

Intertech Services Corporation

PLANNING - ECONOMICS - PROGRAM MANAGEMENT

2/13/02

Mr. Guy Hobbs, Chairman, Governor's Task Force on Tax Policy in Nevada
Legislative Counsel Bureau
401 South Carson Street
Carson City, Nevada 89701

Dear Mr. Hobbs,

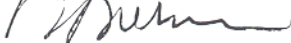
On behalf of Eureka County, we thank you for the opportunity to provide some guidance and direction from one of the rural areas that are experiencing fiscal concerns. With the recent decline in mining and the current slump in statewide sales tax revenues, the elected leaders of Eureka County are finding it more challenging to provide the required services to its constituents. Attached, please find excerpts of a copy of "Management's Discussion and Analysis" which offers a narrative overview and analysis of the financial activities of Eureka County.

Much of Eureka County's revenues are tied to a single industry – mining. Mining has a direct impact on all types and levels of sources of revenue in Eureka County. In prosperous times that is very beneficial to the citizens of the county. However, in the periods of recession, such as we are presently enduring, the single industry does not provide for the needs of the people. Eureka County is well aware that not all of the State of Nevada is facing such troubling times. Some areas are experiencing periods of unprecedented growth and economic boom while a large portion of rural Nevada is facing fiscal survival.

Eureka County encourages the committee to develop an equitable tax plan that would provide local government revenue stability for counties such as theirs, in prosperous times and in times of need.

Eureka County is looking forward to working with your committee in the coming months to help the entire State of Nevada become a fiscally responsible state.

Respectfully,



Douglas Bierman
Senior Research Associate
Intertech Services Corporation

On Behalf of Eureka County

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Eureka County, State of Nevada, we offer readers of Eureka County's financial statements this narrative overview and analysis of the financial activities of Eureka County for the fiscal year ended June 30, 2001. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6-9 of this report.

FINANCIAL HIGHLIGHTS

- The assets of Eureka County exceeded its liabilities at June 30, 2001 by \$70,876,874 (net assets). Of this \$27,417,790 (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's unrestricted net assets increased \$1,535,288. This increase is after purchase of capital assets in the amount of \$1,059,142 and depreciation expense of \$2,357,566 for the fiscal year.
- At June 30, 2001, the unreserved fund balance for the general fund was \$7,497,340 of which \$5,843,202 is designated as opening fund balance for the 2001-2002 fiscal year budget.
- Eureka County at June 30, 2001 had no bonded debt. The bonded debt that was incurred March 1, 1999 in the amount of \$182,000, was paid off during the current fiscal year.
- The County recorded infrastructure valued at an adjusted cost in the amount of \$17,978,954 at July 1, 2000. Additions to the infrastructure for the current fiscal year amounted \$505,606.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Eureka County's basic financial statements. Eureka County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Eureka County's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of Eureka 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 Eureka County include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of Eureka County include a Water General Improvement District.

The government-wide financial statements can be found on pages 26-27 of this report.

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. Eureka 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 Eureka County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources 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.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *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*.

Eureka County maintains thirty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and four other funds which are considered to be major funds. Data from the other twenty-five governmental 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.

Eureka County adopts an annual appropriated budget for all of these funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 28-30 of this report.

Proprietary funds. Eureka County maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Eureka County uses enterprise funds to account for a General Improvement District.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the General Improvement District which is considered to be a major fund of Eureka County.

The basic proprietary fund financial statements can be found on pages 34-36 of this report.

Fiduciary funds. Fiduciary funds are used to 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 Eureka County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 37 of this report.

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. The notes to the financial statements can be found on pages 38-58 of this report.

Other information. In connection with major governmental funds the combining and individual fund statements and schedules can be found on pages 60-79 of this report. In connection with nonmajor governmental funds the combining and individual fund statements and schedules can be found on pages 80-124 of this report.

Government-wide Financial Analysis

As notes earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Eureka County, assets exceeded liabilities by \$70,876,874 at the close of the most recent fiscal year.

By far the largest portion of Eureka County's net assets (61 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), there is no related debt used to acquire those assets that is still outstanding. Eureka County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Eureka County's Net Assets

| | Governmental activities | | Business-type activities | | Total | |
|---|-------------------------|---------------|--------------------------|------------|---------------|---------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Current and other assets | \$ 28,098,438 | \$ 24,820,569 | \$ 34,116 | \$ 28,292 | \$ 28,132,554 | \$ 24,848,861 |
| Capital assets | 43,260,559 | 26,490,109 | 738,685 | 764,288 | 43,999,244 | 27,254,397 |
| Total assets | 71,358,997 | 51,310,378 | 772,801 | 792,580 | 72,131,798 | 52,103,258 |
| Long-term liabilities outstanding | 212,236 | 204,788 | -0- | 176,822 | 212,236 | 381,610 |
| Other liabilities | 1,037,521 | 655,577 | 5,167 | 4,338 | 1,042,688 | 659,915 |
| Total liabilities | 1,249,757 | 860,365 | 5,167 | 181,160 | 1,254,924 | 1,041,525 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 43,260,559 | 26,490,109 | 0 | 0 | 43,260,559 | 26,490,109 |
| Contributed capital | 0 | 0 | 198,525 | 198,525 | 198,525 | 198,525 |
| Unrestricted | 26,848,681 | 23,960,204 | 569,109 | 412,895 | 27,417,790 | 24,373,099 |
| Total net assets | \$ 70,109,240 | \$ 50,450,313 | \$ 767,634 | \$ 611,420 | \$ 70,876,874 | \$ 51,061,733 |

Eureka County's *unrestricted net assets* (\$27,417,790) may be used to meet the government's ongoing obligation to citizens and creditors.

At the end of the current fiscal year, Eureka County is able to report positive balances in the two categories of net assets, both for the government as a whole, as well as for the business-type activities. The same situation held true for the prior fiscal year.

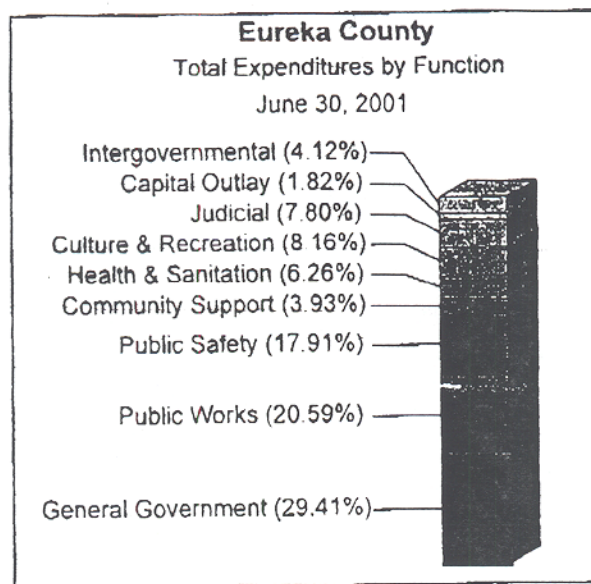
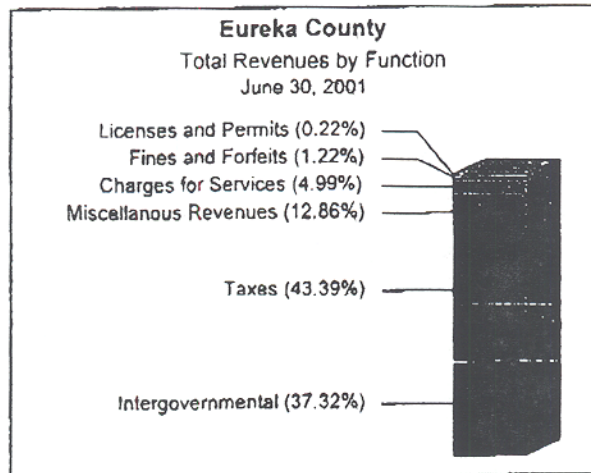
Governmental activities. Governmental activities increased Eureka County's net assets by \$1,535,288, thereby accounting for 91 percent of the total growth in the net assets of Eureka County.

Eureka County's Changes in Net Assets

| | Governmental activities | Business-type activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| | <u>2001</u> | <u>2001</u> | <u>2001</u> |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 584,244 | \$ 35,421 | \$ 619,665 |
| Operating grants and contributions | 774,507 | 0 | 774,507 |
| Capital grants and contributions | 0 | 0 | 0 |
| General revenues: | | | |
| Taxes | 5,080,374 | 0 | 5,080,374 |
| Licenses and permits | 25,955 | 0 | 25,955 |
| Intergovernmental | 3,594,122 | 0 | 3,594,122 |
| Other | 1,616,515 | 0 | 1,616,515 |
| Total revenues | <u>11,675,717</u> | <u>35,421</u> | <u>11,711,138</u> |
| Expenses: | | | |
| General government | 3,357,257 | 0 | 3,357,257 |
| Public safety | 1,598,284 | 0 | 1,598,284 |
| Judicial | 685,549 | 0 | 685,549 |
| Public works | 2,437,862 | 0 | 2,437,862 |
| Health and sanitation | 666,713 | 0 | 666,713 |
| Culture and recreation | 726,879 | 0 | 726,879 |
| Community support | 359,123 | 0 | 359,123 |
| Intergovernmental | 129,983 | 0 | 129,983 |
| Water | 0 | 57,986 | 57,986 |
| Total expenses | <u>9,961,650</u> | <u>57,986</u> | <u>10,019,636</u> |
| Increase in net assets before transfers | 1,714,067 | (22,565) | 1,691,502 |
| Transfers | (178,779) | 178,779 | 0 |
| Increase in net assets | 1,535,288 | 156,214 | 1,691,502 |
| Net assets - July 1, | 68,573,952 | 611,420 | 69,185,372 |
| Net assets - June 30, | <u>\$ 70,109,240</u> | <u>\$ 767,634</u> | <u>\$ 70,876,874</u> |

The General Fund budgeted \$885,000 as transfers out and intergovernmental grants, the actual transfers out and grants were \$843,779.

Revenues in the General Fund were \$7,363,694 which was \$1,084,842 more than the amount budgeted. Receipts from taxes, charges for services and miscellaneous were \$897,518 more than budgeted. Receipts from consolidated tax were \$1,446,272 more than budgeted. Actual expenditures were \$6,884,022 which was \$826,896 less than the appropriations for the year. Overall, the total ending fund balance was \$7,494,430 which is \$4,198,846 more than budgeted. Of the \$7,497,340 ending fund balance, \$5,843,302 was designated as opening fund balance on July 1, 2001.



Business-type activities. Business-type activities increased Eureka County's net assets by \$156,214. This increase is from a transfer from the General Fund of \$178,779 that was used to pay off bonded debt in the amount of \$179,389. Depreciation expense for the current fiscal year was \$25,827.

Financial Analysis of the Government's Funds

As noted earlier, Eureka County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Eureka County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing Eureka County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Eureka County's governmental funds reported combined ending fund balance of \$26,848,681, an increase of \$2,888,477 in comparison with the prior year. The majority of the ending fund balance, 78% or \$21,003,579 has been designated as opening fund balance for the budget year beginning July 1, 2001. The balance \$5,845,102 is undesignated.

Budgetary Highlights - Fiscal Year June 30, 2001

The budget statements reflect a comparison of budgeted revenues and expenditures to actual for the year ended June 30, 2001. The budget statements were prepared from the final budget as filed with the Nevada Department of Taxation. Budget revenues and expenditures were adjusted for grants received in excess of original amounts budgeted, augmentations and line item transfers were made during the year as approved by the County Commissioners.

The general fund revenues exceeded the final budget by \$1,080,775 and total expenditures were under the final budget by \$1,170,675. Additional general fund budget information can be found on pages 31-32 and 63-74.

All other major fund revenues exceeded the final budget by \$954,888 and total expenditures were under the final budget by \$1,600,612. Additional other major fund budget information can be found on pages 33-34 and 76-79.

Additional budget comments can be found on page 176 of this report.

Capital Asset

Capital assets. Eureka County's investment in capital assets for its governmental and business type activities as of June 30, 2001, amounts to \$43,999,224 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in Eureka County's investment in capital assets for the current fiscal year was 2 percent (primarily for governmental activities).

Major capital asset events during the current fiscal year included the following:

- Various construction projects mainly consisting of road improvements totaling \$505,606.
- \$534,826 was used to purchase a variety of machinery and vehicles.

Eureka County's Capital Assets

| | Governmental activities | | Business-type activities | | Total | |
|-----------------------------------|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Land | \$ 612,985 | \$ 609,743 | \$ 0 | \$ 0 | \$ 612,985 | \$ 609,743 |
| Buildings | 17,441,737 | 17,441,737 | 0 | 0 | 17,441,737 | 17,441,738 |
| Improvements other than buildings | 8,989,680 | 8,989,680 | 824,385 | 824,385 | 9,814,065 | 9,814,065 |
| Machinery and equipment | 12,920,087 | 12,414,133 | 4,419 | 4,195 | 12,924,506 | 12,418,328 |
| Infrastructure | 18,500,252 | 0 | 0 | 0 | 18,500,252 | 0 |
| Construction in progress | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | <u>\$ 58,464,741</u> | <u>\$ 39,455,293</u> | <u>\$ 828,804</u> | <u>\$ 828,580</u> | <u>\$ 59,293,545</u> | <u>\$ 40,283,873</u> |

Additional information on the Eureka County's capital assets can be found in Note E on pages 51-53 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Eureka County as of June 30, 2001, is currently 3.1 percent, which is a increase from a rate of 2.2 percent a year ago. This compares favorably to the state's average unemployment rate of 3.9 percent and the national average rate of 5.4 percent.
- The occupancy rate of the government's central business district has remained constant for the past few years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing Eureka County's budget for the 2002 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased \$806,568. Eureka County has appropriated \$5,843,202 for spending in the 2002 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2002 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Eureka County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Eureka County Auditor/Recorder, P.O. Box 556, Eureka, Nevada 89316, Telephone Number 775-237-5263, E-mail mrebal@eureka-nv.org.