448	\$ (16)	-3%
Business	41	41	-	0%
<b>Total Revenues</b>	<b>505</b>	<b>489</b>	<b>(16)</b>	<b>-3%</b>
<b><u>Expense</u></b>				
Governmental	485	494	9	2%
Business	35	34	(1)	-3%
<b>Total Expense</b>	<b>520</b>	<b>528</b>	<b>8</b>	<b>2%</b>
<b><u>Extraordinary and Special items</u></b>				
Business	(4)	(8)	(4)	100%
<b><u>Transfers</u></b>				
Governmental	-	(2)	(2)	-
Business	-	2	2	-
<b>Total Transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Change in Net Assets</u></b>				
Governmental	(21)	(48)	(27)	129%
Business	2	1	(1)	-50%
<b>Total Change in Net Assets</b>	<b>\$ (19)</b>	<b>\$ (47)</b>	<b>\$ (28)</b>	<b>147%</b>

- Net assets declined \$47 million led by reduced revenues for governmental activities.
- Total revenues of \$489 million declined from prior year by 3%, primarily due to a 9% decline in ad valorem taxes driven by lower assessed property values.
- Total expenses of \$528 million increased 2% led by OPEB expenses and required property tax refunds of \$17.9 million. These increases were offset by lower salaries and wages and services and supplies, reflecting budget reduction programs.
- An \$8 million special loss was recognized on the write-off of construction in progress for water and wastewater utility capacity in business-type activities.



- Governmental activities were adversely affected by the 9% drop ad valorem taxes as a result of lower property values and by declines in capital program revenue due to reduced parks grants and fewer land and road contributions. Charges for services increased by 16%, driven by reimbursements for retiree health benefits from the OPEB trust which began this year.
- Business-type activities revenues were relatively flat compared with prior year with increases in charges for services being offset by decreases in grants and contribution and lower investment earnings.



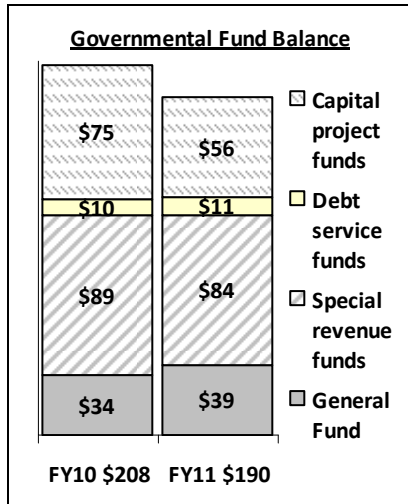
- Decreases across most functional areas were driven by budgeted reduction programs to help offset revenue declines in ad valorem taxes.
- Increases in general government reflects increased costs for OPEB funding and property tax refunds, offset by declines as a result of budget reduction programs. The increase in welfare was driven by increased indigent medical support payments, which have state mandated annual increases of at least 4.5%.

**Washoe County – Comprehensive Annual Financial Report  
For the Fiscal Year ended June 30, 2011**

**Report to the Audit Committee**

*All \$ in Millions unless otherwise noted.*

**GOVERNMENTAL FUNDS**

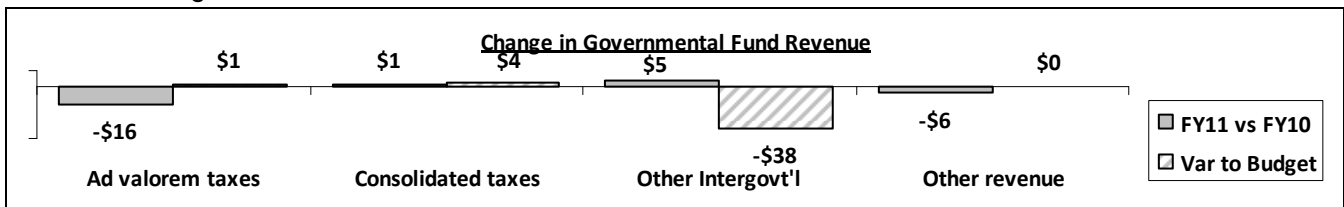


- Governmental fund balances declined by 9% from the prior fiscal year.
- The fund balance in the **General Fund** increased by \$5 million from prior year. The BCC approved a fund balance policy for the General Fund and the closure of the Stabilization Fund. In accordance with this policy, fund balance of 1.5% of expenditures and other financing uses equal to \$4.1 million is committed to stabilization. Excluding stabilization, unrestricted fund balance was 12.2% of expenditures and other financing uses and includes amounts committed and assigned for encumbrances of \$2.9 million, \$6.9 million assigned to fund the fiscal year 2012 budget deficit, and \$23.8 million is unassigned.
- **Special revenue** fund decreases of \$5 million were led by payments from the Truckee Meadows Fire Protection District and the Sierra Fire Protection District to pre-fund OPEB.
- **Capital projects** funds decline of \$19 million is led by payments for the early extinguishment of debt.

	FY11
Nonspendable	\$ 0.6
Restricted	132.1
Committed	25.1
Assigned	8.7
Unassigned	23.8
<b>Total</b>	<b>\$ 190.3</b>

- The County implemented Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, which changed the classification of fund balances and clarified the definitions of governmental fund types.
- The largest portion of total fund balance, 69%, is restricted by constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation. Committed balances have constraints imposed by formal action of the BCC through resolution or public meeting minutes that specifically state the revenue source and purpose of the

commitment. Assigned balances consist of amounts needed to fund encumbrances at year end and to cover the FY12 budget deficit.



- Overall governmental revenue declined by 4% or \$16 million from the prior year led by declines in ad valorem taxes. The other intergovernmental revenue variance to budget is largely due to grants that have multi-year budgets.
- Other revenue declined as a result of lower investment earnings.

	FY11 vs FY10	Var to Budget
Personnel	\$ 6	\$ (14)
Other current exp.	(68)	(53)
Capital projects	8	(92)
Inter-gov, Debt svc	3	-
<b>Total</b>	<b>\$ (51)</b>	<b>\$ (159)</b>

- Personnel costs were above prior year with decreases in salaries and wages being offset by increases in benefits as a result of OPEB payments to the Washoe County, Nevada OPEB Trust, which was recorded as a transfer in the prior year. Without the impacts of OPEB, personnel cost declined \$8 million or 3%.
- The variance to budget for current expenses and capital projects is largely due to multi-year budgets for grant, restricted funds and capital programs.
- Increases in capital projects were primarily for infrastructure in the general government function; the district court remodel in the judicial function; communication projects in the public safety function and energy conservation projects in the public works function.