

FINANCIAL SECTION

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

Independent Auditor's Report

To the Honorable Board of Commissioners of
Washoe County, Nevada

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washoe County, Nevada (the "County"), as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit:

Government-Wide Financial Statements

- The financial statements of the South Truckee Meadows General Improvement District, which represents 5.8 percent of the assets, 6.7 percent of the net assets and 7.6 percent of the revenues of the business-type activities.

Fund Financial Statements

- The financial statements of the South Truckee Meadows General Improvement District Fund, which represent 8.3 percent of the assets, 10.7 percent of the net assets and fund balances, and less than one percent of the revenues and additions of the aggregate remaining fund information.

Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned fund is based on the report of the other auditors.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year 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 October 22, 2012, on our consideration of the County'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 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress – other postemployment benefits on pages 4 through 14 and 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. We also have previously audited, in accordance with auditing standards generally accepted in the United States, the County's basic financial statements for the year ended June 30, 2011, which are not presented with the accompanying financial statements. In our report dated October 19, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2011 individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011, 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 do not express an opinion or provide any assurance on them.

Kafoury, Armstrong & Co.

Reno, Nevada
October 22, 2012

WASHOE COUNTY, NEVADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The discussion and analysis of Washoe County, Nevada (the County) is designed to, (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the County's financial activities, (c) identify changes in the County's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. We encourage readers to read this information in conjunction with the transmittal letter, financial statements and notes to gain a more complete picture of the information presented.

All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The auditor's report offers an unqualified opinion on the financial statements, the highest opinion that can be attained.

Cash and investments of \$322.1 million are available to meet liabilities due within one year of \$83.7 million. This is a conservative measure of cash and investments available to pay current obligations. The County's cash ratio is 3.8 meaning that the County has more than 3.8 times the cash and investments available to meet current obligations. Last year's cash ratio was 3.6. This change is primarily due to decreased liabilities, including a reduction in court-ordered Incline property tax refunds and interest payable from \$17.9 million in the prior year to \$7.8 million in the current year.

In March, 2011, an inter-local agreement was executed between Washoe County, the City of Reno and the City of Sparks for the creation of the Truckee River Flood Management Authority (TRFMA), a Joint Powers Authority, to acquire, finance, construct, own, operate and maintain the Truckee River Flood Management Project. The County pledged the .125% infrastructure sales tax, net of outstanding debt obligations, to this project. In June, 2012, a second inter-local agreement, the TRFMA Assets and Services Agreement, was executed between Washoe County and TRFMA specifying assets to be contributed and services to be performed by Washoe County and reimbursed by TRFMA. This agreement funded the authority as a separate entity through the contribution of resources and assets associated with the flood management project. The resulting payments to TRFMA of \$17.8 million and asset contributions of \$50 million have been classified as a special item due to their materiality and unusual nature.

Net capital assets decreased \$73.6 million primarily due to the \$50 million contribution of assets to TRFMA and to depreciation expense of \$51.2 million. Outstanding bonded debt decreased from \$247.7 million to \$245.6 million. New debt of \$38.5 million was issued, offset by \$40.6 million in principal payments on existing debt. Outstanding debt is \$971.8 million below the legal debt limit.

Total net assets decreased by \$76.7 million from prior year primarily in the investment in capital assets, net of related debt which declined by \$58.6 million to \$791.4 million. Restricted net assets decreased by \$15.5 million to \$161.2 million and represent 15% of total net assets. Unrestricted net assets decreased by \$2.5 million or 2% with the \$9 million reduction for governmental activities offset by a \$6.5 million increase for business-type activities. Business-type unrestricted net assets of \$122.8 million are generally not used to fund other operations.

Total revenue increased 2% to \$498.5 million. General revenues, before transfers, decreased 3% to \$300.1 million. The County's primary general revenue sources are ad valorem and consolidated taxes. These two revenue sources comprise 38% and 15% of countywide revenues, respectively. Ad valorem taxes decreased by 7% from the prior year due to decreased real property assessed valuations. Property tax rates did not increase from the prior year. Consolidated taxes increased 2%. Program revenues increased 11% to \$198.5 million and made up 40% of total revenue. Both operating and capital program revenues increased due to increased grant programs.

Total expenses of \$507.4 million decreased 4% from prior year largely due to the \$17.9 million in property tax refunds and related interest that was recognized in governmental activities in the prior year. Governmental activities continue to comprise 93% of total expenses. Operating expenses were lower for most activities as budget appropriations were reduced to meet the expected shortfall in revenues. A voluntary separation program offered in the first half of the fiscal year increased employee benefits costs by \$4 million, primarily in the General Fund, but lowered employee costs for the remainder of the year. Slight increases in Public safety and Public works activities were driven by costs in grant funded programs. Expenses for business-type activities increased \$0.7 million from the prior year primarily in utilities activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements which are comprised of government-wide financial statements, fund financial statements and accompanying notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

WASHOE COUNTY, NEVADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012
(CONTINUED)

Government-wide financial statements. Government-wide financial statements are designed to provide a broad overview of the County's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as uncollected taxes or earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, judicial, public works, public safety, health and sanitation, welfare, culture and recreation, and community support. The business-type activities of the County include water and sewer utilities, golf courses and building permits.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains several individual governmental funds. The governmental fund financial statements provide separate details for the General Fund and the Special Assessment Debt Service Fund, which are major funds. Data from the remaining funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison is provided for each of the County's governmental funds to demonstrate compliance with the budget. The budgetary comparison statement for the General Fund is presented with the basic financial statements; the budgetary comparisons for all governmental funds are included in the fund financial statements.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for water and sewer utilities, golf courses and building permits. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its fleet of vehicles and for self-insurance activities including liability insurance, workers' compensation and group health insurance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate details for the Water Resources Fund, which is a major fund. Data from the remaining funds are combined into a single, aggregated presentation. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the remaining enterprise and internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds

WASHOE COUNTY, NEVADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012
(CONTINUED)

are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. Following the notes in this report, required supplementary information is presented concerning Washoe County's progress in funding its obligation to provide retiree health benefits. Other information, including combining and individual fund statements and schedules are presented after the basic financial statements, notes and required supplementary information. Unaudited statistical information is provided on a ten-year basis, as available, for trend analysis and to provide historical perspective.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets: Net assets may serve over time as a useful indicator of a government's financial position. The County's assets exceeded liabilities by \$1.1 billion at June 30, 2012, a decrease of 7% from the prior year.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 273,684	\$ 299,802	\$ 141,043	\$ 133,427	\$ 414,727	\$ 433,229
Net capital assets	611,633	680,300	378,866	383,805	990,499	1,064,105
Total Assets	885,317	980,102	519,909	517,232	1,405,226	1,497,334
Liabilities						
Current liabilities	43,899	39,418	4,609	4,369	48,508	43,787
Noncurrent liabilities due within one year	31,758	48,748	3,460	4,210	35,218	52,958
Noncurrent liabilities due in more than one year	201,185	200,706	61,077	63,973	262,262	264,679
Total Liabilities	276,842	288,872	69,146	72,552	345,988	361,424
Net Assets						
Invested in capital assets, net of related debt	476,222	533,468	315,153	316,547	791,375	850,015
Restricted	148,409	164,800	12,804	11,875	161,213	176,675
Unrestricted	(16,156)	(7,038)	122,806	116,258	106,650	109,220
Total Net Assets	\$ 608,475	\$ 691,230	\$ 450,763	\$ 444,680	\$ 1,059,238	\$ 1,135,910

*For more detailed information see the Government-wide Statement of Net Assets and Notes to the Financial Statements.

The largest portion of net assets (75%) reflects investment in capital assets (e.g., land, buildings, equipment and construction in progress) less any related outstanding debt used to acquire those assets. Net investment in capital assets declined by \$58.6 million from the prior year primarily due to a \$50 million special item in governmental activities for the contribution of capital assets related to the local flood control project to the Truckee River Flood Management Authority (TRFMA), a joint powers authority. Before this special item, governmental net capital reductions are a result of reduced capital spending and contributions for capital acquisition falling behind asset depreciation and retirements. Washoe County uses these capital assets to provide services to citizens; therefore, they are not generally available for future spending. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets would not generally be used to liquidate related debt.

Restricted net assets are 15% of the County's net assets and represent resources that are subject to external restrictions (statutes, bond covenants, or granting agencies) on how they may be used. Restricted net assets decreased by \$15 million from the prior year primarily due to the \$17.8 million payment of resources restricted to the local flood management project to TRFMA in governmental activities. Other reductions reflect the use of restricted resources for capital projects and program support activities.

WASHOE COUNTY, NEVADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012
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Unrestricted net assets of \$106.6 million may be used to meet the County's other ongoing obligations to citizens and creditors. The balance in governmental activities dropped by \$9.1 million from the prior year. A key factor in this decrease was the contribution of capital assets to TRFMA, for which \$19 million in bonds are still outstanding. This change required a reclassification of the liability from the capital investment category to unrestricted. Partially offsetting this change was the reduction in the liability for property tax refunds and related interest, which were partially paid in the current year. The \$6.5 million increase in unrestricted net assets for business-type activities was primarily for utilities activities. Business-type unrestricted net assets of \$122.8 million are generally not used to fund other operations.

Changes in Net Assets. The County's net assets decreased \$76.7 million during the fiscal year.

Washoe County Changes In Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 66,487	\$ 71,727	\$ 35,417	\$ 34,714	\$ 101,904	\$ 106,441
Operating grants, interest and contributions	66,974	60,660	110	123	67,084	60,783
Capital grants, interest and contributions	27,347	7,157	2,145	4,305	29,492	11,462
General Revenues:						
Ad valorem taxes	187,713	201,469	-	-	187,713	201,469
Consolidated taxes	76,689	74,985	-	-	76,689	74,985
Other intergovernmental	19,694	19,791	-	-	19,694	19,791
Investment earnings	3,403	2,153	3,487	1,944	6,890	4,097
Other	9,069	10,037	-	-	9,069	10,037
Total Revenues	457,376	447,979	41,159	41,086	498,535	489,065
Expenses:						
General government	108,032	120,606	-	-	108,032	120,606
Judicial	55,468	55,394	-	-	55,468	55,394
Public safety	150,040	149,376	-	-	150,040	149,376
Public works	39,675	39,447	-	-	39,675	39,447
Health and sanitation	18,429	22,826	-	-	18,429	22,826
Welfare	68,137	69,506	-	-	68,137	69,506
Culture and recreation	24,989	27,850	-	-	24,989	27,850
Community support	309	303	-	-	309	303
Interest/fiscal charges	7,175	8,505	-	-	7,175	8,505
Utilities	-	-	32,875	31,033	32,875	31,033
Golf courses	-	-	874	2,070	874	2,070
Building permits	-	-	1,372	1,324	1,372	1,324
Total Expenses	472,254	493,813	35,121	34,427	507,375	528,240
Increase (decrease) in Net Assets Before Special Items and Transfers	(14,878)	(45,834)	6,038	6,659	(8,840)	(39,175)
Special Items	(67,832)	-	-	(8,061)	(67,832)	(8,061)
Transfers	(45)	(2,222)	45	2,222	-	-
Change in Net Assets	(82,755)	(48,056)	6,083	820	(76,672)	(47,236)
Net Assets, July 1	691,230	739,286	444,680	443,860	1,135,910	1,183,146
Net Assets, June 30	\$ 608,475	\$ 691,230	\$ 450,763	\$ 444,680	\$ 1,059,238	\$ 1,135,910

**WASHOE COUNTY, NEVADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012
(CONTINUED)**

The decrease in net assets was led by \$67.8 million in payments and contributions of capital assets to the Truckee River Flood Management Authority (TRFMA), a joint powers authority. Before this special item, net assets decreased by \$8.8 million driven by a decline in ad valorem taxes of \$13.8 million. Total revenues of \$498.5 million increased over the prior year by 2% as operating and capital program income increases offset the drop in ad valorem taxes. Total expenses of \$507.4 million decreased 4% from the prior year, primarily in governmental activities driven by \$17.9 million expense for Incline tax refunds and related interest recognized in the prior year and by budget reduction programs to offset declining general revenues.

Governmental Activities. Governmental activities decreased the County's net assets by \$82.8 million. The two largest revenue sources are ad valorem and consolidated taxes, which together comprise 58% of governmental activity revenue, down from 62% in the prior year.

Governmental Activities Revenues by Source	
In Millions of Dollars	
\$27	\$7
\$32	\$32
\$67	\$61
\$66	\$72
\$77	\$75
\$188	\$201
FY 2012	FY 2011
\$457	\$448

Ad valorem taxes decreased by 7% from the prior year due to lower real and personal property assessed valuations. There was no increase in the tax rate.

Consolidated sales taxes, received from the State, increased by 2% in the current year, the second year of modest increases after several years of decline.

Charges for services decrease of 7% was led by reduced fees for remediation programs in the health and sanitation function. Welfare related fees also decreased due to program changes.

Operating program revenue increased by 10% primarily from grant activity for public works, welfare, and public safety projects

Other general revenues, including miscellaneous taxes, licenses, fees, and investment earnings remained relatively level with the prior year.

Capital program revenue increased \$20 million primarily due to a new special assessment project for road improvements in the Spanish Springs area of the County. Grant funded projects for public works and parks projects also increased over the prior year.

Governmental Activities Expenses by Function	
In Millions of Dollars	
\$7	\$9
\$19	\$23
\$25	\$28
\$40	\$39
\$55	\$55
\$68	\$70
\$108	\$121
\$150	\$149
FY 2012	FY 2011
\$472	\$494

The largest functions are public safety and general government, which together comprise 55% of governmental activities expenses.

Expenses across most functional areas were level or reduced from the prior year as a result of budget reduction programs to address the decline in ad valorem revenues.

Public safety increases resulted from grant funded programs and equipment updates for the E-911 emergency communication system.

The general government decrease of 10% from the prior year reflects the \$17.9 million expense for property tax refunds, primarily in the general government function, that was recognized in the prior year.

Welfare program costs decreased for indigent medical support primarily due to reduced funding. Health and sanitation reductions related to reduced budget for the County Health Department and lower program activities for remediation. Culture and Recreation activities were also impacted by reduced funding due to budget constraints.

**WASHOE COUNTY, NEVADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(CONTINUED)**

Governmental Activities: Program Revenues Percent of Expenses by Function		
	<u>FY 2012</u>	<u>FY 2011</u>
General government	33%	29%
Judicial	24%	24%
Public safety	20%	18%
Public works	68%	22%
Health and sanitation	65%	64%
Welfare	51%	49%
Culture and recreation	33%	24%
Community support	0%	0%
Total	34%	28%

Program revenues for governmental activities provided an average of 34% towards costs of providing program services, an increase over the prior year primarily due to capital projects and the cost of Incline tax refunds and related interest recognized in the prior year.

General government was impacted primarily by the property tax refunds and interest accrued in the prior year. Increased program revenue/expense coverage in Public works resulted from the full levy of special assessments for the newly created Special Assessment District #32 for road improvements which are being capitalized.

Culture and recreation capital projects also contributed to the overall increase.

Business-type Activities. Net assets for business-type activities increased \$6.1 million which is relatively level with the prior year before special items and transfers.

Business-Type Activities: Change in Revenues		
In Millions of Dollars		
	<u>FY 2012 vs</u>	<u>%</u>
	<u>FY 2011</u>	<u>Change</u>
Capital program revenue \$	(2)	-50%
Charges for services	1	2%
Other revenues	1	74%
Total	<u>\$ -</u>	0%

Revenues for business-type activities were level with prior year, with the decline in capital program revenues offset by increased charges for services and interest earnings.

Utilities led these changes with reduced capital contributions due to continued new development slow down, offset by rate increases. Building permit activities experienced a slight rise in permitting activity.

Charges for services for golf courses declined due to new contracts with operators that reduced the revenue to the County but also reduced the County's operating expenses.

Business-Type Activities: Program Revenues as a Percent of Expenses		
	<u>2012</u>	<u>2011</u>
Utilities	107%	116%
Golf courses	125%	94%
Building permits	102%	86%
	107%	114%

Utilities activities unfavorable trend in program revenue to expense ratio was driven by lower capital contributions.

The County contracted with operating companies for both golf courses during the year that provided improved operating returns. The County continues to maintain the major assets at each course. Building permit activities also saw improved profitability during the year as housing permits rose slightly.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Washoe County uses fund accounting and budgetary integration to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of Washoe County's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's current funding requirements.

During the fiscal year, the Board of County Commissioners (BCC) created a new special revenue fund, the Roads Fund, to support the transparent reporting of revenues and expenditures directly related to roads activities. The fund was established with an effective date of July 1, 2011, and all roads related budget and financial activity was reclassified to the new fund for the current fiscal year. Initial funding of \$8.5 million was transferred from the General Fund, the Other Restricted special revenue fund and the Capital Improvements Fund based on the resources received and/or budgeted for roads activities in the current fiscal year.

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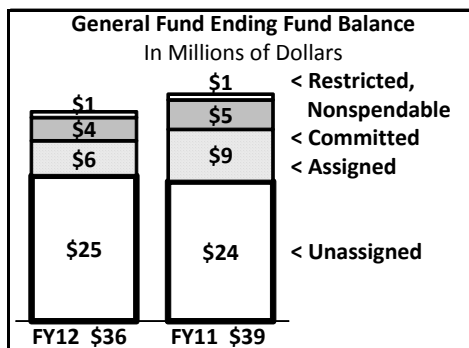
In March, 2011, an interlocal agreement was executed between Washoe County and the Cities of Reno and Sparks for the creation of the Truckee River Flood Management Authority (TRFMA), a joint powers authority, to acquire, finance, construct, own, operate and maintain the Truckee River Flood Management Project. On June 1, 2012, a second interlocal agreement, the TRFMA Assets and Services Agreement, was executed between Washoe County and TRFMA specifying assets to be contributed and services to be performed by Washoe County and reimbursed by TRFMA. Payments to TRFMA of \$17.8 million were identified, of which \$13.3 million was paid in June 2012, and \$4.5 million (the balance is included in due to other governments) was paid in July. The payments have been classified as a special item due their materiality and unusual nature.

Current year governmental fund combined ending fund balances of \$170.3 million reflect a decrease of \$20 million from the prior year. The major components of this decrease was the \$17.8 million special item for payments to TRFMA and the decline in ad valorem tax receipts.

Fund balance components have been classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the County is bound to observe constraints imposed on the use of the resources of the fund. The largest component of fund balance, at 66% of total, is restricted at \$113.2 million. Spending of these resources is constrained by externally imposed (statutory, bond covenant, contracts, or grantors) limitations on their use. Restricted fund balances include \$54 million for capital projects and \$21.5 million for public safety activities in special revenue funds, \$11.9 million for debt service, \$11.5 million for health and sanitation activities, and \$14.3 million for other activities primarily in special revenue funds.

Committed and assigned fund balances combined represent 19% of total fund balance with spending constrained either by the Board of County Commissioners (BCC) (for committed) or senior management (for assigned). Committed balances in the special revenue funds are primarily due to transfers or revenues directed by the BCC to those funds to support the programs. Unassigned fund balance primarily consists of the General Fund remaining fund balance and is available to support general operations of the fund. A negative unassigned fund balance in the Other Restricted special revenue fund is due to revenue deferrals.

The **General Fund** is the County's primary operating fund. Cash and investments of \$36.7 million are lower than prior year by \$3.2 million as a result of lower revenues and a loan to the Treasurer Unapportioned Agency Fund. Accounts payable are lower than prior year due to the timing of payments to the OPEB Trust Fund, which occurred prior to June 30th in the current year. Tax refunds and interest payable balances of \$6.1 million are for Incline Village property tax refunds and related interest that will be paid in fiscal year 2013.



Total fund balance was \$36.3 million at the end of the fiscal year, a decrease of \$2.4 million from prior year.

Nonspendable fund balance consists of a small prepaid amount. Restricted fund balance consists of \$750,000 for baseball stadium debt service.

Committed fund balance includes \$4.1 million committed for stabilization based upon the Board of County Commissioner's fund balance policy and State of Nevada NRS 354.6115. This amount represents 1.5% of total expenditures and transfers out excluding material one-time items and is unchanged from the prior year. Assigned fund balance includes \$5 million to fund the fiscal year 2013 budgeted deficit, down from \$7 million in the prior year. The remaining balances are primarily for encumbrances for major contracts (committed) or other

expenditures (assigned) that have been re-appropriated in the next fiscal year. Unassigned fund balance rose by \$1.1 million in the current fiscal year.

Key factors in the net decrease in total fund balance are as follows:

- Revenues of \$265.2 million decreased \$12.8 million or 5% from prior year, primarily due to lower ad valorem tax revenues.
- Ad valorem tax revenues decreased by \$7.8 million or 5.3% from the prior year chiefly due to declines in assessed property values.
- Total intergovernmental revenues decreased by \$4.4 million, primarily due to a decrease of \$6 million in motor vehicle fuel taxes, which were redirected to the Roads Fund, a special revenue fund, in the current year. This decrease was partially offset by the \$1.7 million increase in consolidated taxes.

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- Investment earnings rose by \$1.2 million chiefly because of increased unrealized gains on investments due to market fluctuations.
- Expenditures of \$267.6 million increased \$5.8 million or 2% from the prior year, led by \$14.3 million in expenses associated with the refund of property taxes and related interest to taxpayers in Incline Village. In addition, contributions to the Washoe County, Nevada OPEB Trust (OPEB Trust) were \$6.4 million higher than prior year. Without the effect of these two factors, expenditures decreased by \$14.9 million, largely due to the reclassification of roads-related expenditures in the current year. These expenditures totaled approximately \$11 million in the prior year. Spending for culture and recreational purposes also declined by \$1.2 million.
- Expenditures exceeded revenues by \$2.4 million.
- Other financing sources were approximately level with uses. Transfers out increased \$5.9 million from prior year with \$4.4 million to the newly created Roads Fund and \$3 million to the Capital Projects Fund for capital funding. Offsetting these uses were increased transfers in of \$18.6 million from the Health Benefits and Risk Management Funds consisting of \$7.5 million to meet the General Fund budgetary shortfalls for the current fiscal year and \$11.1 million for the purpose of funding Incline Village property tax refunds and related interest.

The **Special Assessment Debt Service Fund** accounts for assessments, penalties, investment income and other resources to retire debt issued for improvements benefiting those properties against which the special assessments are levied. In the current fiscal year, SAD # 32 - Spanish Springs Valley Ranches Roads was approved and \$8.6 million in Local Improvement Bonds Series 2011 were issued to support the public works project. Assessment taxes receivable increased by \$7.2 million due to this new project. These taxes are deferred and recognized as the property owners' assessed payments are collected.

Proprietary Funds: Proprietary fund statements provide the same type of information found in the government-wide financial statements, but in greater detail and at fund level. They are accounted for using the full accrual basis of accounting; therefore, no reconciliation is required to the government-wide statements.

The **Water Resources Fund** was established to account for county-owned and operated water and sewer systems in the unincorporated areas of Washoe County. The Washoe County Department of Water Resources is the only organization in Nevada that provides integrated water resource services for water supply, wastewater treatment, effluent reuse, flood management, and water resource planning.

Cash and investments increased by \$4.7 million during the year, driven by positive cash flow from operations.

Operating revenues of \$30.5 million are \$1.2 million higher than prior year due primarily to an increase of 7% in water consumption associated with an unusually dry and warm winter, and a 5% annual increase in water rates in February. Sewer rates increased 3% in January, 2012, based on regional Consumer Price Index changes.

Operating expenses of \$27.7 million are 82% of budget. Personnel, well mitigation and non-capital equipment costs were all lower than anticipated, although employee benefits increased by 17% due to costs of voluntary separation incentives offered by the County during the fiscal year. Operating expenses were 4% higher than the prior year, attributable primarily to increased use of wholesale water and the new domestic well mitigation program.

Capital contributions of \$1.9 million are 37% of a \$5.3 million budget and \$2.3 million under the prior year. The decrease in capital contributions and hookup fees are related to lower levels of new development. Federal grant revenues of \$3 million were awarded and budgeted to fund the Spanish Springs septic/sewer conversion project; however, work had not begun as of year-end.

On December 9, 2009, the Washoe County Board of Commissioners and the Truckee Meadows Water Authority (TMWA) Board of Directors approved an interlocal agreement governing the merger of the Washoe County Department of Water Resources Water Utility into the Truckee Meadows Water Authority. The purpose of the agreement is to integrate and merge the Water Utility into TMWA in a strategically phased manner, with TMWA as the surviving water purveyor. The contemplated merger is expected to benefit the community through better stewardship of water resources, more efficient use of facilities and facility planning, and improved customer service. Pursuant to the terms of the agreement, the parties have implemented a due diligence process under the direction of the TMWA General Manager and the Director of Community Services. Upon completion of the due diligence process, the parties will prepare and present an addendum to the interlocal agreement to the respective governing boards for their review and approval.

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GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to original budget: As part of the approval of the fiscal year 2011/2012 budget, the Board of County Commissioners (BCC) directed that staff provide recommendations and proposals for alternative service delivery across the County to identify both short-term and on-going savings needed to address a \$7.5 million budget shortfall included in the original budget. During the year the BCC approved the transfers of budget authority between functional areas and departments as savings were identified to fully allocate this targeted reduction of expenditures across the General Fund departments.

On August 23, 2011, the BCC passed a resolution that directed the County Treasurer to make property tax refund and related interest payments to taxpayers in Incline Village, pursuant to a Nevada Supreme Court decision issued on July 7, 2011, and explored options for funding these refunds. On December 13, 2011, the BCC approved a \$17.6 million augmentation to the General Fund budget that provided increased revenues from other funds of \$1.3 million for overhead recovery, increased transfers from the Health Benefits and Risk Management Funds by \$15.4 million and utilized available fund balance of \$0.9 million. These increased sources provided appropriation authority of \$18.4 million for Incline Village property tax refunds and related interest and \$2.2 million for various programs. The remaining expenditure authority was met through a \$3 million reduction in capital project funding. During the year, the expected cost of the Incline property tax refunds and related interest to the General Fund was lowered from \$18.4 million to \$16.3 million and the budget was transferred to other departments. The General Fund's portion of the cost, totaling \$14.3 million for tax refunds and related interest, was recognized in general government / undesignated expenditures in the current fiscal year and was \$2 million less than budget. A balance of \$6.1 million in tax refunds and related interest payable remains to be paid in FY13.

All roads-related revenues and expenditures included in the original budget were transferred to the newly created Roads Fund during the year, resulting in decreases of \$6.7 million and \$11.1 million, respectively, in revenues and expenditures, and an increase of \$4.4 million in transfers out.

During the year, budget authority of \$1.5 million was transferred from the contingency account to expenditure budget authority in the final budget to support unbudgeted expenses for Sheriff, Public Works, Fire Services Support and Conflict Counsel, and to cover higher than planned personnel costs in the Judicial function. Any use of contingency funds must be approved by the BCC.

Final budget compared to actual results: Total revenues in the General Fund were over final budget by \$2.4 million or 1%. The largest source of revenue in the General Fund, ad valorem taxes, was 1% or \$0.8 million under budget driven by lower assessed property values. Intergovernmental revenues exceeded final budget by \$3 million or 4%, principally due to consolidated taxes, the second largest revenue source, which exceeded final budget by \$1.8 million or 3%. Federal incarceration charges, which are also a component of intergovernmental revenues, increased \$0.6 million or 16%. These increases were offset in part by below budget receipts for business licenses and fines and penalties.

Functions represent the legal level of budgetary control for appropriations per NRS 354.626. Total expenditures in the General Fund were 3% or \$9.2 million below final budget with most functional areas at or below budgeted appropriations. Expenditures for the intergovernmental function exceeded budget; however, the over expenditure occurred as a result of payments required by statute to be remitted to another governmental entity which is an exception to the requirements of NRS 354.626.

Key expenditure declines by type are 10% or \$7.6 million for services and supplies and 1% or \$1.3 million for personnel costs. These savings came from capital project deferrals, employee wage and benefit concessions, reduced staffing levels, and other departmental actions implemented to achieve long-term fiscal sustainability.

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CAPITAL ASSETS

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2012, is \$1 billion (net of accumulated depreciation), as summarized below.

Washoe County Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land, use rights	\$ 143,451	\$ 192,484	\$ 14,609	\$ 14,402	\$ 158,060	\$ 206,886
Plant capacity	-	-	825	825	825	825
Construction in progress	8,376	4,226	5,318	4,245	13,694	8,471
Land improvements	24,050	24,845	2,261	2,475	26,311	27,320
Building/improvements	211,452	214,298	48,905	50,273	260,357	264,571
Infrastructure	189,335	206,601	298,747	302,989	488,082	509,590
Equipment	27,907	30,561	208	219	28,115	30,780
Software	7,062	6,866	232	357	7,294	7,223
Plant capacity, depreciable	-	419	7,761	8,020	7,761	8,439
Total	\$ 611,633	\$ 680,300	\$ 378,866	\$ 383,805	\$ 990,499	\$ 1,064,105

The net decrease in investment in capital assets for the current fiscal year of \$73.6 million or 7% was primarily due to depreciation of \$51.2 million and the contribution of capital assets related to the local flood control project to the Truckee River Flood Management Authority (TRFMA), a joint powers authority formed in March, 2011. The \$50 million total cost of this contribution, net of accumulated depreciation, was included in a special item for governmental activities. New capital investments during the year included \$8.6 for road right-of-ways and infrastructure, \$5.1 million for improvements to County facilities, \$4.5 million for parks and pedestrian pathways and \$4.4 million for utility infrastructure. Outstanding commitments for capital expenditures totaled \$14.7 million as of year-end.

Additional information on the County's capital assets can be found in Note 6.

DEBT ADMINISTRATION

At June 30, 2012, Washoe County had total outstanding bonded debt of \$245.6 million. Of this amount, \$191.7 million is general obligation debt backed by the full faith and credit of the County and \$10.7 million is special assessment debt for which the County is liable in the event of default by property owners subject to the assessment. The remainder of the County's debt represents revenue bonds secured solely by specified revenue sources.

Washoe County Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 128,820	\$ 134,329	\$ 62,898	\$ 66,402	\$ 191,718	\$ 200,731
Revenue Bonds	43,220	44,331	-	-	43,220	44,331
Special Assessment Bonds	10,675	2,652	-	-	10,675	2,652
Total	\$ 182,715	\$ 181,312	\$ 62,898	\$ 66,402	\$ 245,613	\$ 247,714

Washoe County's current fiscal year outstanding debt decreased \$2.1 million as a result of \$40.6 million in principal payments, offset by \$38.5 million in new debt issued. New debt issued consists of \$8.6 million in local improvement bonds for street improvements; \$17.3 million general obligation (limited tax) refunding bonds series 2011A issued for a current refunding of \$17.0 million in library, parks & open space bonds series 2001, and \$12.6 million general obligation (limited tax) building refunding bonds (additionally secured by pledge revenues) series 2011B issued for a current refunding of \$12.3 million in general obligation (limited tax) building bonds (additionally secured by pledge revenues) series 2001A.

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In September 2011, Washoe County's general obligation bond rating from Standard and Poor's was affirmed at "AA", while Moody Investor Service downgraded their rating to "Aa2" from "Aa1".

State statute (NRS 244A.059) limits the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current limitation for Washoe County is \$1.3 billion, which is \$971.8 million in excess of Washoe County's outstanding general obligation debt.

Additional information regarding the County's long-term debt can be found in Notes 9, 10, and 11 to the financial statements.

ECONOMIC FACTORS

The fiscal year 2013 budget reflects an expectation of continued economic weakness that began with the collapse of the housing market and its associated industries in 2007. The County relies heavily on property taxes and sales taxes as the resources necessary to provide services to the citizens of the County. With the decline in property values a result of the weak housing market, the County's largest revenue has declined significantly. The downward pressure on values is a result of a continued high rate of home foreclosures in Washoe County, 2,561 for the year, and an unemployment rate that has fallen slightly but remains, at 11.7 percent, one of the highest in the nation. In contrast to property taxes, sales taxes, the largest component of consolidated taxes, are showing signs of improvement, with taxable sales increasing in the County by 5% over the previous year.

These indicators were taken into account when adopting the County's fiscal year 2013 budget, which includes a 3% decline in property taxes as a result of declining property values. Property taxes are budgeted to comprise 45% of the total governmental fund revenues. The property tax rate remains constant at \$1.3917 per \$100 of assessed valuation. Consolidated taxes are budgeted to increase by 1% to \$70 million.

The General Fund revenues and other sources are budgeted at \$270.1 million, a 6% decrease from the prior year while expenditures and other uses are budgeted to decrease by 7% to \$275.1 million. The budget deficit of \$5 million has been committed in the current fiscal year fund balance for the purpose of providing the resources necessary to balance the fiscal year 2013 budget.

Total County personnel costs, excluding other post employment benefits (OPEB) and the voluntary separation incentives offered in fiscal year 2012, are budgeted to remain relatively level in fiscal year 2013. Salaries and wages are budgeted to decrease by 1%, but are offset by a 3% increase in employee benefits. The OPEB contribution is budgeted to decrease by \$1.7 million in fiscal year 2013. Full-time equivalent positions (FTE's) per 1,000 of population continue to decline from a high of 8.3 in fiscal year 2001 to 6.0 FTE's in fiscal year 2013. Total capital outlay is budgeted at \$64 million.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of Washoe County's finances for all interested parties. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Washoe County Comptroller, P.O. Box 11130, Reno, NV 89520-0027. Effective January 1, this report will also be available on the web site at www.washoecounty.us/finance/CAFR2012.htm. Truckee Meadows Fire Protection District (TMFPD), South Truckee Meadows General Improvement District (STMGID) and Sierra Fire Protection District (SFPD) are included in this report as component units. These entities issue separate audited financial statements that are filed at the Washoe County Clerk's Office, 1001 E. 9th Street, Room A-100, Reno, Nevada.