

Financial Section



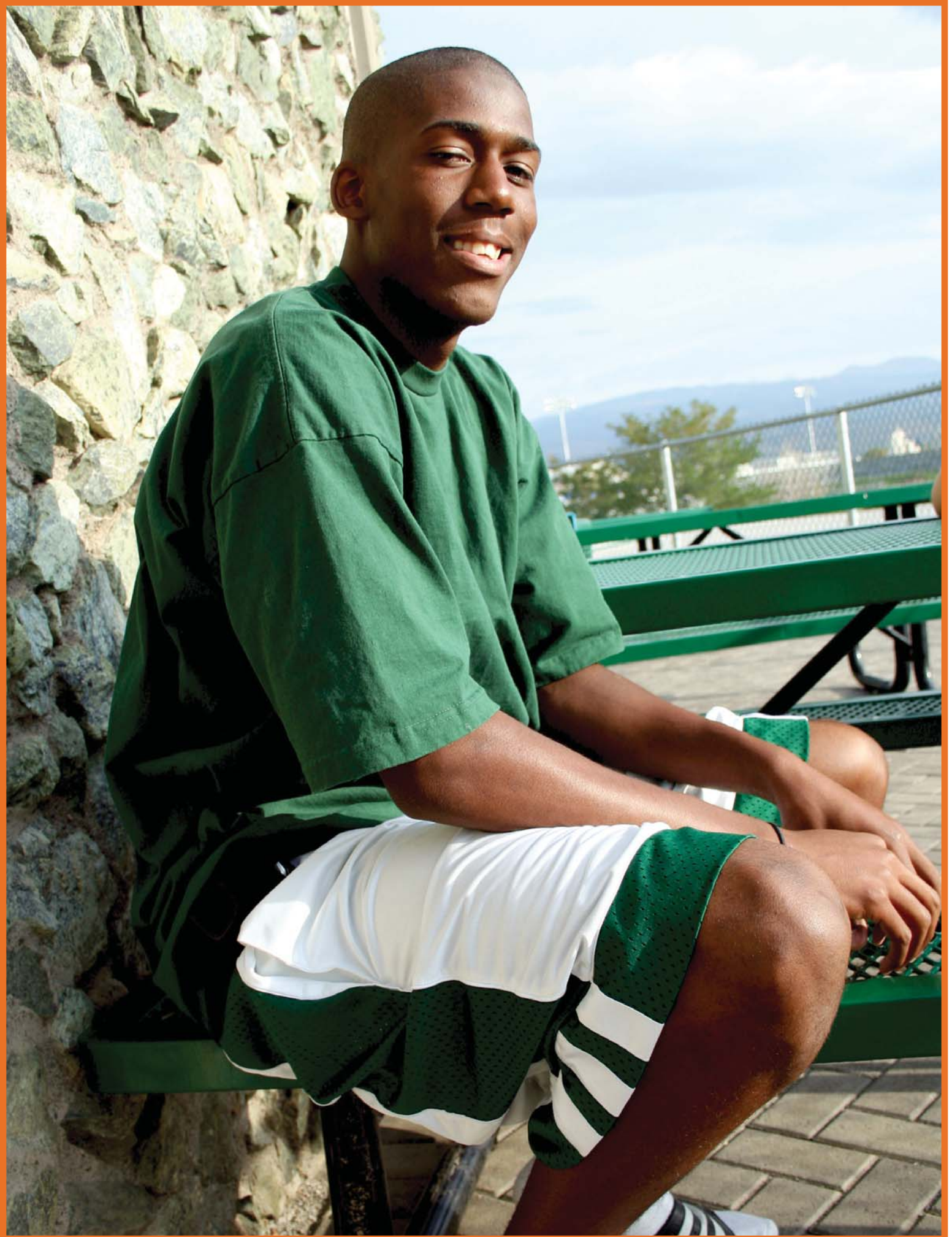
*Washoe County
School District*

Comprehensive
Annual
Financial Report

Financial

Section

- Independent Auditor's Report
- Management's Discussion and Analysis





INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Washoe County School District
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 School District, Washoe County, Nevada (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. 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 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 provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof 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 24, 2011, on our consideration of the District'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, budgetary comparison information, reconciliation of budget basis statements to GAAP basis statement, the schedule of funding progress, and the schedule of employer contributions, on pages 3 through 18 and 65 through 70 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 District's financial statements as a whole. The introductory section, nonmajor combining and individual fund financial statements and schedules, Schedules of Capital Assets Used in the Operation of Governmental Funds, and the Statistical Section are presented for purposes of additional analysis and are not a required part of the 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 nonmajor combining and individual fund financial statements 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 District's basic financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our report dated October 21, 2010, 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 2010 nonmajor combining and individual fund financial statements and Schedules of Capital Assets Used in the Operation of Governmental Funds are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, 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.

Kafoory, Armstrong & Co.

Reno, Nevada
October 24, 2011

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Washoe County School District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activities, (c) identify changes in the District's financial position (its ability to address 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.

Financial Highlights

- ❑ Government-wide net assets increased by \$7.2 million to \$379.1 million.
- ❑ Unrestricted net assets decreased or declined slightly by \$.3 million to \$60.1 million.
- ❑ The District's total revenues decreased by \$(8.4) million to \$597.5 million. The most significant revenues are local school support taxes (sales tax) at \$128.8 million, property taxes (Ad Valorem) at \$153.7 million and state aid at \$144 million.
- ❑ The District's total expenses increased by \$4.3 million to \$590.4 million. The most significant expenses were in regular instruction at \$200.9 million, special education instruction at \$66.1 million, operation and maintenance at \$45.8 million and other instruction (primarily grants) at \$62.8 million.
- ❑ Net capital assets increased to \$647.3 million. Major additions include \$14.9 million for school renewals, \$6.7 million for photovoltaic energy conservation projects, \$5.2 million for machinery and equipment and \$.5 million for technology upgrades. Depreciation expense totaling \$22.9 million is included in the government-wide statements.
- ❑ The District's general obligation bonds payable decreased by \$(41.8) million or (7.9%). This is the result of the issuance of \$46.9 million in bond debt, \$(28.3) million of debt payments and net refunded or defeased debt of \$(60.4) million.
- ❑ The District has an Aa2 bond rating with a stable outlook from Moody's Investor Service, and an AA rating with a stable outlook from Standard and Poor's Corporation.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide an overview of the District's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District'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 District is improving or deteriorating.

The *statement of activities* presents information showing how the District'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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions that are 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*).

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements described above. 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 financing requirements. To provide a better understanding of the relationship between the fund statements and the government-wide statements, both the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances provide reconciliations between the two statement types.

The focus of the governmental fund statements is on major funds. The District has 39 individual governmental funds of which the general, special education, debt service, 2011 bond rollover, 2011B bond rollover, 2010 Washoe County recovery zone economic development bond (RZEDB), 2010 qualified school construction bond (QSCB), 2009 Washoe County RZEDB, 2009 City of Reno RZEDB, 2009 bond rollover, 2008 bond rollover, 2007 bond rollover and 2006 bond rollover are considered major. These funds are disclosed separately in the governmental fund balance sheet and/or in the governmental fund statement of revenues, expenditures and changes in fund balances. The remaining 26 nonmajor governmental funds are combined into a single aggregated presentation in these statements. Individual fund data for each of these nonmajor funds is reported in combining statements in the supplementary information section of this report.

Proprietary funds are comprised of enterprise funds and internal service funds. Enterprise funds are used to report an activity where a fee is charged to external users. The District's sole enterprise fund, the Nutrition Services Enterprise Fund, is used to account for the nutrition services operation of the District. Internal service funds are used to accumulate and allocate costs internally among the District's various programs and functions. The District uses three internal service funds to account for its self-insurance of property and casualty, employees' health care and workers' compensation. Because internal service fund operations primarily benefit governmental funds, they are included in the governmental fund activities column in the government-wide statements.

All three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements along with the sole enterprise fund in a separate column. Individual fund data for the internal service funds and the enterprise fund is provided in the combining statements in the supplementary information section of this report.

Fiduciary funds account for resources held for other governments or individuals outside of the District. As their resources do not support District activities, they are not included in the government-wide statements. The District has three agency funds: the Student Activities Fund for schools in the district, an 80/5 Salary Plan for employees, and the Nevada Interscholastic Athletic Association for all school districts in Nevada. Additionally, the District has two trust funds: the Private Purpose Scholarship Trust Fund and the Other Postemployment Benefits (OPEB) Trust Fund. Additional information can be found on the OPEB Trust Fund in Note 9 on pages 56-61 of this report.

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Notes to the Financial Statements

The notes provide required disclosure and information necessary to understand the District's activities.

Other

In addition to the basic financial statements and accompanying notes, this report presents certain *required supplementary information* concerning the District's General and Special Education funds. Required supplementary information can be found on pages 65 and 66 of this report.

Supplementary information, including combining and individual fund statements and schedules providing budget to actual and prior year comparisons, are presented after the government-wide financial statements. These schedules test compliance with budgetary constraints and management directives to enhance accountability at the fund and function level.

Statistical information is provided on a ten-year basis, as available, for trend and historical analysis.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In order to enhance analysis, comparative information is provided for assets, liabilities, net assets, revenues and expenses.

WASHOE COUNTY SCHOOL DISTRICT'S NET ASSETS

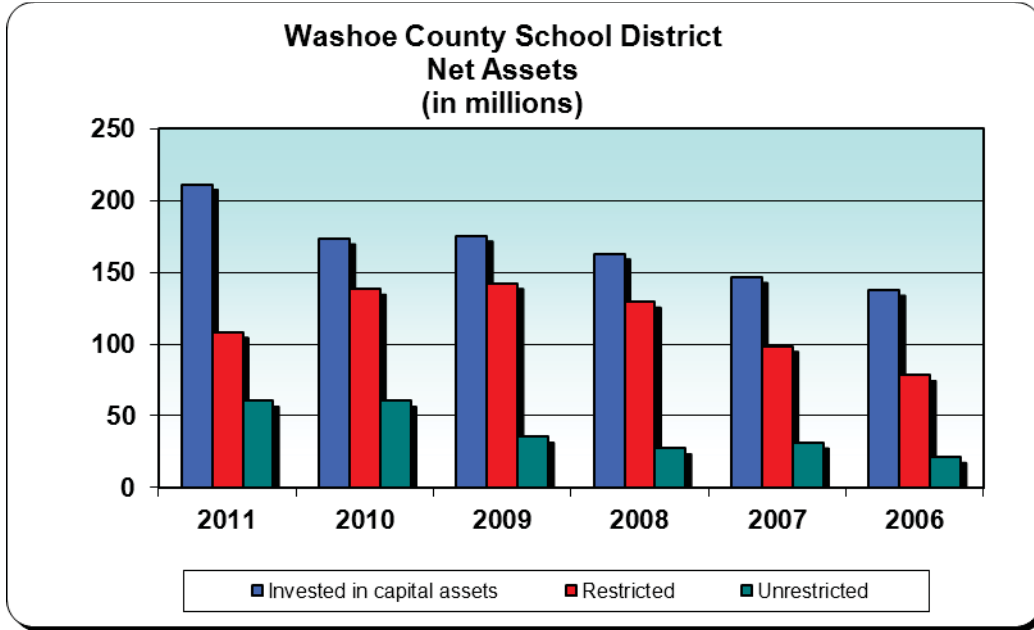
	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 365,651,515	\$ 403,494,265	\$ 4,245,294	\$ 4,457,628	\$ 369,896,809	\$ 407,951,893
Net capital assets	646,771,402	634,851,522	551,185	633,724	647,322,587	635,485,246
Total assets	<u>1,012,422,917</u>	<u>1,038,345,787</u>	<u>4,796,479</u>	<u>5,091,352</u>	<u>1,017,219,396</u>	<u>1,043,437,139</u>
Liabilities						
Current liabilities	127,759,544	128,298,208	857,926	764,481	128,617,470	129,062,689
Long-term liabilities	509,461,342	542,394,591	-	-	509,461,342	542,394,591
Total liabilities	<u>637,220,886</u>	<u>670,692,799</u>	<u>857,926</u>	<u>764,481</u>	<u>638,078,812</u>	<u>671,457,280</u>
Net Assets						
Invested in capital assets, net of related debt	210,091,401	172,508,687	551,185	633,724	210,642,586	173,142,411
Restricted	108,417,840	138,439,390	-	-	108,417,840	138,439,390
Unrestricted	56,692,790	56,704,911	3,387,368	3,693,147	60,080,158	60,398,058
Total net assets	<u>\$ 375,202,031</u>	<u>\$ 367,652,988</u>	<u>\$ 3,938,553</u>	<u>\$ 4,326,871</u>	<u>\$ 379,140,584</u>	<u>\$ 371,979,859</u>

For more detailed information see the government-wide statement of net assets and the notes to the financial statements.

Net Assets: The District's assets exceeded liabilities by \$379.1 million at June 30, 2011. The largest portion of net assets 55.6% reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress) less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to citizens; therefore, they are not available for future spending. Although the 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 cannot be used to liquidate these liabilities.

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

An additional portion of the District's assets 28.6% represents resources that are subject to external restrictions (statutory, bond covenants, or granting agency) on how they may be used. At June 30, 2011, the District had unrestricted net assets of \$60.1 million. A graphical history of net assets is as follows:



Governmental activities. Governmental activities increased the District's net assets by \$7.5 million. These increases were the result of the excess of revenues over expenses. Key elements of the increases are noted on the following table.

WASHOE COUNTY SCHOOL DISTRICT CHANGE IN NET ASSETS

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 1,843,639	\$ 1,269,594	\$ 4,933,054	\$ 5,381,119	\$ 6,776,693	\$ 6,650,713
Operating grants and contributions	115,193,329	107,415,696	13,616,037	13,562,465	128,809,366	120,978,161
General revenues:						
Property taxes	153,694,307	167,348,704	-	-	153,694,307	167,348,704
Local school support taxes	128,788,689	127,099,100	-	-	128,788,689	127,099,100
Government service taxes	14,560,297	15,321,249	-	-	14,560,297	15,321,249
Franchise taxes	365,707	332,477	-	-	365,707	332,477
Unrestricted investment earnings	6,630,982	4,954,850	-	-	6,630,982	4,954,850
State aid not restricted to specific purposes	143,954,130	156,389,169	-	-	143,954,130	156,389,169
Other	13,948,550	6,476,613	-	325,635	13,948,550	6,802,248
Total revenues	578,979,630	586,607,452	18,549,091	19,269,219	597,528,721	605,876,671

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

WASHOE COUNTY SCHOOL DISTRICT CHANGE IN NET ASSETS (continued)

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Expenses						
Instruction:						
Regular instruction	\$ 200,910,500	\$ 215,922,516	\$ -	\$ -	\$ 200,910,500	\$ 215,922,516
Special instruction	66,119,459	67,093,235	-	-	66,119,459	67,093,235
Vocational instruction	8,192,784	8,289,052	-	-	8,192,784	8,289,052
Other instruction	62,794,001	50,408,402	-	-	62,794,001	50,408,402
Adult education instruction	1,951,707	1,600,284	-	-	1,951,707	1,600,284
Community services instruction	757,579	856,533	-	-	757,579	856,533
Co-curricular instruction	3,447,205	3,422,601	-	-	3,447,205	3,422,601
Support services:						
Instruction	339,215	293,830	-	-	339,215	293,830
Student support	24,832,719	25,696,965	-	-	24,832,719	25,696,965
Instructional staff support	12,117,988	12,090,308	-	-	12,117,988	12,090,308
General administration	5,267,326	5,652,249	-	-	5,267,326	5,652,249
School administration	29,682,847	31,075,074	-	-	29,682,847	31,075,074
Central services	20,817,611	23,144,740	-	-	20,817,611	23,144,740
Operation and maintenance	45,840,239	48,294,122	-	-	45,840,239	48,294,122
Student transportation	15,173,027	15,454,876	-	-	15,173,027	15,454,876
Other support	2,079,234	11,137	-	-	2,079,234	11,137
Community services operations	388,674	402,769	-	-	388,674	402,769
Nutrition services	-	-	18,937,409	18,643,773	18,937,409	18,643,773
Facilities	30,214,091	31,261,928	-	-	30,214,091	31,261,928
Interest on long-term debt	24,139,763	25,395,984	-	-	24,139,763	25,395,984
Issuance costs on debt	1,364,618	1,093,095	-	-	1,364,618	1,093,095
Unallocated refund of Incline Village property taxes	15,000,000	-	-	-	15,000,000	-
Total expenses	571,430,587	567,459,700	18,937,409	18,643,773	590,367,996	586,103,473
Increase in net assets	\$ 7,549,043	\$ 19,147,752	\$ (388,318)	\$ 625,446	\$ 7,160,725	\$ 19,773,198

Governmental activities

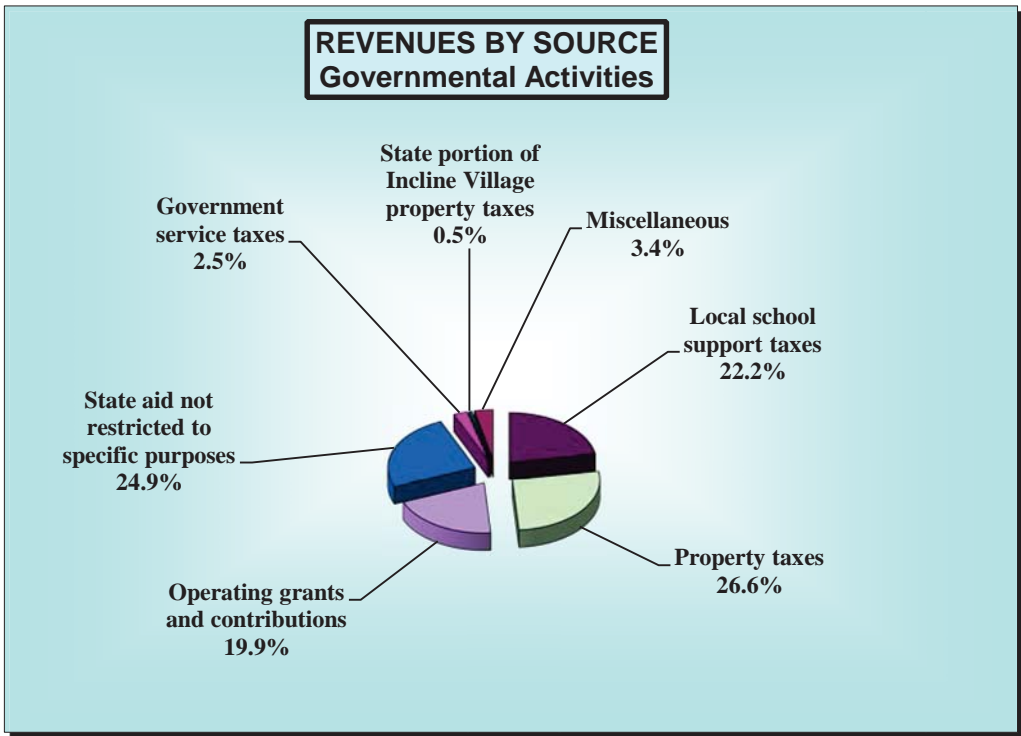
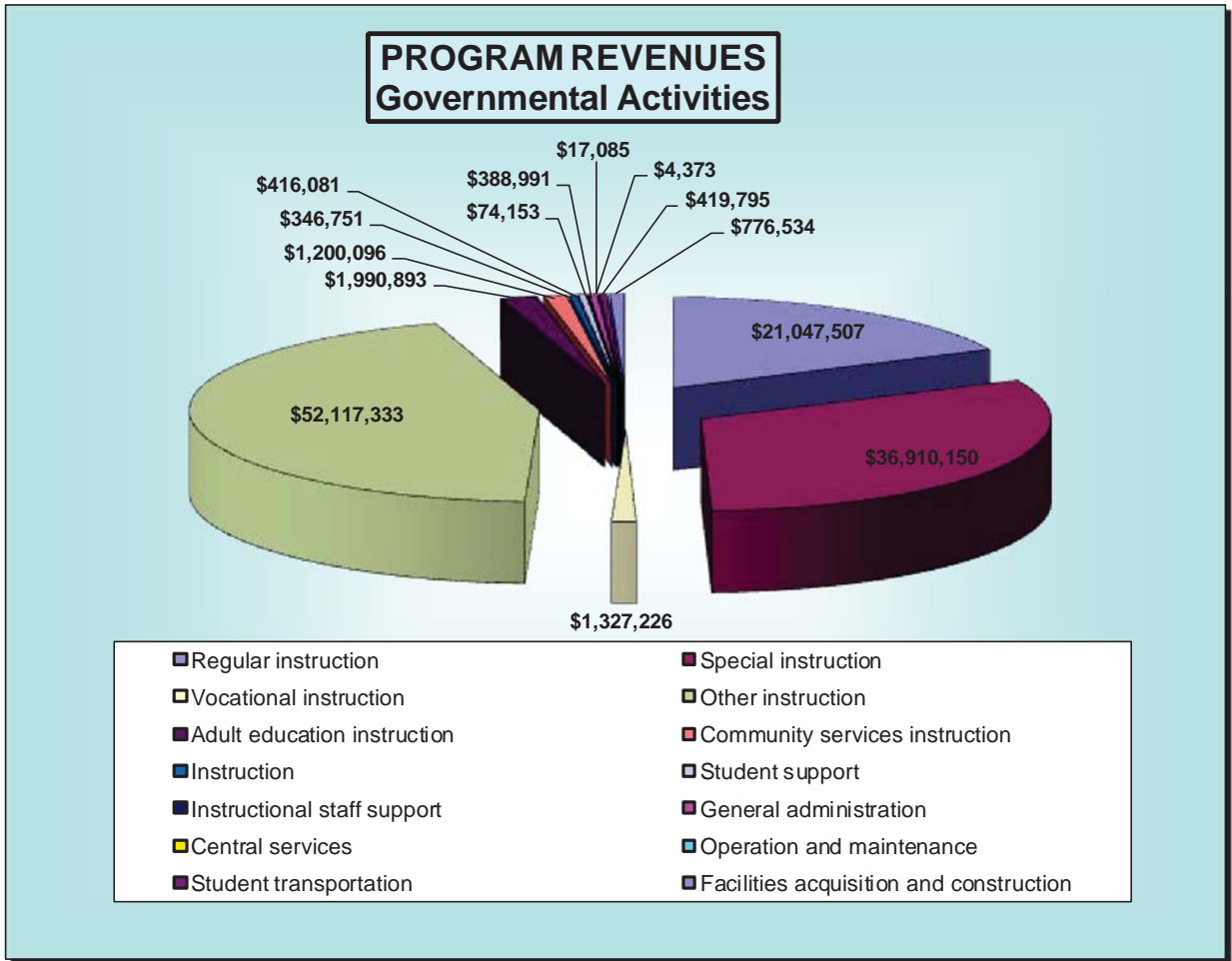
Total Revenues: Total revenues decreased from prior year revenues by (1.3%). General revenues, mainly comprised of taxes, state aid and investment earnings, represented 79.8% of total revenue. Program revenues are revenues directly related to service activities of a function and include charges for services, grants and contributions, and related investment earnings, when restricted for use in programs.

Program Revenues: Program revenues represent 20.2% of the total revenues collected to pay costs of providing program services. Charges for services increased 45.2% and operating grants and contributions increased 7.2%.

General Revenues: General revenues decreased (3.3%) from the prior fiscal year. The District experienced increases in local school support taxes, franchise taxes, unrestricted investment earnings and other income with decreases in all other categories.

The following two graphs demonstrate the governmental activities revenue by function and by source.

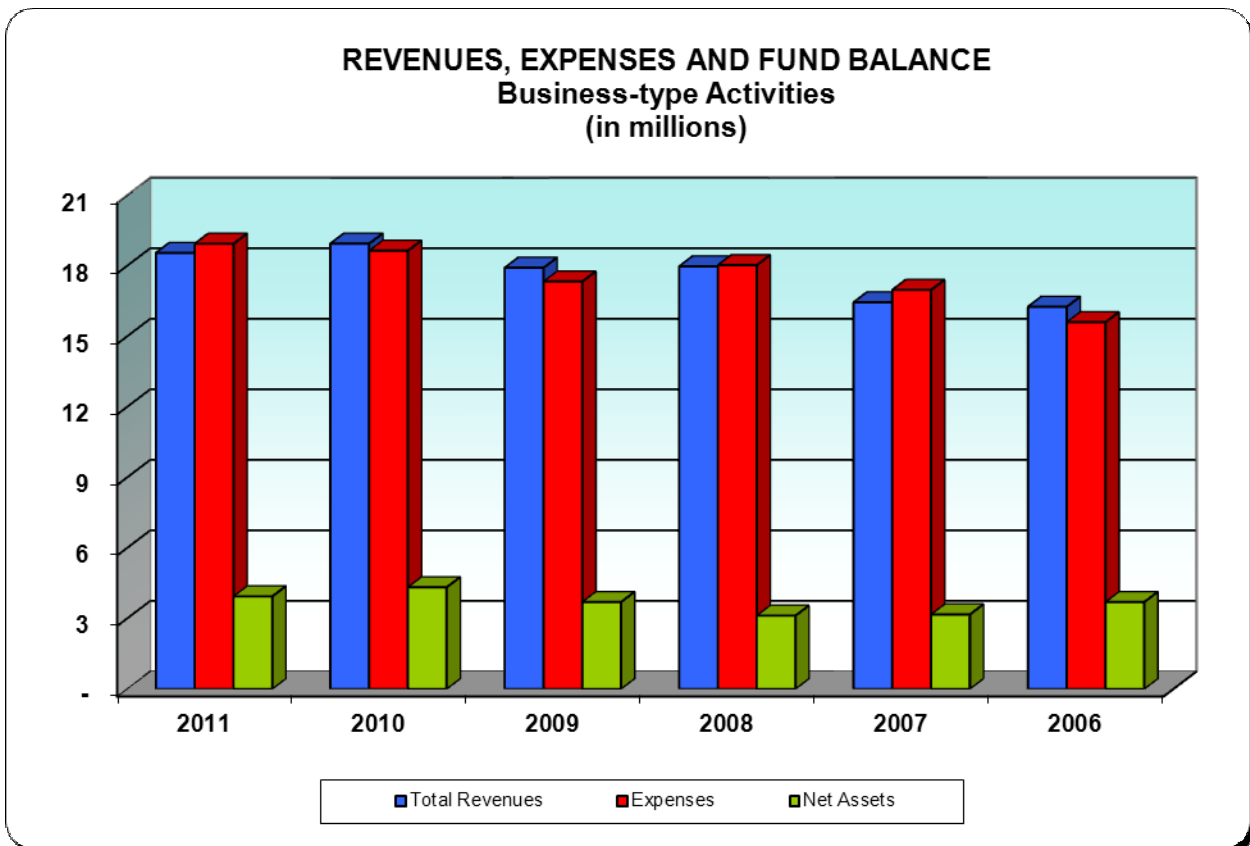
**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**



**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- ❑ The largest and main revenue sources for the District are property taxes (Ad Valorem), local school support taxes and state aid, which comprise 73.7% of total revenues.
- ❑ Ad Valorem taxes decreased (8.2%) from the prior year due to decreased tax collections and decreases in assessed valuations.
- ❑ Local school support taxes increased 1.3% primarily due to a temporary legislative increase in the rate of taxable sales for school districts in Nevada along with some economic improvement.
- ❑ State revenue, as provided in the Nevada Plan (State aid guaranteed funding), decreased (8%). The decreased state aid results from increases in school support tax, offset by one-third of the decreases in property taxes and finally a special legislative session that resulted in an overall reduction in state aid.

Business-type activities. Business-type activities consist solely of the District's Nutrition Services Enterprise Fund. In the current fiscal year this activity decreased net assets by \$(388,318). Nutrition services charges and federal subsidies, including contributions of commodity food products, account for 100% of revenues received by business-type activities, with student charges representing 26.6% and federal subsidies accounting for 73.4%. The majority of expenses in the business-type activities are for food purchases and salary expenses to maintain the District's nutrition services program. The decreased net assets resulted from higher operating expenses, primarily higher salaries and benefits, and the start-up costs of adding six provision II schools offset by furloughs and purchased services tied to additional staffing by the new external management company (four members) compared to the previous external manager (two members) during the year.



**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

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

Governmental Funds: The focus of the Washoe County School District's governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's current funding requirements. In particular, unassigned fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

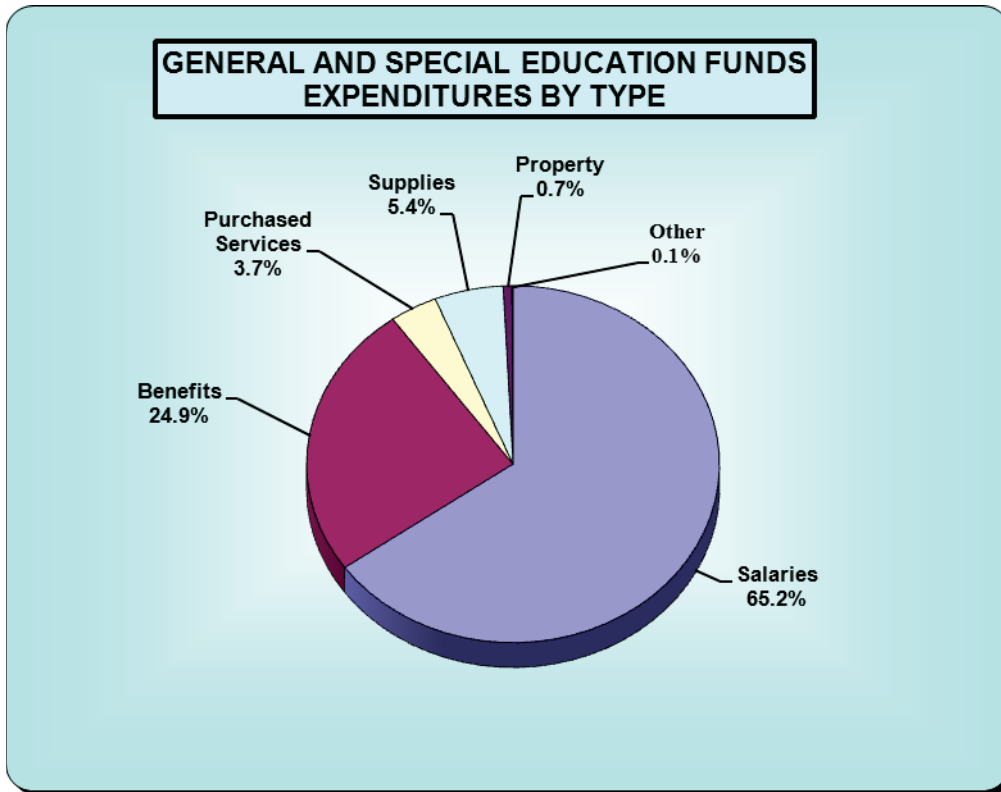
During the fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54 to address fund balance reporting and fund type definitions. As a result of this change, the presentation of this year's financial statements will differ from last year. The District's governmental funds reported combined ending fund balances of \$205.7 million, a decrease of \$(40.6) million from the prior year. Of this total, \$1.1 million or .5% is *nonspendable fund balance* (inventories and prepaids), \$134 million or 65.2% constitutes *restricted fund balance* (constrained, typically by creditors, grantors, contributors, laws or legislation, to being used for a specific purpose) and \$70.5 million is *assigned fund balance* (amounts intended to be used for a specific purpose). The District had no *committed or unassigned fund balance* (available for any purpose) at June 30, 2011. A detailed discussion of the fund balance reporting is provided in Note 7 on pages 53-55 of this report.

In 1993, the State Legislature enacted legislation that required the special education program (previously accounted for in the General Fund) to be accounted for in a separate special revenue fund. Because of its size and relationship to the General Fund, it is included in the analysis below.

**GENERAL AND SPECIAL EDUCATION FUNDS
EXPENDITURES BY TYPE**

	<u>2011</u>		<u>2010</u>
Salaries	\$ 274,061,940	\$	281,195,080
Benefits	104,885,783		105,156,183
Purchased services	15,745,864		15,358,226
Supplies	22,706,068		26,528,442
Property	2,911,848		1,367,111
Other	318,312		363,753
Totals	\$ 420,629,815	\$	429,968,795

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**



- ❑ Salaries comprise 65.2% of total expenditures. School districts by their nature are labor intensive.
- ❑ Employee benefits average 38.3% of salaries and 24.9% of total expenditures. Benefits include contributions on the behalf of employees for retirement (Public Employees' Retirement), health insurance, Medicare, old age survivor's disability insurance (part-time employees), life insurance, workers' compensation and OPEB.
- ❑ Purchased services, supplies, property and other comprise 9.9% of total expenditures. Details regarding variances on a fund level are available in separate reports.

As noted earlier, the District implemented GASB 54 which changed the fund balance reporting from the prior year. At the end of the current fiscal year, nonspendable fund balance in the General Fund was \$1.1 million and assigned fund balance was \$70.5 million. The total fund balance was \$71.6 million with no comparison reporting in the initial year of GASB 54. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 19.4% of total fund expenditures. It is also important to note that the General Fund has no unassigned fund balance at June 30, 2011, which is clearly a function of the current economic times that exist.

Listed below are the key factors in fund balance changes during the fiscal year presented in the same categories as the prior year followed by the addition of the three funds consolidated into the General Fund for GAAP reporting to address the implementation of GASB 54. The key factors are as follows:

- ❑ On a budgetary basis, total revenues of \$397.5 million decreased from the prior year revenue by \$(15.3) million or (3.7%), primarily due to decreases in state aid (7.9%), property

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

tax (7.2%), government services tax (4.9%) and earnings on investments (41.3%). Partially offsetting these decreases are increases in school support taxes 1.3%, along with some increases in tuition funded programs.

- ❑ Total expenditures of \$368.3 million decreased from the prior year by \$(13.3) million or (3.5%). Salaries and benefits decreased (5.6%) primarily as a result of negotiated furloughs by all bargaining groups to address budget cuts.
- ❑ Operating (non-salary) categories decreased by \$(2.4) million or (5.5%) from the prior year. Due to ongoing economic factors during the fiscal year, the District re-established a budget freeze to reduce spending. This freeze, coupled with judicious spending, helped reduce supply purchases by \$(4.8) million while purchased services were slightly up, \$630,418, and property increased \$1.5 million (mostly buses).
- ❑ The excess of revenues over expenditures was \$29.2 million. Transfers in from other funds were \$6.5 million for Class Size Reduction and \$2.2 million from the Pre-Funded Retiree Health Benefits Fund. Transfers to other funds were \$34.6 million. Significant transfers include \$29.4 million to the Special Education Fund, \$3.6 million to the Debt Service Fund and \$1.6 million to the Health Insurance Fund.
- ❑ As part of implementing GASB 54, it was determined that the Medicaid, Community Education and Pre-funded Retiree Health Benefits funds, previously reported in Special Revenue funds, will now be included in the General Fund financial statements for GAAP basis reporting. These three funds collectively had \$2.1 million of revenues and \$1.1 million of expenses with an ending fund balance of \$1.6 million.

The Special Education Fund accounts for resources (state-aid and transfers from the General Fund) used to provide special education to eligible students. This fund has no fund balance as the District only transfers the amount needed to cover expenditures not covered by State funding. Resources and expenditures totaled \$52.3 million, an increase from the prior year of \$4 million or 8.2%. This increase in the Special Education Fund is to offset the loss of ARRA Special Education funding from previous years. All fund resources were from State aid of \$22.9 million and transfers from the General Fund of \$29.4 million.

The Debt Service Fund has a total fund balance of \$54.3 million, all of which is restricted for the payment of debt service. The fund balance decreased by \$(13.9) million primarily as a result of accelerated debt payments and declining property tax offset by new debt issues.

Rollover Bond Funds allow the District to issue an estimated \$300-600 million in voter-approved rollover bonds between 2002 and 2012. These rollover bonds will partially allow the District to provide for the upkeep of existing facilities and add new schools, when needed, to address increases in student enrollment. These bonds are used for improvements (including technology infrastructure upgrades) to older, existing schools along with the construction of new elementary and middle schools and the build-out of high schools. Individual rollover funds are as follows:

The 2011 Bond Rollover Fund issuance in October 2010 for \$5.4 million will be used primarily for infrastructure improvements at four high schools. During FY 10/11 approximately \$80,000 was expended for bond issuance costs. The ending fund balance on June 30, 2011 of \$5.3 million consists of unspent bond proceeds and investment income.

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The 2011B Bond Rollover Fund issuance was completed in July 2011 for \$35 million of which the District received a good faith deposit of \$400,000 at June 30, 2011. During FY 10/11 approximately \$123,000 was expended for bond issuance. The ending fund balance on June 30, 2011 of \$277,000 consists of unspent bond proceeds and investment income.

The 2010 Washoe County Recovery Zone Economic Development Bond (RZEDB) issuance in April 2010 for \$10.515 million is being used for revitalization/infrastructure improvements and capital renewal projects at schools located within Washoe County. During FY 10/11 expenditures included \$2.4 million for infrastructure upgrades (41% expended) and \$646,000 for capital renewal projects (41% expended). The ending fund balance on June 30, 2011 of \$7.0 million consists of unspent bond proceeds and investment income.

The 2009B Washoe County Recovery Zone Economic Development Bond (RZEDB) issuance in November 2009 for \$15 million is being used primarily for revitalization/infrastructure improvements and capital renewal projects at schools located within Washoe County. During FY 10/11 expenditures included \$1.1 million for school revitalization (53% expended), \$1.1 million for infrastructure upgrades (43% expended) and \$3.3 million for capital renewal projects (54% expended). The ending fund balance on June 30, 2011 of \$9.2 million consists of unspent bond proceeds and investment income.

The 2009B City of Reno Recovery Zone Economic Development Bond (RZEDB) issuance in November 2009 for \$21.93 million is being used primarily for revitalization/infrastructure improvements and capital renewal projects for schools located within Reno city limits. During FY 10/11 approximately \$3.9 million was expended for elementary school revitalizations (81% expended), \$1.7 million was expended for infrastructure (96% expended) and \$4.0 million was expended for capital renewal projects (51% expended). The \$9.9 million ending fund balance on June 30, 2011 consists of unspent bond proceeds and investment income.

The 2010 Qualified School Construction Bonds (QSCB) issued in May 2010 for \$3.55 million is being used primarily for revitalization/infrastructure improvements at two elementary schools. During FY 10/11 approximately \$2.7 million was expended for revitalization activities at those schools (approximately 95% expended). The ending fund balance on June 30, 2011 is \$121,000 and consists of unspent bond proceeds and investment income.

The 2009 Bond Rollover Fund bond issuance for \$45 million is being used for revitalization of existing elementary schools, upgrades to information technology hardware/software, and capital renewal projects such as re-roofing and re-paving. During FY 10/11 \$3.6 million was expended for elementary school revitalization (68% expended). Additionally, \$2.7 million was expended for upgrades to IT infrastructure (77% expended), re-roofing, re-paving and fire alarm upgrades (approximately 84% expended) and administrative costs (31% expended). The ending fund balance on June 30, 2011 is \$15.4 million and consists of unspent bond proceeds and investment income.

The 2008 Bond Rollover Fund bond issuance for \$55 million was primarily used for construction of Depoali Middle School. Additional projects include completion of the Incline Elementary School addition, acquisition of mobile classrooms, and various school renewal and information technology projects. During FY 10/11 \$1.1 million was expended for various capital renewal projects including backflow prevention, fire alarm upgrades and lock replacements (97% expended). Central services costs totaling \$571,000 were also recorded in this fund for FY 10/11 (78% expended). The ending fund balance on June 30, 2011 of \$8.2 million consists of unspent bond proceeds and investment income.

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The 2007 Bond Rollover Fund bond issuance for \$65 million was primarily used for construction of Depoali Middle School, the continued renovation of the District's existing facilities, acquisition of mobile classrooms and various technology upgrades. During FY 10/11 \$2.0 million was spent for information technology related projects (55% expended), \$3.1 million was spent for elementary school revitalization (55% expended), high school security cameras (90% expended) and capital renewal projects (55% expended). The \$14.1 million June 30, 2011 ending fund balance consists of unspent bond proceeds and investment income.

The 2006 Bond Rollover Fund bond issuance for \$30 million was primarily used for the renovation of existing District facilities and for construction of Depoali Middle School. The facility renovations/upgrades include re-roofing, re-paving, re-carpeting, etc., transportation yard improvements and technology related projects. During FY 10/11 \$425,000 was spent for infrastructure upgrades (99% expended), \$806,000 for the District's Backup Data Center (100% expended) and \$160,000 for capital renewal projects (97% expended). The ending fund balance on June 30, 2011 is \$1.1 million and consists of unspent bond proceeds and investment income.

Proprietary Funds: The proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The District's self-insured Property and Casualty, Health Insurance, and Workers' Compensation Internal Service Funds have a combined Net Asset balance of \$47.2 million. The Health Insurance Fund has a Net Asset balance of \$36.2 million compared to \$28.7 million in the prior year; the Property and Casualty Fund has a balance of \$7.1 million compared to a balance in the prior year of \$6.7 million; and the Workers' Compensation Fund finished the year with a balance of \$4 million compared to \$5.4 million in the prior year. Insurance funds, by their nature, are very difficult to forecast. As a result, the District continues to work to maintain the proper reserves in these funds.

The District's Nutrition Services Enterprise Fund has a Net Asset balance of \$3.9 million compared to \$4.3 million in the prior year. The factors concerning the finances in this fund were addressed in the discussion of the District's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Prior to the beginning of the fiscal year, the District adopts its original budget on or before June 8. The District is also required to amend the budget by January 1 of the fiscal year to reflect the official enrollment count. During the year, the Chief Financial Officer is authorized to transfer appropriations between accounts and funds, subject to the subsequent approval by the Board of Trustees. The District may also augment the budget by a majority vote of the Board if anticipated resources actually available during the year exceed those estimated.

The final budget for the District was approved on May 25, 2010 and addressed a \$32 million dollar budget shortfall. \$18 million of the shortfall was due to the declining Nevada economy (mainly decreases in sales tax and ad valorem taxes), \$9 million was related to the decline in opening fund balance (used to offset the prior year shortfall) and the remainder was due to mandated expenditure increases of \$5 million (mostly negotiated salary rollups).

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The District offset \$10.7 million of the shortfall by negotiating freezes in salary rollups and instituting furlough days for employees. The legislature approved an increase in class size for grades 1-3 which saved \$5.8 million and also approved a waiver for the amount the district spends on textbooks resulting in a \$2 million savings. Ending fund balance and budget contingency accounts were used to offset \$8.4 million, a reorganization of the District's central services saved \$2.5 million, utility savings contributed \$2 million and other non-salary and benefit operating costs were reduced by \$1 million.

The District augmented the budget by \$27 million on December 14, 2010 as actual opening assigned fund balances were in excess of the Final Budget amounts. \$6.7 million of the reserves and designations were for prior year encumbrances and allowable department budget carryovers and \$1.9 million was for compensation. \$17 million was utilized to increase the designation for budget uncertainties and \$1 million was used to cover other cost increases.

The District approved a final revision of the budget on June 28, 2011. The revisions resulted in a \$4.9 million increase to the budget. Of the increase, \$2.2 million was related to bus lease proceeds and was used to continue the District's bus replacement program while \$2.7 million was for energy rebates and was assigned to balance the subsequent year's budget. In addition, the budgeted expenditures were reduced by \$4 million as a result of expenditure freezing and placed in the assigned category for budget uncertainties.

GENERAL FUND BUDGET ADJUSTMENTS

	<u>2011 BUDGET</u>		
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>DIFFERENCE</u>
REVENUES			
Local sources	\$ 235,680,253	\$ 238,548,991	\$ 2,868,738
State sources	156,965,070	156,904,517	(60,553)
Federal sources	516,000	516,000	-
Other sources	50,000	50,000	-
Total revenues	<u>393,211,323</u>	<u>396,019,508</u>	<u>2,808,185</u>
OTHER FINANCING SOURCES			
Capital Leases	-	2,192,000	2,192,000
Transfers in	8,011,823	8,699,827	688,004
FUND BALANCE, July 1	<u>39,497,153</u>	<u>64,532,881</u>	<u>25,035,728</u>
TOTAL SOURCES	<u>\$ 440,720,299</u>	<u>\$ 471,444,216</u>	<u>\$ 30,723,917</u>

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

GENERAL FUND BUDGET ADJUSTMENTS (continued)

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>DIFFERENCE</u>
EXPENDITURES			
Current			
Regular programs	\$ 193,040,054	\$ 195,506,834	\$ 2,466,780
Special programs	1,419,916	1,925,546	505,630
Vocational programs	7,491,831	7,031,384	(460,447)
Other instructional programs	13,632,830	13,689,937	57,107
Co-curricular programs	4,297,944	4,528,360	230,416
Undistributed expenditures			
Student support	25,891,601	25,370,795	(520,806)
Instructional staff support	13,364,505	15,388,257	2,023,752
General administration	5,678,008	6,187,100	509,092
School administration	31,814,590	30,891,887	(922,703)
Central services	19,507,835	19,867,367	359,532
Operation and maintenance	48,894,699	50,107,033	1,212,334
Student transportation	15,418,434	18,217,187	2,798,753
Total expenditures	<u>380,452,247</u>	<u>388,711,687</u>	<u>8,259,440</u>
OTHER FINANCING USES			
Contingency	1,093,277	1,093,277	-
Transfers out	<u>38,027,312</u>	<u>36,437,722</u>	<u>(1,589,590)</u>
Total other financing uses	<u>39,120,589</u>	<u>37,530,999</u>	<u>(1,589,590)</u>
FUND BALANCE, June 30	<u>21,147,463</u>	<u>45,201,530</u>	<u>24,054,067</u>
TOTAL APPLICATIONS	<u>\$ 440,720,299</u>	<u>\$ 471,444,216</u>	<u>\$ 30,723,917</u>

Actual expenditures were 95% of the final budget and all functions are within the appropriate budgetary authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$647.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, and construction in progress. The total increase in the District's net capital assets for the current fiscal year was 1.9%. The major capital additions this fiscal year included:

School renewals	\$ 14.9 million	Machinery/Equipment	\$ 5.2 million
Photovoltaic energy projects	6.7 million	Technology	.5 million

Additional information on the District's capital assets can be found in Note 5 on pages 49-50 of this report.

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**WASHOE COUNTY SCHOOL DISTRICT CAPITAL ASSETS
(Net of Depreciation)**

Governmental Activities

	<u>2011</u>	<u>2010</u>
Land	\$ 38,017,804	\$ 38,017,804
Construction in progress	23,913,664	16,376,260
Buildings	547,483,457	543,557,983
Improvements other than buildings	17,660,247	17,630,308
Machinery and equipment	19,696,230	19,269,167
Total	<u>\$ 646,771,402</u>	<u>\$ 634,851,522</u>

Business-type Activities

Machinery and equipment	<u>\$ 551,185</u>	<u>\$ 633,724</u>
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WASHOE COUNTY SCHOOL DISTRICT OUTSTANDING DEBT

	<u>2011</u>	<u>2010</u>
General Obligation Bonds	\$ 482,900,000	\$ 524,700,000
Capital Lease Obligations	8,940,526	9,444,732
Qualified Zone Academy Bonds	<u>7,268,997</u>	<u>7,268,997</u>
Total	<u>\$ 499,109,523</u>	<u>\$ 541,413,729</u>

The District's outstanding debt decreased by \$(42.3) million during the current fiscal year primarily due to the issuance of the new rollover bonds netted with the effects of planned principal payments and defeasance of outstanding general obligation debt. The District also added a new capital lease during the year.

State statute (NRS 387.400) limits the amount of general obligation debt a school district may issue to 15% of its total assessed valuation. The current limitation for the Washoe County School District is \$2.16 billion, which is significantly in excess of the District's outstanding general obligation debt. Additional information on the District's long-term debt can be found in Note 6 on pages 50-53 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Washoe County School District is the second largest county school district in the State of Nevada. The District's funding primarily comes from sales taxes, property taxes, state support and government services taxes. The State funding is approved by the Legislature and is calculated after considering all other District revenues. The State revenue is expressed as a guaranteed per pupil amount which includes the sales tax revenue and 1/3 of the property tax revenue with the balance based on a contribution from the State. By guaranteeing a per pupil

**WASHOE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

amount the State provides stability to the amount of revenue the District can expect for general operating purposes.

The District originally faced a \$74.6 million shortfall for fiscal year 2011-12 due to a combination of many factors. First, the downturn in the economy resulted in a loss of sources for the State to continue to fund education at previous levels resulting in a proposed \$38.4 million loss of funding between local and state sources of revenue. Other items including costs of restoration of prior year furloughs, health insurance premiums and textbook budgets totaled \$8.7 million. Inclusion of negotiated salary rollups were \$6.7 million while rate increases for retirement, OPEB and unemployment were \$4 million and other operating increases were \$5.4 million.

After an extensive involvement in the legislative process, a very transparent review of the District's budget to identify reductions and with the cooperation of the District's bargaining units, the shortfall was reconciled. The legislature restored \$24 million in funding and allowed the continuation of class size increase for grades 1-2 resulting in a savings of \$6.6 million and the continuation of textbook expenditure reductions of \$2 million. Use of \$13.3 million of the District's \$26.3 million budget for uncertainties was used as well as \$2.9 million of ending fund balance. Health insurance premium holidays will save \$6.3 million, central and school support services reductions \$5.5 million, early separation incentive programs \$1.4 million and reallocation of costs to other funding sources \$2 million. The balance of \$10.6 million was to be made up with negotiated salary and benefit reductions. All employee groups but one have settled negotiations.

Despite the reductions, the District was able to make progress towards meeting the goals of a new strategic plan that emphasizes, "every child, by name and face, to graduation," by reorganizing and realigning existing staff and operating budgets.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the Washoe County School District's finances for all interested parties. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Gary S. Kraemer, Chief Financial Officer, P.O. Box 30425, Reno, NV 89520-3425. By January 1, 2012 this report will also be available on the web site at www.washoe.k12.nv.us.