FINANCIAL SECTION

Back to CAFR Web Page

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

Independent Auditor's Report

To the Honorable Board of Commissioners of
Washoe County, Nevada

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Washoe County, Nevada (the County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the County.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Child Protective Services Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-14 and schedule of funding progress-other postemployment benefits on page 72 be presented to

Back to Financial Title Page

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements 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.

Prior Year Partial Comparative Information

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, 2012, which are not presented with the accompanying financial statements. In our report dated October 22, 2012, 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 2012 combining and 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, 2012, taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, 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* in considering the County's internal control over financial reporting and compliance.

Kafoury, Armstrong & Co.

Reno, Nevada
October 28, 2013

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 unmodified opinion on the financial statements, the highest opinion that can be attained.

The County made changes in the relationships with its component units during the year that resulted in a restatement of beginning balances. On December 11, 2012, the Board of County Commissioners (BCC) voted to amend the County ordinance related to the South Truckee Meadows General Improvement District removing the BCC as "ex officio" Board of Trustees and establishing the elected officials of the District's Local Managing Board as the District's Board of Trustees. This entity is no longer a component unit of the County and the beginning net position of the County's business activities has been restated to reflect this change. A new interlocal agreement for mutual support between the County and two fire districts, Truckee Meadows Fire Protection District and Sierra Fire Protection District, took effect on July 1, 2012, and identified the specific support services to be provided by each entity, as well as provided for reimbursement costing on an equitable basis. As a result, these two component units are now discretely presented rather than blended. Note 3 provides additional information regarding this restatement. Prior year information in the following analysis has been restated to reflect these component unit changes.

Cash and investments of $268.8 million are available to meet liabilities due within one year of $76.5 million. This is a conservative measure of cash and investments available to pay current obligations. The County's cash ratio is 3.5 meaning that the County has more than 3.5 times the cash and investments available to meet current obligations. Last year's cash ratio was 3.8. This change is primarily due to lower cash levels.

Net capital assets decreased $18.7 million primarily due to depreciation expense of $49.4 million. The majority of new capital additions were for roads and utility infrastructure. Outstanding bonded debt decreased from $245.6 million to $229.6 million. New debt of $45.7 million was issued, offset by $61.7 million in principal payments on existing debt. Outstanding debt is $951.4 million below the legal debt limit.

Total net position decreased by $20.5 million from prior year primarily from reductions in cash and investments as several large capital projects were completed in the current year. Restricted net position decreased by $30.2 million to $110.9 million and represents 11% of total net position. Unrestricted net position improved by $13.4 million with improvements both in governmental and business-type activities. Business-type unrestricted net position of $111.9 million is generally not used to fund other operations.

Total revenue decreased 4% to $447.9 million. General revenues, before transfers, decreased 3% to $270.3 million. The County's primary general revenue sources are ad valorem and consolidated taxes. These two revenue sources comprise 37% and 17% of countywide revenues, respectively. Ad valorem taxes decreased by 3% from the prior year due to decreased real property assessed valuations. Property tax rates did not increase from the prior year. Consolidated taxes increased 6% as the local economy showed signs of improvement. Program revenues decreased 7% to $177.6 million primarily due to reduced grants and special assessments for capital projects.

The County implemented an overhead charge policy effective with the current fiscal year that reimbursed the General Fund for support charges to other funds. The charge is based on a detailed support cost analysis and is incorporated into the annual budget process. The indirect costs have been highlighted on the statement of activities and resulted in net revenue to the General Fund of $7.8 million.

Total expenses of $468.4 million decreased 2% from prior year. Governmental activities continue to comprise 93% of total expenses. Operating expenses were lower for general government largely due to reduced contributions to the retiree health benefits trust (OPEB) and the voluntary separation program that was offered in the prior year. Public works expense reductions were related to fewer maintenance projects. The increase in public safety expenses was driven by increased personnel costs, as well as higher costs for detention services. Expenses for business-type activities increased $0.9 million from the prior year primarily in utilities activities.

Back to Financial Title Page

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.

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 Position presents information on all of the County's assets, liabilities and deferred outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial resources of the County are improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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.

<u>Governmental funds</u>. 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, the Child Protective Services 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 and Child Protective Services Fund are presented with the basic financial statements; the budgetary comparisons for all other governmental funds are included in the fund financial statements and schedules included as supplementary information.

<u>Proprietary funds</u>. 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.

Back to Financial Title Page

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 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 the 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 Position: Net position may serve over time as a useful indicator of a government's financial position. The County's assets and deferred outflows of resources exceeded liabilities by $970 million at June 30, 2013, a decrease of 2% from the prior year.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	$ 219,260	$ 247,482	$ 130,576	$ 125,421	$ 349,836	$ 372,903
Net capital assets	579,844	594,714	360,109	363,974	939,953	958,688
Total assets	799,104	842,196	490,685	489,395	1,289,789	1,331,591
Deferred outflows of resources	456	249	-	-	456	249
Liabilities						
Current liabilities	35,783	42,769	5,051	4,495	40,834	47,264
Noncurrent liabilities due within one year	32,259	30,682	3,374	3,460	35,633	34,142
Noncurrent liabilities due in more than one year	186,330	198,803	57,402	61,077	243,732	259,880
Total liabilities	254,372	272,254	65,827	69,032	320,199	341,286
Net position						
Net investment in capital assets	455,643	459,302	300,163	300,261	755,806	759,563
Restricted	98,124	128,284	12,801	12,804	110,925	141,088
Unrestricted	(8,579)	(17,395)	111,894	107,298	103,315	89,903
Total net position	$ 545,188	$ 570,191	$ 424,858	$ 420,363	$ 970,046	$ 990,554

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

The largest portion of net position (78%) 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 $3.8 million from the prior year primarily due to reduced capital spending and contributions for capital acquisition falling behind asset depreciation and retirements. The 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 position is 11% of the County's net position and represents resources that are subject to external restrictions (statutes, bond covenants, or granting agencies) on how they may be used. Restricted net position decreased by $30 million from the prior year primarily due to the use of restricted resources for capital projects.

Back to Financial Title Page

Unrestricted net position of $103.3 million may be used to meet the County's other ongoing obligations to citizens and creditors. The balance in governmental activities is negative due to $18 million in bonds outstanding for capital assets that were contributed to the Truckee River Flood Management Authority and $27 million in bonds outstanding for the Reno baseball stadium. The governmental unrestricted net position improved by $8.8 million from prior year as a greater proportion of current year spending used restricted assets. The $4.6 million increase in unrestricted net position for business-type activities was primarily for utilities activities. Business-type unrestricted net position of $111.9 million is generally not used to fund other operations.

Changes in Net Position. The County's net position decreased $20.5 million during the fiscal year.

Washoe County Changes In Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ 67,550	$ 66,094	$ 34,300	$ 32,957	$ 101,850	$ 99,051
Operating grants, interest and contributions	63,432	64,561	449	94	63,881	64,655
Capital grants, interest and contributions	7,413	25,205	4,448	1,921	11,861	27,126
General revenues:						
Ad valorem taxes	167,294	172,540	-	-	167,294	172,540
Consolidated taxes	75,489	70,985	-	-	75,489	70,985
Other intergovernmental	18,530	18,840	-	-	18,530	18,840
Investment earnings	174	3,403	(100)	3,040	74	6,443
Other	8,934	9,045	-	-	8,934	9,045
Total revenues	408,816	430,673	39,097	38,012	447,913	468,685
Expenses:						
General government	91,105	107,954	-	-	91,105	107,954
Judicial	57,573	55,469	-	-	57,573	55,469
Public safety	138,149	125,573	-	-	138,149	125,573
Public works	31,981	39,675	-	-	31,981	39,675
Health and sanitation	18,785	18,429	-	-	18,785	18,429
Welfare	66,370	68,137	-	-	66,370	68,137
Culture and recreation	23,614	24,989	-	-	23,614	24,989
Community support	343	309	-	-	343	309
Interest/fiscal charges	7,349	7,174	-	-	7,349	7,174
Utilities	-	-	30,844	30,029	30,844	30,029
Golf courses	-	-	979	874	979	874
Building permits	-	-	1,329	1,372	1,329	1,372
Total Expenses	435,269	447,709	33,152	32,275	468,421	479,984
Increase (decrease) in net position before special items and transfers	(26,453)	(17,036)	5,945	5,737	(20,508)	(11,299)
Special Items	-	(67,832)	-	-	-	(67,832)
Transfers	1,450	(45)	(1,450)	45	-	-
Change in net position	(25,003)	(84,913)	4,495	5,782	(20,508)	(79,131)
Net position, July 1, as restated	570,191	655,104	420,363	414,581	990,554	1,069,685
Net postion, June 30	$ 545,188	$ 570,191	$ 424,858	$ 420,363	$ 970,046	$ 990,554

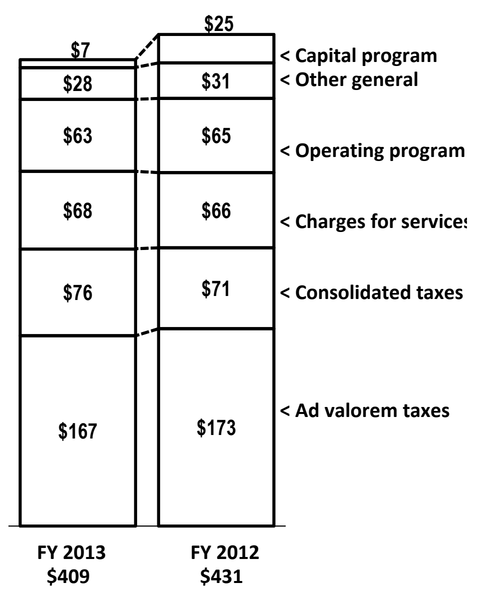
Note that the expenses in the comparison analysis above are shown before indirect charges from the General Fund. The indirect charge policy began in the current fiscal year; therefore, a comparison to the prior year is presented without these charges.

The decrease in net position was primarily due to reduced revenues. Total revenues of $447.9 million decreased from prior year by 4%. Ad valorem taxes continued to decline due to lower property value assessments and program revenues were down in the operating and capital area driven by reduced grants. Total expenses of $468.4 million decreased 2% from the prior year, primarily in governmental activities.

Back to Financial Title Page

Governmental Activities. Governmental activities decreased the County's net position by $25 million.

Governmental Activities
Revenues by Source
In Millions of Dollars



The two largest revenue sources are ad valorem and consolidated taxes, which together comprise 59% of governmental activity revenue.

Ad valorem taxes decreased by 3% 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 6% in the current year, the third year of modest increases after several years of decline.

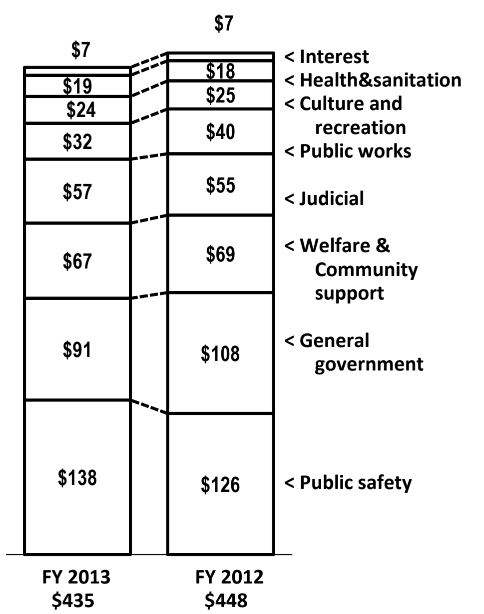
Charges for services increased 2% led by a $2 million increase in public safety revenues primarily due to higher receipts for detention services to other agencies.

Operating program revenue decreased by 2% primarily from grant activity for public safety partially offset by increased grants for welfare programs.

The decline in other general revenues was largely due to lower investment income resulting from lower earnings rates and lower market values for investments.

Capital program revenue decreased $17.8 million. The prior year included a new special assessment project for road improvements and several grant funded parks projects that were completed.

Governmental Activities
Expenses by Function
In Millions of Dollars



The largest functional areas are public safety and general government, which together comprise 53% of governmental activities expenses.

Total governmental expenses declined by 3% from the prior year.

Public safety increases resulted from increased costs in the Sheriff's Office due to wage increases and detention service cost increases, as well as, payments to the Truckee River Flood Management Authority (TRFMA), a joint powers authority. The initial payments and contributions to TRFMA were treated as a special item in the prior year.

The 16% decline in general government expenses included $3 million for reduced contributions to the OPEB trust and $3.6 million in reduced termination payments due to the early separation incentives offered in the prior year. Other reductions across several departments were driven by budgeted cost reductions.

Welfare cost reductions were driven by program changes in the Indigent medical claims process that lowered reimbursements to providers.

Judicial cost increases related to several new projects including software and space expansion that were funded through administrative fees restricted to Court expansion and improvement.

Public works expense decreased due to reduced spending on maintenance projects.

Back to Financial Title Page

Governmental Activities: Program Revenues Percent of Expenses by Function

	FY 2013	FY 2012
General government	41%	33%
Judicial	23%	24%
Public safety	17%	20%
Public works	40%	68%
Health and sanitation	62%	65%
Welfare	58%	51%
Culture and recreation	25%	33%
Community support	0%	0%
Total	34%	28%

Program revenues for governmental activities provided an average of 34% towards the costs of providing program services, an increase over the prior year primarily due to general government and welfare areas.

General government was impacted in the prior year by higher costs for OPEB and special termination incentives and, in the current year, has added $7 million in revenue for overhead charges to other funds.

Welfare programs increased operating program revenues, largely through grant funded projects while reducing costs for Indigent reimbursements.

The decline in public works expense coverage is related to several large grant and special assessment projects in the prior year combined with lower contributions of new roads by developers in the current year.

Business-type Activities. Net position for business-type activities increased $4.5 million which is $1.4 million under prior year.

Business-Type Activities: Change in Revenues
In Millions of Dollars

	FY 2013 vs FY 2012	% Change
Charges for services	$ 1	4%
Capital program revenue	3	132%
Other revenues	(4)	-89%
Total	$ -	3%

Total revenues for business-type activities are level with the prior year.

Utilities experienced increased capital contributions due to new development, and increased rate related revenues. Building permit activities experienced a rise in permitting activity.

Offsetting these increases was a decrease in investment income as a result of lower earnings rates and lower market values of investments.

Business-Type Activities: Program Revenues
as a Percent of Expenses

	FY 2013	FY 2012
Utilities	118%	108%
Golf courses	106%	125%
Building permits	130%	102%
Combined	118%	108%

Utilities activities favorable trend in program revenue to expense ratio was driven by increased capital contributions and rate related revenues.

The County continues to maintain the major assets at each contractually managed golf course, and expenditures increased $104,000

Building permit activities also saw improved profitability during the year as housing permits continued to trend up.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental Funds: The focus of the 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.

Current year governmental fund combined ending fund balances of $137.9 million reflect a decrease of $16.6 million from the prior year due primarily to capital spending. Major projects completed in the current year include a new roadway for a special assessment district, leasehold improvements for a new Justice Court location, and several parks and open space projects for trails and recreation facility improvements.

Governmental revenues were level with the prior year with the economic driven decline in ad valorem taxes and investment earnings offset by increased intergovernmental revenues including grants and State distributions of sales taxes. Expenditures were 6% under the prior year primarily due to higher general government costs in the prior year for OPEB, voluntary separation programs and court ordered refunds of property tax and related interest to Incline Village residents.

Back to Financial Title Page

Governmental Fund Balance
In Millions of Dollars

		2013
Non spendable	$	0.1
Restricted:		
Parks and open space projects		23.1
Debt Service		11.4
County facility improvement projects		7.3
Groundwater remediation		7.1
Court programs and expansion		5.9
Other		21.8
Total assigned		76.6
Committed:		
Adult, indigent, child support services		8.9
Animal control and services		5.4
Stabilization		4.1
Other		4.4
Total committed		22.8
Assigned		
Fiscal 14 budget funding, General Fund		5.6
Roadway projects		5.1
Other		1.1
Total assigned		11.8
Unassigned		26.7
Total fund balances	$	137.9

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.

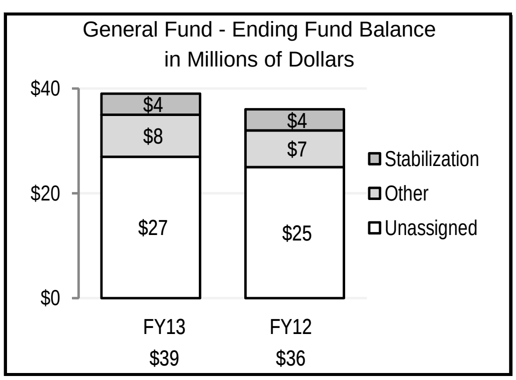
The largest component of fund balance, at 56% of total, is restricted at $76.6 million. Spending of these resources is constrained by externally imposed (statutory, bond covenant, contracts, or grantors) limitations on their use.

The major components of restricted fund balances are for capital and improvement projects for parks, open space, County facilities, as well as the resources restricted for debt service to repay financing of previous capital projects. Administrative fees restricted by the State for court programs and expansion can be used for technology, facilities and other court support programs.

Committed and assigned fund balances combined represent 25% 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 on grants that have not yet been reimbursed.

General Fund: The General Fund is the County's primary operating fund. Cash and investments of $40.2 million are higher than prior year by $4.3 million. Contributing to this increase was the repayment of the $1.5 million loan to the Treasurer's Unapportioned Agency Fund, approved by the BCC on April 10, 2012, to enable continued payment of Incline Village tax refunds before the first property tax distribution in late October of 2012 and the timing of year-end transfers to the OPEB Trust Fund, which occurred after June 30th in the current year, increasing accounts payable by $6.6 million.



Total fund balance was $39 million at the end of the fiscal year, an increase of $2.7 million from prior year.

The stabilization portion represents $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.

Other fund balance categories include restricted, committed and assigned. Restricted fund balance consists of $750,000 for baseball stadium debt service and ad valorem taxes restricted for indigent insurance. Of the $9.7 million needed to fund the fiscal year 2014 budgeted deficit, $4.1 million is included in committed fund balance for stabilization and $5.6 million is in assigned fund balance. 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 fell by $2 million in the current fiscal year.

Back to Financial Title Page

Key factors in the net increase in General Fund fund balance are as follows:

- Revenues of $272.4 million increased $7.1 million or 2.7% from prior year, primarily due to increased consolidated tax revenues of $4.5 million and additional overhead charges to departments of $6.6 million, offset by decreased ad valorem tax revenue of $3.8 million due to declines in assessed property values.
- Investment earnings fell by $3.2 million chiefly because of increased unrealized losses on investments due to market fluctuations.
- Expenditures of $252 million decreased $15.5 million or 5.8% from the prior year, due primarily to the $14.3 million in expenses associated with the refund of property taxes and related interest to taxpayers in Incline Village in the prior year. In addition, contributions to the Washoe County, Nevada OPEB Trust (OPEB Trust) were $3 million lower than prior year. These decreases were partially offset by State mandated increases in indigent medical assistance and higher personnel costs.
- Revenues exceeded expenditures by $20.3 million.
- Transfers in decreased $17.7 million due to 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 and $11.1 million for the purpose of funding Incline Village property tax refunds and related interest, in the prior year.

General Fund Budgetary Highlights:
Changes to original budget: During the year, expenditure budget authority was increased by $1.3 million over original budget offset by a $1.3 million decrease in other financing uses. Increased expenditure budget authority in the final budget supported unbudgeted costs for Sheriff, Community Services Department – Regional Parks and Open Space, Fire Services Support, Board of County Commissioners and Conflict Counsel and to cover higher than planned costs in the judicial function. The reductions in other financing uses were $956,000 from the contingency account and $324,000 from transfers to the debt service fund. Any use of contingency funds must be approved by the BCC. The reduction in the debt service requirement was available due to debt refunding during the year.

Final budget compared to actual results: Total revenues in the General Fund were over final budget by $4 million or 1.5%. The largest source of revenue in the General Fund, ad valorem taxes, was 0.7% or $0.9 million under budget driven by lower assessed property values. Intergovernmental revenues exceeded final budget by $7.5 million or 8.6%, principally due to consolidated sales and other taxes distributed by the State, the second largest revenue source, which exceeded final budget by $5.5 million or 8% as the local economy started to show signs of improvement. Another component of intergovernmental revenues, federal incarceration charges which reimbursed the Sheriff's Office – Regional Detention Center for housing federal prisoners, were $1.1 million or 27% over budget. These increases were offset in part by a $2.1 million below budget result for increase/decrease in the fair value of investments as a result of market value swings late in the fiscal year.

Functions represent the legal level of budgetary control for appropriations per NRS 354.626. Total expenditures in the General Fund were 1.9% or $4.8 million below final budget with all functional areas below budgeted appropriations. The variance to budget included $1 million for personnel costs, largely from vacant positions, and $3.8 million in services, supplies and small equipment, of which $1.6 million was encumbered and reappropriated in the new fiscal year.

Special Assessment Debt Service Fund: The Special Assessment Debt Service Fund**,** a major 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. Ending fund balance of $1.3 million is $600,000 below the prior year fund balance is primarily due to debt service expenditures exceeding revenue collections.

Child Protective Services Fund: The Child Protective Services Fund, a major fund managed by the Social Services Department, accounts for resources specifically appropriated to protect against the neglect, abandonment and abuse of children in the County. The primary funding source, federal and state grants, amounted to 82% of revenue with ad valorem taxes contributing another 11% of revenue. Expenditures include personnel costs, as well as expenditures for child protection and placement including emergency shelter, professional services, foster care and adoption subsidies.

Ending fund balance of $8.9 million was $2.2 million below the prior year as program costs exceeded the revenue sources including a reduction of transfers from the General Fund. Restricted fund balance of $242,000 is largely due to donations and private foundation grants to support specific programs. The remaining fund balance of $8.6 million has been committed to support child protective programs by the BCC through budgeted transfers over several years.

Back to Financial Title Page

The net decrease in fund balance was $200,000 greater than the prior year. Revenues increased $2.4 million over the prior year driven by a $2.6 million increase from federal grants. The expenditure increase of $2 million included the costs of the expanded federal grant programs partially offset by planned cost control efforts.

Changes to original budget: During the year, both the revenue and expenditure budget increased by $3 million primarily due to new federal and state grant awards to support the Fund's programs.

Final budget compared to actual results: Revenues were 93% of budget largely due to grant awards which included budgets that extend beyond one fiscal year. Grant awards represented a $2.6 million shortfall to budget for both revenues and expenditures. The additional $6.4 million expenditure variance to budget resulted from cost control measures and delays in several large programs.

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 the County. The County 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 $3.1 million during the year, driven by positive cash flow from operations.

Operating revenues of $31.6 million are $1.1 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 1.7% in January, 2013, based on regional Consumer Price Index changes.

Operating expenses of $27 million are 90% of budget. Well mitigation, repairs and maintenance and non-capital equipment costs were all lower than anticipated. Employee benefits were 24% lower than prior year due to costs of voluntary separation incentives offered by the County during the previous fiscal year. Total operating expenses were 3% lower than the prior year, attributable primarily to a decrease in employee benefits and expenses related to the domestic well mitigation program.

Capital contributions of $4.4 million are 89% of a $5 million budget and $2.5 million over the prior year. The increase in capital contributions and hookup fees is related to increased levels of new development. Federal grant revenues of $2.5 million were awarded and budgeted to fund the Spanish Springs septic/sewer conversion project; however, construction 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 County's 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, and more efficient use of facilities and facility planning. 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.

The change in entity status for the South Truckee Meadows General Improvement District, from a component unit to an independent district, resulted in a reclassification of operating revenues for the Water Resources Fund from services to other funds to services to other agencies, The County's water utility staff continues to operate the utility for this District under the terms of an interlocal agreement; however, the District has its own revenue source and reimburses the County for this support.

Back to Financial Title Page

CAPITAL ASSETS

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2013, is $940 million (net of accumulated depreciation), as summarized below.

Washoe County Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land,use rights	$ 142,795	$ 142,608	$ 13,987	$ 13,785	$ 156,782	$ 156,393
Plant capacity	-	-	825	825	825	825
Construction in progress	6,910	8,223	4,550	5,318	11,460	13,541
Land improvements	22,254	23,929	2,010	2,237	24,264	26,166
Building/improvements	197,914	202,749	50,288	48,604	248,202	251,353
Infrastructure	183,609	189,335	280,660	285,038	464,269	474,373
Equipment	20,349	20,849	171	174	20,520	21,023
Software	6,013	7,021	108	232	6,121	7,253
Plant capacity, depreciable	-	-	7,510	7,761	7,510	7,761
Total	$ 579,844	$ 594,714	$ 360,109	$ 363,974	$ 939,953	$ 958,688

The net decrease in investment in capital assets for the current fiscal year of $18.7 million or 2% was primarily due to depreciation of $49.4 million which was in excess of net capital additions of $34.3 million. New capital investments during the year included $16 million for road right-of-ways and improvements, $5.8 million for vehicles and other equipment and $6.1 million for utility infrastructure. The construction in progress balance of $6.9 million at year end included projects for regional public safety communications and technology, parks and open space and for water quality improvement at Lake Tahoe. Major commitments at year-end of $12.4 million included continuation of the projects in progress as well as additional projects for technology improvements and infrastructure.

Additional information on the County's capital assets can be found in Notes 7 and 8.

DEBT ADMINISTRATION

At June 30, 2013, the County had total outstanding bonded debt of $229.6 million. Of this amount, $178.5 million is general obligation debt backed by the full faith and credit of the County and $9.0 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	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	$ 119,313	$ 128,820	$ 59,181	$ 62,898	$ 178,494	$ 191,718
Revenue Bonds	42,132	43,220	-	-	42,132	43,220
Special Assessment Bonds	9,011	10,675	-	-	9,011	10,675
Total	$ 170,456	$ 182,715	$ 59,181	$ 62,898	$ 229,637	$ 245,613

The County's current fiscal year outstanding debt decreased $16.0 million as a result of $61.7 million in principal payments, offset by $45.7 million in new debt issued. New debt issued consists of $18.1 million general obligation (limited tax) refunding bonds series 2012A issued for an advance refunding of $10.5 million in library, parks and open space bonds series 2002B and $7.5 million in animal control bonds series 2003A, and $27.6 million general obligation (limited tax) refunding bonds (additionally secured by pledge revenues) series 2012B issued for an advance refunding of $11.5 million in general obligation (limited tax) office building bonds (additionally secured by pledge revenues) series 2002A; $5.3 million in general obligation (limited tax) building and parking garage bonds (additionally secured by pledge revenues) series 2004; $1.4 million in general obligation

Back to Financial Title Page

(limited tax) library building bonds (additionally secured by pledged revenues) series 2004; and a partial current refunding of $8.7 million in general obligation (limited tax) parks bonds (additionally secured by pledged revenues) series 2006.

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 the County is $1.2 billion, which is $951.4 million in excess of the County's outstanding general obligation debt.

Additional information regarding the County's long-term debt can be found in Notes 10, 11, and 12 to the financial statements.

ECONOMIC FACTORS

The fiscal year 2014 budget reflects an expectation of greater economic stability as local sales start to rise and home values stabilize. The County relies heavily on property taxes and sales taxes as the resources necessary to provide services to the citizens of the County. Local home sales are starting to recover and the County's building permits rose in the current year. Consolidated taxes, which are sales and other taxes collected by the State and then distributed to the County, are showing signs of improvement and increased month over prior year month for the last 14 months.

These indicators were taken into account when adopting the County's fiscal year 2014 budget, which includes no further decline in property taxes. The property tax rate remains constant at $1.3917 per $100 of assessed valuation. Consolidated taxes are budgeted to increase by 3% to $76.7 million.

The General Fund revenues and other sources are budgeted at $277.3 million, a 1% increase from the prior year while expenditures and other uses are budgeted to increase by 4% to $287 million. The budget deficit of $9.7 million includes $4.1 million of stabilization funds that are only available in emergency situations and are restricted in fund balance. The remaining $5.6 million has been committed in the current fiscal year fund balance for the purpose of providing the resources necessary to balance the fiscal year 2014 budget.

Total County personnel costs, excluding other post employment benefits (OPEB), are budgeted to increase by 5% in fiscal year 2014 with salaries and wages increasing by 4%. The increase is driven by fewer vacant positions, merit increases and higher rates for the State retirement system. The OPEB contribution is budgeted at the actuarial determined contribution level (ARC) of $18.7 million. 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 5.9 FTE's in fiscal year 2014. Total capital outlay is budgeted at $53 million.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the 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. This report will also be available on the web site at www.washoecounty.us/finance/CAFR2013.htm. Truckee Meadows Fire Protection District (TMFPD) and Sierra Fire Protection District (SFPD) are included in this report as discretely presented 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.

Back to Financial Title Page