

# Comprehensive Annual Financial Report

City of Fernley, Nevada

For the Fiscal Year Ended  
June 30, 2008

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Prepared by:  
Finance Department

Bonnie Duke  
*Finance Director*  
*City Treasurer*

# CITY OF FERNLEY, NEVADA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2008

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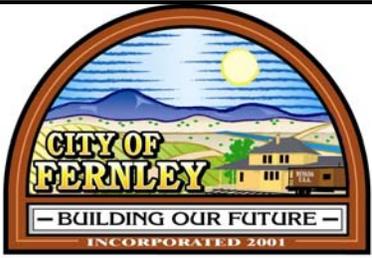
# CITY OF FERNLEY, NEVADA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2008

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# **INTRODUCTORY SECTION**



City of Fernley  
Finance  
Department

Utility Billing  
Accounting  
Budgeting  
Treasury

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November 28, 2008

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Fernley Nevada:

The comprehensive annual financial report (CAFR) for the City of Fernley for the fiscal year ended June 30, 2008 is hereby submitted. State law requires that local governments provide for an annual audit by independent certified public accountants of its financial statements in accordance with auditing standards generally accepted in the United States of America.

This report consists of management's representations concerning the finances of the City of Fernley. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in the report. To provide a reasonable basis for making these representations, management of the City of Fernley has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Fernley's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Fernley' comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Fernley's financial statements have been audited by Kafoury, Armstrong & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Fernley for the fiscal year ended June 30, 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Fernley's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

This is the first year the City required the single audit. Because the City of Fernley expended more than \$500,000 in federal financial assistance during the fiscal year ended June 30, 2008, the City of Fernley was required to have the federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Fernley’s MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The City of Fernley, incorporated in 2001, is located in western Nevada and is experiencing rapid growth. The City of Fernley currently occupies a land area of 160 square miles and serves a population of approximately 20,000. The City of Fernley is empowered to levy a property tax on both real and personal properties located within its boundaries. The City of Fernley is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City of Fernley operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five City Council members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and establishing the organizational structure of the City. Pursuant to state statutes, the Mayor is the Chief Executive Officer of the City. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for supervising the heads of various departments. The City Manager is the Chief Administrative Officer of the City. The City Council members are elected to serve four year staggered terms. The mayor is elected to serve a four-year term.

The City of Fernley provides a wide range of services, including construction and maintenance of streets and infrastructure; water and sewer services; recreational activities and events; vector and animal control; community development services and general administrative services. The City of Fernley contracts with the Lyon County Sheriff for police protection services. The City contracts with Lyon County for animal shelter services. Fire protection services are provided through the legally separate North Lyon County Fire Protection District and through a separate Volunteer Fire Department.

Ambulance service is provided by the Volunteer Fire Department. A separate legal entity, the Fernley Swimming Pool District, operates a swimming pool in Fernley. Lyon County and the Lyon County School District also provide services in Fernley.

The annual budget serves as the foundation for the City of Fernley's financial planning and control. All departments of the City of Fernley are required to submit requests for appropriation to the City Manager in February of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review and a series of City Council workshops are held to discuss the budget. The City Council is required to hold a public hearing on the proposed budget and adopt a final budget by no later than June 1 of each year. The appropriated budget is prepared by fund, function, and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Council. Budget-to actual comparisons are provided in this report for each individual governmental fund for which an appropriated budget has been adopted.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Fernley operates.

**January 2008 Flood Event:** In January 2008, a breach of the Truckee Canal caused flooding of a residential area impacting over 800 homes. Fortunately, no lives were lost and no serious injuries were reported. However, significant property damage occurred and the event was declared a disaster by President Bush on January 8, 2008. The disaster declaration enabled the City to obtain federal financial assistance from the FEMA under both the Public Assistance program and the Individual Assistance Program. Both programs require a 25% local match. The City incurred direct costs in excess of \$1.1 million for emergency response, debris removal and reconstruction of streets and sidewalks. Damage to water and sewer facilities was minimal and was covered by insurance. FEMA reimbursements amounted to approximately \$700,000. The difference of approximately \$400,000 was paid from local funds. In addition, the City provided approximately \$35,000 of local funds to the Individual Assistance program. Therefore, the direct local impact of the event was approximately \$435,000. The local Public Assistance match (approximately \$235,000) for costs deemed eligible for FEMA reimbursement was paid from the Grant Fund. The \$35,000 for Individual Assistance was also paid from the Grant Fund. Fortunately, these funds were available because appropriations had not been made for other purposes. The ineligible costs were borne by various department budgets. Indirect costs (for example the cost of salaried employees dedicating time to the emergency versus other duties) are not included in these figures.

Because the City was able to use the Grant Fund as a “Rainy Day” fund for this event, the overall fiscal impact on continuing operations is minimal. However, the event depleted funds that were slated for future projects such as development of community centers and recreational facilities. These projects will likely be delayed as a result of the depletion of the Grants Fund.

**Local economy:** The City of Fernley enjoyed a favorable economic environment and was the fastest growing city (in percentage terms) in Nevada in 2007. Connections to the water and sewer system and population more than doubled in six years. Fernley experienced growth due to its location near the Reno-Sparks metropolitan area and its excellent transportation systems that provide access to west coast markets. Fernley is situated on Interstate 80, approximately 28 miles east of Reno, and at the intersection of U. S. Highways 40, 50, and alternate 95. Fernley also has rail (freight) access. Northern and Central California markets are reached overnight, while Los Angeles, San Francisco, Portland, Salt Lake City, and Las Vegas are all within a 500 mile radius. The growth led to increased demand for services as residential development increased in response to the industrial development.

Several companies located facilities in Fernley, benefiting the community and leading the way into the future. Companies that have recently moved to, or opened facilities in Fernley include, Amazon.com, Trex Inc., Quebecor Printing, MSC Industrial Supply, Allied Signal, UPS Worldwide Logistics (Honeywell), ARE Campers, Johns Manville, Sherwin Williams, and Feldmeir Corporation, just to name a few. New retail development is occurring as a result of the increase in population and industrial development. Wal Mart and Lowe’s opened stores in Fernley. Several new casinos/restaurants, and additional food and beverage locations have opened or are under construction.

In the past year, the local residential market significantly declined due to the well publicized national problems in credit, foreclosures, and declining real estate prices. The commercial and retail markets have remained strong since these markets essentially trailed the residential development. The declining residential market resulted in a sharp decline in revenues from building permits and related development fees. The City responded to the decline by removing unfilled positions from the budget. The decline also resulted in substantially less revenue from developers for connection fees. The City responded by delaying water and sewer projects specifically related to development. It is difficult to predict when the markets will rebound, however the City has tightened budgets in response to the slowdown. The City also contracted for revision of its water and sewer rates and fees to adjust fees, if necessary to recover costs in enterprise funds.

During FY08, the City of Fernley had a tax rate of \$0.3505 per \$100 of assessed valuation. In the FY08 budget, the City increased the tax rate to the maximum allowed under state law even though the revenue to the City will not increase by a corresponding

amount due to property tax limitation legislation. In other words, the legislation limits the amount of revenue the City will receive from property tax in most instances regardless of changes in assessed value and tax rate. Therefore, it is logical to levy the maximum allowed tax rate.

**Long-term financial planning:** The City of Fernley has many long range plans. These plans include the following:

- Construction of a water treatment plant that can treat both groundwater and surface water to enable use of surface water rights
- Development of an alternative water system to deliver non-potable water for irrigation (thus conserving treated water)
- Development of a community center
- Continuing to invest in technology to enhance service delivery to customers
- Improving streets and storm drains
- Enhancing record management policies and developing record management systems
- Analyzing and financing the operation and maintenance costs of expanded services

The City of Fernley annually updates the Capital Improvement Plan required by state statutes and continues to prepare the necessary facilities plans for ultimate development of a more comprehensive Capital Improvement Plan. The City also established a Capital Improvements Advisory Committee to more thoroughly review facility plans and examine funding alternatives for both construction and operation and maintenance of needed facilities.

**Cash Management Policies and Practices:** Cash temporarily idle during the year was invested in money market accounts and two State Treasurer's investment pools. The average yield on investments was approximately 2%.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City's bank deposits are covered by FDIC insurance and collateralized by the Office of the State Treasurer/Nevada Collateral Pool.

**Risk Management:** As authorized by state law, the City does not self-insure its unemployment insurance benefits but participates in the State unemployment system. The City participates in the Nevada Public Agency Insurance Pool for risk of loss related to torts, property damage/loss, errors and omissions, and natural disasters. The City participates in the Public Agency Compensation Trust for workers' compensation coverage. The City provides employee health and dental insurance through the Nevada Public Employees Benefits Program. Management believes such coverage is sufficient to preclude any significant losses to the City.

**Pension Information:** The City contributes to the Public Employees' Retirement System of Nevada ("PERS"), a cost sharing multiple-employer pension plan administered by the Retirement Board of PERS. The City has no obligation in connection with employee benefits offered through these plans beyond its annual contractual payments to PERS. Additional information regarding the City of Fernley defined benefits plan can be found in the notes to the financial statements.

The preparation of this report could not have been accomplished without the efficient and dedicated staff of the Finance Department. Our auditors, Kafoury, Armstrong & Co. provided the expert support and guidance that made the preparation of this report possible. I would also like to express my thanks to the City Manager, the department heads and employees of the City of Fernley, and the citizens of Fernley whose continued cooperation, support, and assistance have contributed greatly to the financial stability of the City of Fernley.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Fernley for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the third consecutive year that the City of Fernley has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the FY07-08 fiscal year. In order to qualify for the Distinguished Budget Preparation Award, the City's budget document has to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

Respectfully submitted,



Bonnie Duke  
City Treasurer  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fernley  
Nevada

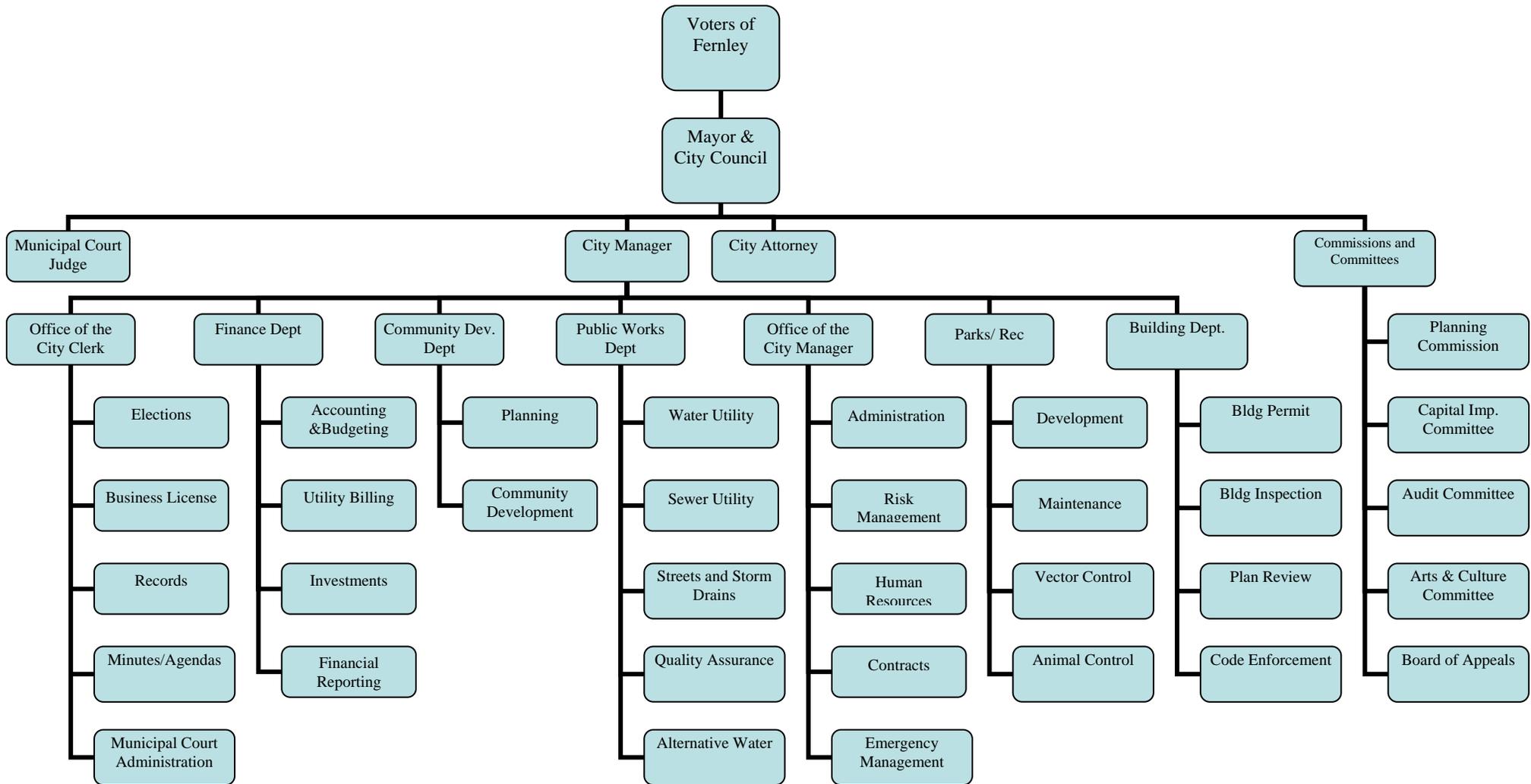
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



## City of Fernley List of Principal Officials

### City Council:

The Fernley City Council meets in regular session the first and third Wednesday of each month in the Council Chambers located at 595 Silver Lace Boulevard.

<i>Mayor</i>	Todd Cutler
<i>Ward #1 Council Member</i>	Elayne Logue
<i>Ward #2 Council Member</i>	Joe Mortensen
<i>Ward #3 Council Member</i>	Monte Martin
<i>Ward #4 Council Member</i>	Curt Chaffin
<i>Ward #5 Council Member</i>	Cal Eilrich

### Appointed Officials:

<i>Building Official</i>	Randy Rudy
<i>City Attorney</i>	Jeff McGowan
<i>City Manager</i>	Gary Bacock
<i>City Clerk</i>	Lena Shumway
<i>City Treasurer and Finance Director</i>	Bonnie Duke
<i>Chief of Police</i>	Allen Veil Lyon County Sheriff
<i>Community Development Director</i>	Fred Turnier
<i>Municipal Court Judge</i>	Daniel Bauer
<i>Parks and Recreation Director</i>	Keith Penner
<i>Public Works Director</i>	Lowell Patton

# **FINANCIAL SECTION**



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

## **Independent Auditor's Report**

To the Honorable City Council of  
City of Fernley, 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 the City of Fernley, Nevada, (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 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 City as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Residential Construction Tax District #1 Special Revenue Fund and the Streets and Storm Drains Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2008, on our consideration of the City of Fernley's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of that audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3A through 3M is not a required part of the basic financial statements but is supplementary information required by accounting

principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fernley's basic financial statements. The accompanying introductory section, combining and individual fund financial statements and schedules, the Schedule of Expenditures of Federal Awards (as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*) and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Kapoury, Armstrong & Co.*

Fallon, Nevada  
November 28, 2008

## Management's Discussion and Analysis

As management of the City of Fernley, we offer readers of the City of Fernley's financial statements this narrative overview and analysis of the financial activities of the City of Fernley for the fiscal year ended June 30, 2008. 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 i through vi of this report.

### Financial Highlights

- The assets of the City of Fernley exceeded its liabilities at the close of the most recent fiscal year by \$140,530,668 (*net assets*). Of this amount, \$27,420,979 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$9,405,255. The increase is attributable primarily to capital grants and contributions.
- As of the close of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$2,778,304, a decrease of \$1,776,754 in comparison with the prior year. The two largest factors contributing to the decrease in governmental fund balances was completion of the City Hall Expansion Project (approximately \$1 million) and FEMA grant match and other costs associated with response to a January 2008 flood disaster. Of the \$2,778,304 ending fund balances, approximately \$362,289 is committed for future capital projects pursuant to agreements with certain developers.. The remaining amounts (approximately \$2,416,015) are available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, fund balance for the general fund was \$645,867 or 18.4 % of general fund expenditures. Of the \$645,867 in fund balance, \$362,289 is designated for future capital projects leaving and unreserved, undesignated fund balance of \$283,578 or 8.1% of general fund expenditures. This ending fund balance is slightly lower than the targeted ending fund balance of 8.3% to 16.6% of general fund expenditures.
- The City of Fernley's total bonded debt increased by \$32,147,549 (57%) during the fiscal year, primarily due to issuance of \$32.6 million in debt for water and sewer projects.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Fernley's basic financial statements. The City of Fernley'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 the City of Fernley’s finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City of Fernley’s assets and liabilities, with the differences 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 City of Fernley 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., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Fernley 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 City of Fernley include general government, judicial, public works, culture and recreation, community development, and health. The business-type activities of the City of Fernley are water and sewer operations.

The government-wide financial statements can be found on pages 4 through 5 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. The City of Fernley, 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 City of Fernley can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

The City of Fernley maintains nine 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 the three funds, which are considered major funds. Data for the other 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.

The City of Fernley adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 6 through 14 of this report.

*Proprietary funds.* The City of Fernley maintains three proprietary funds as *enterprise funds* to account for its potable water, non-potable (alternative) water, and sewer (wastewater) operations. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

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 information for the water, sewer and non-potable water (alternative water) operations. The Water Fund and Sewer Fund are considered to be major funds of the City of Fernley.

The basic enterprise fund financial statements can be found on pages 15 through 17 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 statements because the resources of those funds are *not* available to support the City of Fernley'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 18 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 19 through 40 of this report.

*Other Information.* The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the

financial statements. Combining and individual fund statements and schedules can be found on pages 41 through 52 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fernley, assets exceeded liabilities by \$140,530,668 at the close of the most recent fiscal year.

A large portion of the City of Fernley's net assets (80%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); net of any related outstanding debt used to acquire those assets. The City of Fernley uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fernley's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### City of Fernley's Net Assets

	Governmental Activities		Business-type Activities		Totals	
	FY08	FY07	FY08	FY07	FY08	FY07
Current & other assets	\$3,886,753	\$ 5,950,705	\$78,199,907	\$64,315,362	\$82,086,660	\$70,266,067
Capital	40,354,010	35,534,157	112,405,170	87,129,484	152,759,180	122,663,641
Total Assets	44,240,763	41,484,862	190,605,077	151,444,846	234,845,840	192,929,708
Long-term liabilities	4,583,974	4,752,359	82,540,544	51,461,804	87,124,518	56,214,163
Other liabilities	1,221,910	1,461,993	5,968,744	4,128,143	7,190,654	5,443,271
Total liabilities	5,805,884	6,214,352	88,509,288	55,589,947	94,315,172	61,657,434
Net assets:						
Invested in capital assets, net of related debt	35,677,010	30,692,157	77,070,390	35,352,177	112,747,400	66,044,334
Restricted	362,289	-	-	-	362,289	-
Unrestricted	2,395,580	4,578,353	25,025,399	60,502,722	27,420,979	65,081,075
Total net assets	\$38,434,879	\$35,270,510	\$102,095,789	\$95,854,899	\$140,530,668	\$131,125,409

A small portion of the City of Fernley's net assets (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$27,420,979) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Fernley is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

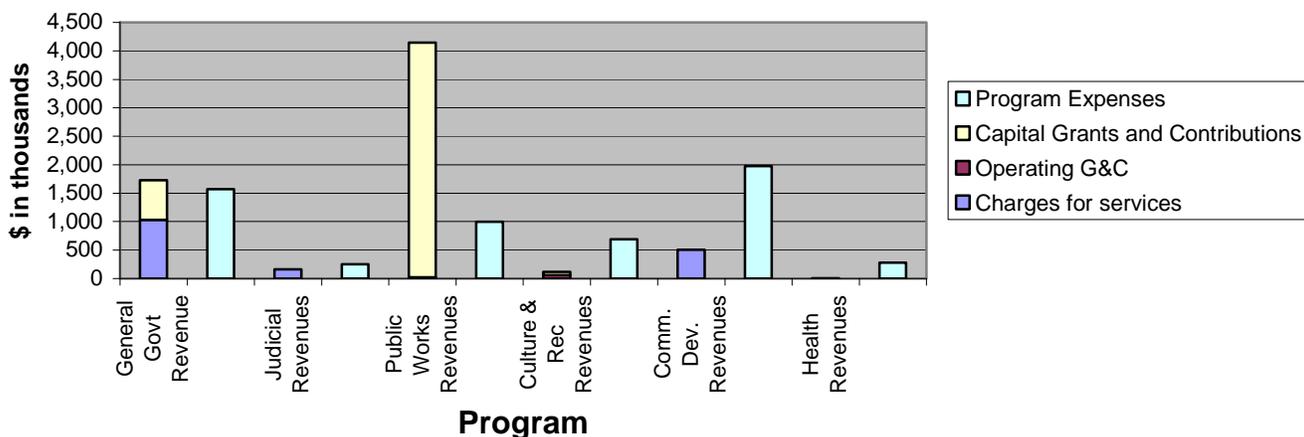
The government's net assets increased \$9,405,255 during the current fiscal year. The increase is primarily due to capital grants and contributions that were greater than the related program expenses. Net Assets Invested in Capital Assets, net of related debt, decreased about \$1.6 million due to the \$32.6 million increase in debt, partially offset by capital assets contributed and acquired.

*Governmental activities.* Governmental activities increased the City of Fernley's net assets by \$3,164,365, thereby accounting for 34% of the total growth in net assets of the City of Fernley. Key elements of this increase are donated (dedicated) infrastructure and purchased infrastructure for streets and storm drains. Property tax rates increased less than 1% between FY07 and FY08 and assessed value of property increased 33.4% from \$511,154,623 to \$679,959,918; however the increased revenue from property taxes was only 16.1% due to property tax limitation legislation.

The following table summarizes the change in net assets for the current fiscal year:

	Governmental Activities		Business-Type Activities		Total	
	FY08	FY07	FY08	FY07	FY08	FY07
Revenues:						
Program revenues:						
Charges for services	\$1,731,740	\$ 1,988,793	\$5,104,415	\$4,061,013	\$6,836,156	\$6,049,806
Operating grants and contributions	60,000	60,000	424,671	-	484,671	60,000
Capital grants and contributions	4,869,410	6,052,749	4,579,348	19,015,855	9,448,756	25,068,604
General revenues:						
Property taxes	1,074,726	925,297	-	-	1,074,726	925,297
Shared revenues	597,779	546,484	-	-	597,779	546,484
Other revenues	600,515	361,411	1,510,813	1,557,688	2,111,330	1,919,099
Total revenues	8,934,170	9,934,734	11,619,248	24,634,556	20,553,418	34,569,290
Expenses:						
General government	1,572,115	1,084,095	-	-	1,572,115	1,084,095
Judicial	252,189	194,353	-	-	252,189	194,353
Public works	997,891	1,547,750	-	-	997,891	1,547,750
Culture & recreation	689,281	838,674	-	-	689,281	838,674
Community develop.	1,977,586	848,010	-	-	1,977,586	848,010
Health	280,743	295,413	-	-	280,743	295,413
Water	-	-	3,152,845	3,058,605	3,152,845	3,058,605
Sewer	-	-	2,012,862	1,812,645	2,012,862	1,812,645
Other	-	-	212,651	9,340	212,651	9,340
Total expenses	5,769,805	4,808,295	5,378,358	4,880,590	11,148,163	4,880,590
Increase in net assets	3,164,365	5,126,439	6,240,890	19,753,966	9,405,255	24,880,405
Net assets, July 1	35,270,514	30,144,071	95,854,899	76,100,933	131,125,413	106,245,004
Net assets, June 30	\$38,434,879	\$35,270,510	\$102,095,789	\$95,854,899	\$140,530,668	\$131,125,409

## FY08 Program Revenues and Expenses- Governmental Activities



The major sources of program revenues for general government activities are business licenses and public utility license/franchise fees. The program expenses associated with general government activities include the operations of the Office of the City Manager, the Office of the City Clerk, Mayor and City Council activities and a portion of the expense for the Finance Department.

The sources of program revenue for judicial activities include fines and fees (unrestricted) as well as administrative assessment and court facility fees (restricted). The program expenses associated with judicial activities include expenses for the Judge, City Prosecutor, Public Defender, direct court costs, and a portion of the costs of the Clerk's Office. Overhead costs are not allocated.

The major sources of program revenues for public works activities are dedications (non-cash transactions) of streets and storm drain systems from developers, regional transportation commission distributions, fuel taxes, and shared county property tax revenues. The program expenses associated with public works activities are operating costs and capital projects related to streets and storm drain activities. Overhead costs are not allocated.

The major sources of program revenues for culture and recreation activities include grants, dedications of park property and improvements, and residential construction tax. The program expenses associated with culture and recreation activities include the operating costs in the general fund parks budget and depreciation related to two residential construction tax funds for which the Parks Department is responsible. Overhead costs are not allocated.

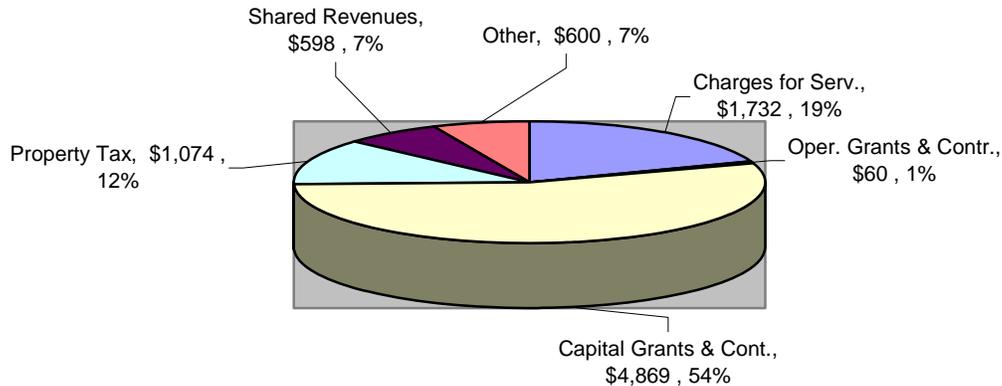
The major source of program revenues for building activities is building permits and fees. The program expenses associated with these revenues include the operations of the Building Department. Overhead costs are not allocated.

The major source of program revenues for community development activities is planning permits and fees. The program expenses associated with these revenues include the operations of the Community Development Department. Overhead costs are not allocated.

The health operations of the City include animal control and vector control activities. Neither of these activities produces significant revenue. The program revenue consists of animal license fees and donations.

The major sources of general revenues (revenues that are not specifically allocated to a particular program) are property taxes, consolidated taxes, fuel taxes and interest earnings.

### FY08 Revenues by Source - Governmental Activities (in thousands of \$)

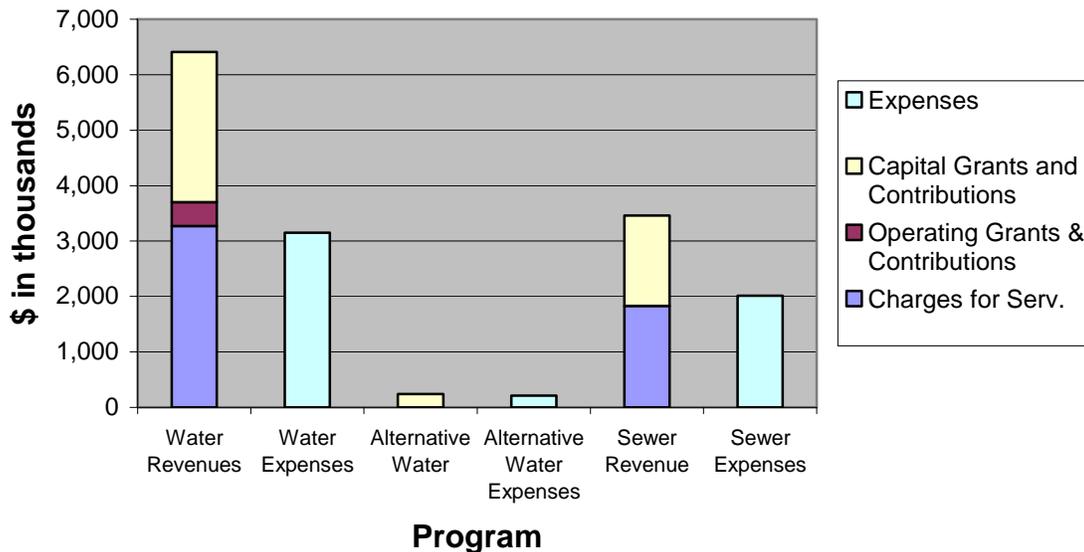


The Charges for Services category includes primarily fees, fines, and licenses. The Capital Grants and Contributions category primarily includes donated (dedicated) infrastructure (streets and storm drains). The Shared Revenue category includes primarily consolidated tax, fuel tax and gaming licenses. The Other category includes interest income and other miscellaneous sources of revenue. For the most part, increases in operating expenses closely paralleled inflation and growth in demand for services. Capital projects and donated (dedicated) infrastructure represent the largest part of the increase.

*Business-type activities.* Business-type activities increased the City of Fernley's net assets by \$6,240,890, accounting for 66.4% of the total growth in the government's net assets. Key elements of this increase are higher revenues for water and sewer use fees, donated (dedicated) infrastructure and connection fees.

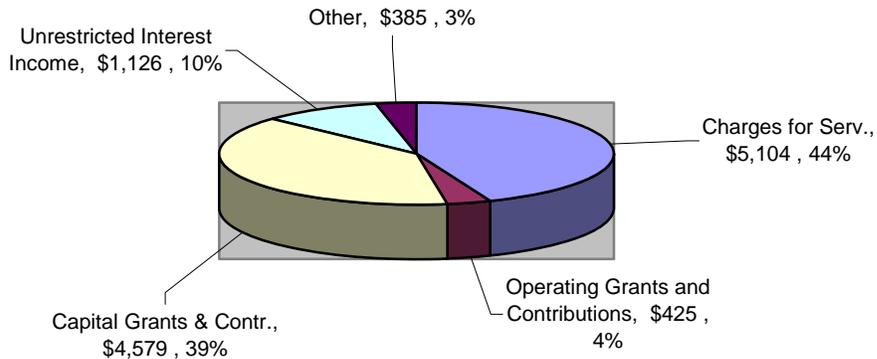
- Charges for services for business-type activities increased by \$1,043,402 or 26% due primarily to increased user rates. User rates for water increased approximately 50% effective July 1, 2007, 25% effective July 1, 2008, and are scheduled to increase 25% effective July 1, 2009 and 20% effective July 1, 2010. User rates for sewer increased approximately 2.5% effective July 1, 2007 and July 1, 2008 and are scheduled to increase 2.5% effective July 1, 2009 and July 1, 2010.
- Capital contributions decreased by \$14,436,509 or 76%, primarily as a result of fewer dedications of subdivision improvements due to the slow down in residential development.
- Investment earnings increased due to higher interest rates and higher levels of cash available for investment.

### FY08 Program Revenues and Expenses Business-type Activities



Revenues includes both cash and non-cash capital contributions in the “Capital Grants and Contributions” section.

**FY08 Revenue by Source  
Business Type Activities  
(in thousands of \$)**



***Financial Analysis of the Government's Funds***

As noted earlier, the City of Fernley uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental funds.*** The focus of the City of Fernley's *governmental funds* is to provide information on the near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Fernley'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, the City of Fernley's governmental funds reported combined ending fund balances of \$2,778,304, a decrease of \$1,776,754 in comparison with the prior year. The decrease is primarily due to expenditures for completion of the City Hall Expansion Project and FEMA grant matching funds and other expenses associated with the January 5, 2008 flood event. Of the \$2,778,304 approximately \$362,289 is designated for future capital projects. The remaining amount (approximately \$2.4 million) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Fernley. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$283,578 while total fund balance reached \$645,867. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved, undesignated fund balance represents 8.1% of total general fund expenditures, while total fund balance also represents about 18.4% of that same amount.

The fund balance of the City of Fernley's general fund increased \$56,911 during the current fiscal year. Key factors in this increase are as follows:

- Increased revenue from property taxes (approximately 16%) due to increases in assessed values (approximately 33%) and a slight increase in the levy rate, despite recent property tax limitation legislation
- Increased revenue from public utility business license/franchise fees
- Unexpended appropriations

The Residential Construction Tax District #1 Fund is used to account for the receipt and use of a special tax that is dedicated to specific purposes of construction of parks in accordance with the Park Plan. At the end of the current fiscal year, unreserved, undesignated fund balance of the fund was \$8,141. Revenues in this fund are significantly lower than originally projected due to the slow down in the residential housing market. No projects are planned for this fund during FY09.

The Streets and Storm Drains Fund is used to account for gas taxes that must be used for street maintenance and capital expenditures as well as other revenues that may be used for project associated with streets and storm drains. At the end of the current fiscal year, unreserved, undesignated fund balance of the fund was \$209,824. Unreserved, undesignated fund balance represents 14.6% of total fund expenditures. The City is currently considering the implementation of impact fees for streets to provide the necessary funding for street construction projects.

The Capital Projects Fund is used to accrue funds under a "pay as you go" program to provide funding for future projects involving replacement of equipment and buildings or new facilities and equipment. At the end of the current fiscal year, fund balance in the Capital Fund was \$1,160,893. Several projects are planned for FY09 including purchase of vehicles, technology upgrades and replacements, and records management equipment and facilities.

***Proprietary funds.*** The City of Fernley's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Fund at the end of the year amounted to \$61,707,613; those for the Sewer Fund amounted to \$10,685,873; and those of the Alternative Water Fund amounted to \$963,114 resulting in total unrestricted net assets of \$73,356,600. The total growth in net assets for these funds was \$4,323,580, \$1,843,139, and \$74,171, respectively. These amounts are available, primarily for capital replacements, capital expansion, and water rights acquisition. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City of Fernley's business-type activities.

## **General Fund Budgetary Highlights**

During the year there was a \$137,083 decrease in revenues between the original and final amended budget, primarily due to reduced revenue estimates for building permits and fees and other revenue items directly associated with development. This was caused by a slow down in residential development, nationwide and locally. Commercial development remained active so some of the decline in the residential sector was offset by increases in commercial development.

There was a \$27,718 decrease in appropriations between the original and final amended budget. Following are the main components of the decrease:

- Appropriations were reduced by \$56,247 in the Culture and Recreation function, \$195,600 in the Community Development function, \$62,800 in the Health function to reflected unfilled positions during the year.
- Appropriation for the General Government functions increased \$263,269 primarily due to increased costs associated with operation of the new City Hall and increased insurance costs.
- Fund Balance for the prior year was higher than expected which provided funds for the increased appropriations.

## **Capital Asset and Debt Administration**

**Capital assets.** The City of Fernley's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounts to \$152,759,182 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure (streets and bridges), and other capital assets. The total increase in the City of Fernley's investment in capital assets for the current fiscal year was 25% (a 13% increase for governmental activities and a 29% increase for business-type activities).

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

- Donation of capital assets from developers
- Design and construction of a new water treatment plant
- Sewer interceptor and lift station improvements
- Well improvements
- Street improvements

City of Fernley Assets  
(net of depreciation)

	Governmental activities		Business-type activities		Totals	
	FY08	FY07	FY08	FY07	FY08	FY07
Land	\$3,909,624	\$3,909,624	\$677,677	\$ 677,677	\$4,587,301	\$4,587,301
Water rights	-	-	34,223,899	33,278,836	34,223,899	33,278,836
Construction in progress	638,614	6,469,314	32,921,280	13,322,319	33,559,894	19,791,633
Buildings	7,706,195	676,050	2,663	3,662	7,708,858	679,712
Improvements other than buildings	6,049,808	5,758,849	42,864,900	38,366,458	48,914,708	44,125,307
Machinery & Equipment	441,849	423,386	602,913	287,234	1,044,762	710,620
Infrastructure	21,607,920	18,326,224		-	21,607,920	18,326,224
Other capital assets	-	-	1,111,840	1,193,298	1,111,840	1,193,298
<b>TOTAL</b>	<b>\$40,354,010</b>	<b>\$35,563,447</b>	<b>\$112,405,172</b>	<b>\$87,129,484</b>	<b>\$152,759,182</b>	<b>\$122,692,931</b>

Additional information on the City of Fernley's capital assets can be found in note 4 of this report.

*Long-term debt.* At the end of the current fiscal year, the City of Fernley had total bonded debt outstanding of \$83,595,329 and lease-purchase debt of \$4,677,000. All of the debt is backed by the full faith and credit of the government.

	Governmental activities		Business-type activities		Totals	
	7/1/08	7/1/07	7/1/08	7/1/07	7/1/08	7/1/07
General obligation/revenue bonds	-	-	\$83,595,329	\$51,282,780	\$83,595,329	\$51,282,780
Lease/Purchase Debt	4,677,000	4,842,000	-	-	4,677,000	4,842,000
Unamortized bond premium	-	-	70,652	494,527	70,652	494,527
Compensated absences	104,974	94,359	52,042	41,308	157,016	135,667
<b>TOTAL</b>	<b>\$4,781,974</b>	<b>\$4,936,359</b>	<b>\$83,718,023</b>	<b>\$51,818,615</b>	<b>\$88,499,997</b>	<b>\$56,754,974</b>

The City of Fernley's total debt increased by \$31,745,023 during the current fiscal year. The key factor in this increase was issuance of \$32.6 million in debt for construction of water and sewer projects.

State statutes limit the amount of general obligation debt a city may issue to 30% of its total assessed valuation. The current debt limitation for the City of Fernley is approximately \$203,987,975 million, which is significantly in excess of the City of Fernley's outstanding general obligation debt of \$83,595,329.

Additional information of the City of Fernley's long-term debt can be found in note 7 on pages 36 through 39 of this report

### **Economic Factors and Next Year's Budget and Rates**

Both water rates and sewer rates were increased effective July 1, 2007 and July 1, 2008 to pay for operating expenses, capital replacements, and capital expansion.

- Several new businesses are starting or are planned for Fernley which will result in growth in jobs.
- The City of Fernley is the fastest growing City in Nevada and has doubled in population in the last five years.
- Inflationary trends in the region compare favorably to national indices.
- Residential development has slowed significantly but commercial development has increased.
- The January 2008 flood event decreased fund balance in the Grant Fund by approximately \$800,000, despite approximately \$700,000 in FEMA grants. Despite this event, the Grant fund ended the year with a fund balance of approximately \$200,000 that can be used as matching funds for grants.

All of these factors were considered in preparing the City of Fernley budget for FY09.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$283,568. The FY09 General Fund budget assumes a beginning unreserved, undesignated fund balance of \$310,499. None of the current fiscal year ending fund balance is used for FY09 costs.

The rates for the enterprise funds went up effective July 1, 2007 and July 1, 2008 to provide the necessary funds to operate the water and sewer utility enterprise funds. Additional increases are schedule to be implemented on July 1 each subsequent two years. The City contracted for an independent firm to again analyze the rates and rate structure to assure that the enterprise funds are charging the proper amounts to cover the associated costs.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Fernley's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director/City Treasurer, 595 Silver Lace Blvd, Fernley NV 89408.

# **BASIC FINANCIAL STATEMENTS**

**CITY OF FERNLEY  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 2,656,906	\$ 75,893,353	\$ 78,550,259
Cash held for customer deposits	-	609,720	609,720
Interest receivable	7,824	204,343	212,167
Taxes receivable	49,790	-	49,790
Accounts receivable, net	219,041	589,353	808,394
Accounts receivable, other	47,059	154,073	201,132
Due from other governments	901,998	-	901,998
Inventories	-	132,659	132,659
Prepaid expenses	4,135	5,000	9,135
Total Current Assets	<u>3,886,753</u>	<u>77,588,501</u>	<u>81,475,254</u>
Noncurrent assets:			
Deferred charges	-	611,406	611,406
Capital assets:			
Land and construction in progress	4,548,238	67,822,856	72,371,094
Other capital assets, net of depreciation	35,805,772	44,582,314	80,388,086
Total Capital Assets	<u>40,354,010</u>	<u>112,405,170</u>	<u>152,759,180</u>
Total Noncurrent Assets	<u>40,354,010</u>	<u>113,016,576</u>	<u>153,370,586</u>
Total Assets	<u>44,240,763</u>	<u>190,605,077</u>	<u>234,845,840</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	537,189	2,858,239	3,395,428
Accrued interest	-	1,323,306	1,323,306
Refundable deposits	-	609,720	609,720
Due to developers	318,916	-	318,916
Due to other governments	96,886	-	96,886
Due within one year	198,000	1,177,479	1,375,479
Unearned revenue	70,919	-	70,919
Total Current Liabilities	<u>1,221,910</u>	<u>5,968,744</u>	<u>7,190,654</u>
Noncurrent liabilities:			
Due in more than one year	4,583,974	82,540,544	87,124,518
Total Liabilities	<u>5,805,884</u>	<u>88,509,288</u>	<u>94,315,172</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	35,677,010	77,070,390	112,747,400
Restricted for capital projects	362,289	-	362,289
Unrestricted	2,395,580	25,025,399	27,420,979
Total Net Assets	<u>\$ 38,434,879</u>	<u>\$ 102,095,789</u>	<u>\$ 140,530,668</u>

See accompanying notes.

**CITY OF FERNLEY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
<b>Governmental Activities:</b>							
General government	\$ 1,572,115	\$ 1,030,613	\$ -	\$ 698,535	\$ 157,033	\$ -	\$ 157,033
Judicial	252,189	162,416	-	-	(89,773)	-	(89,773)
Public works	783,565	23,021	-	4,118,063	3,357,519	-	3,357,519
Culture and recreation	689,281	1,600	60,000	52,812	(574,869)	-	(574,869)
Community development	1,977,586	509,440	-	-	(1,468,146)	-	(1,468,146)
Health	280,743	4,650	-	-	(276,093)	-	(276,093)
<b>Debt Service:</b>							
Interest and fiscal charges	214,326	-	-	-	(214,326)	-	(214,326)
Total Governmental Activities	5,769,805	1,731,740	60,000	4,869,410	891,345	-	891,345
<b>Business-type Activities:</b>							
Water	3,152,845	3,273,625	424,671	2,711,209	-	3,256,660	3,256,660
Sewer	2,012,862	1,829,736	-	1,631,310	-	1,448,184	1,448,184
Other	212,651	1,055	-	236,829	-	25,233	25,233
Total Business- type Activities	5,378,358	5,104,416	424,671	4,579,348	-	4,730,077	4,730,077
Total	\$ 11,148,163	\$ 6,836,156	\$ 484,671	\$ 9,448,758	891,345	4,730,077	5,621,422
<b>General Revenues:</b>							
Property taxes					1,074,726	-	1,074,726
Consolidated taxes					197,040	-	197,040
Fuel taxes					304,718	-	304,718
Unrestricted gaming licenses					96,021	-	96,021
Unrestricted interest income					175,866	1,126,258	1,302,124
Miscellaneous revenue					424,649	384,555	809,204
Total General Revenues					2,273,020	1,510,813	3,783,833
Change in Net Assets					3,164,365	6,240,890	9,405,255
<b>NET ASSETS, July 1</b>					35,270,514	95,854,899	131,125,413
<b>NET ASSETS, June 30</b>					\$ 38,434,879	\$ 102,095,789	\$ 140,530,668

See accompanying notes.

**CITY OF FERNLEY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2008**

	<b>GENERAL FUND</b>	<b>RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND</b>	<b>STREETS AND STORM DRAINS FUND</b>	<b>CAPITAL PROJECTS FUND</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS</b>						
Cash and investments	\$ 1,002,774	\$ 8,120	\$ 241,345	\$ 716,961	\$ 687,714	\$ 2,656,914
Interest receivable	2,174	21	653	3,251	1,725	7,824
Accounts receivable	236,563	-	-	-	8,565	245,128
Due from other governments	59,810	-	138,938	-	698,535	897,283
Due from other funds	-	-	-	506,600	-	506,600
Prepaid items	4,135	-	-	-	-	4,135
<b>Total Assets</b>	<b><u>\$ 1,305,456</u></b>	<b><u>\$ 8,141</u></b>	<b><u>\$ 380,936</u></b>	<b><u>\$ 1,226,812</u></b>	<b><u>\$ 1,396,539</u></b>	<b><u>\$ 4,317,884</u></b>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 292,924	\$ -	\$ 171,112	\$ 65,919	\$ 7,235	\$ 537,190
Due to developers	189,791	-	-	-	129,125	318,916
Due to other governments	96,886	-	-	-	-	96,886
Due to other funds	-	-	-	-	506,600	506,600
Deferred revenue	79,988	-	-	-	-	79,988
<b>Total Liabilities</b>	<b><u>659,589</u></b>	<b><u>-</u></b>	<b><u>171,112</u></b>	<b><u>65,919</u></b>	<b><u>642,960</u></b>	<b><u>1,539,580</u></b>
Fund Balance:						
Reserved for:						
Prepaid items	4,135	-	-	-	-	4,135
Capital projects	362,289	-	-	-	-	362,289
Unreserved - reported in:						
General Fund	279,443	-	-	-	-	279,443
Special revenue funds	-	8,141	209,824	-	753,579	971,544
Capital projects funds	-	-	-	1,160,893	-	1,160,893
<b>Total Fund Balance</b>	<b><u>645,867</u></b>	<b><u>8,141</u></b>	<b><u>209,824</u></b>	<b><u>1,160,893</u></b>	<b><u>753,579</u></b>	<b><u>2,778,304</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 1,305,456</u></b>	<b><u>\$ 8,141</u></b>	<b><u>\$ 380,936</u></b>	<b><u>\$ 1,226,812</u></b>	<b><u>\$ 1,396,539</u></b>	<b><u>\$ 4,317,884</u></b>

See accompanying notes.

**CITY OF FERNLEY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 2,778,304</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:</p>		
Capital assets	44,879,821	
Less: Accumulated depreciation	4,525,811	40,354,010
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
		84,539
<p>Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period:</p>		
Bonds payable	(4,677,000)	
Compensated absences	(104,974)	(4,781,974)
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 38,434,879</u></b>

See accompanying notes.

**CITY OF FERNLEY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008**

	GENERAL FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>						
Taxes	\$ 1,033,501	\$ 16,836	\$ -	\$ -	\$ 27,208	\$ 1,077,545
Licenses and permits	1,640,724	-	23,021	-	-	1,663,745
Intergovernmental	257,040	-	1,161,734	-	698,535	2,117,309
Fines and forfeits	183,108	-	-	-	24,357	207,465
Miscellaneous	455,841	305	14,143	75,593	65,001	610,883
Total Revenues	<u>3,570,214</u>	<u>17,141</u>	<u>1,198,898</u>	<u>75,593</u>	<u>815,101</u>	<u>5,676,947</u>
<b>EXPENDITURES</b>						
Current:						
General government	1,238,982	-	-	-	-	1,238,982
Judicial	245,907	-	-	-	5,922	251,829
Public works	-	-	428,988	-	-	428,988
Culture and recreation	491,254	-	-	-	31,138	522,392
Community development	885,308	-	-	25,611	315,230	1,226,149
Health	262,526	-	-	-	-	262,526
Total Current	<u>3,123,977</u>	<u>-</u>	<u>428,988</u>	<u>25,611</u>	<u>352,290</u>	<u>3,930,866</u>
Debt service:						
Principal	165,000	-	-	-	-	165,000
Interest	214,326	-	-	-	-	214,326
Total Debt Service	<u>379,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,326</u>
Capital outlay:						
Public works	-	-	1,004,195	-	-	1,004,195
Culture and recreation	-	-	-	-	132,013	132,013
Community development	-	-	-	1,286,600	720,701	2,007,301
Health	-	-	-	-	-	-
Total Capital Outlay	<u>-</u>	<u>-</u>	<u>1,004,195</u>	<u>1,286,600</u>	<u>852,714</u>	<u>3,143,509</u>
Total Expenditures	<u>3,503,303</u>	<u>-</u>	<u>1,433,183</u>	<u>1,312,211</u>	<u>1,205,004</u>	<u>7,453,701</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>66,911</u>	<u>17,141</u>	<u>(234,285)</u>	<u>(1,236,618)</u>	<u>(389,903)</u>	<u>(1,776,754)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers out	(20,000)	-	-	-	-	(20,000)
Transfers in	10,000	-	-	-	10,000	20,000
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Net Change in Fund Balance	56,911	17,141	(234,285)	(1,236,618)	(379,903)	(1,776,754)
<b>FUND BALANCE, JULY 1</b>	<u>588,956</u>	<u>(9,000)</u>	<u>444,109</u>	<u>2,397,511</u>	<u>1,133,482</u>	<u>4,555,058</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 645,867</u>	<u>\$ 8,141</u>	<u>\$ 209,824</u>	<u>\$ 1,160,893</u>	<u>\$ 753,579</u>	<u>\$ 2,778,304</u>

See accompanying notes.

**CITY OF FERNLEY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

**Net Change if Fund Balances - Governmental Funds** **\$ (1,776,754)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures and the proceeds from the sale of assets as other financing sources. However, in the statement of activities, the cost of those assets is depreciated over their useful lives and only the gain or loss is recorded when assets are sold.

Expenditures for capital assets	3,143,517	
Less: Current year depreciation	<u>(1,613,992)</u>	1,529,525

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund statements:

Donated capital assets		3,261,047
Fine and forfeitures		(45,050)
Intergovernmental revenues		41,213

The issuance of long-term debt (i.e. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 165,000

Generally expenditures recognized in the fund financial statements are limited to only those that use current financial resources but expenses are recognized in the statement of activities when incurred:

Change in long-term compensated absences payable		<u>(10,616)</u>
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**Change in Net Assets - Governmental Activities** **\$ 3,164,365**

See accompanying notes.

**CITY OF FERNLEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008  
(Page 1 of 3)**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
<b>REVENUES</b>					
Taxes:					
Ad valorem	\$ 1,130,000	\$ 1,130,000	\$ 1,033,501	\$ -	\$ (96,499)
Licenses and permits:					
Business licenses	154,000	144,000	137,657	(10,000)	(6,343)
Franchise fees	935,000	1,010,000	840,310	75,000	(169,690)
Liquor licenses	35,200	25,200	34,050	(10,000)	8,850
City gaming licenses	101,200	101,200	96,021	-	(5,179)
Building permits and fees	1,010,000	550,000	441,724	(460,000)	(108,276)
Planning and zoning permits and fees	100,000	100,000	67,716	-	(32,284)
Other permits	16,000	16,000	23,246	-	7,246
	<u>2,351,400</u>	<u>1,946,400</u>	<u>1,640,724</u>	<u>(405,000)</u>	<u>(305,676)</u>
Intergovernmental revenues:					
Consolidated tax distribution	212,336	190,000	197,040	(22,336)	7,040
Fernley park agreement	60,000	60,000	60,000	-	-
	<u>272,336</u>	<u>250,000</u>	<u>257,040</u>	<u>(22,336)</u>	<u>7,040</u>
Fines and forfeits:					
Municipal court fines	132,000	132,000	153,352	-	21,352
Municipal court fees	21,000	20,500	29,756	(500)	9,256
	<u>153,000</u>	<u>152,500</u>	<u>183,108</u>	<u>(500)</u>	<u>30,608</u>
Miscellaneous:					
Interest	80,000	45,000	41,320	(35,000)	(3,680)
Building rental	40,000	10,200	10,194	(29,800)	(6)
Park development	3,000	1,000	1,600	(2,000)	600
Miscellaneous	30,000	387,553	402,727	357,553	15,174
	<u>153,000</u>	<u>443,753</u>	<u>455,841</u>	<u>290,753</u>	<u>12,088</u>
Total Revenues	<u>4,059,736</u>	<u>3,922,653</u>	<u>3,570,214</u>	<u>(137,083)</u>	<u>(352,439)</u>
<b>EXPENDITURES</b>					
General government:					
Finance:					
Salaries and wages	109,300	109,300	108,610	-	690
Employee benefits	55,400	43,200	43,116	12,200	84
Services and supplies	52,200	58,200	49,066	(6,000)	9,134
Total Finance	<u>216,900</u>	<u>210,700</u>	<u>200,792</u>	<u>6,200</u>	<u>9,908</u>

See accompanying notes.

**CITY OF FERNLEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008  
(Page 2 of 3)**

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
	ORIGINAL	FINAL		TO FINAL	TO ACTUAL
Office of the City Clerk:					
Salaries and wages	\$ 118,700	\$ 120,700	\$ 119,809	\$ (2,000)	\$ 891
Employee benefits	69,600	52,200	52,134	17,400	66
Services and supplies	68,250	80,550	54,862	(12,300)	25,688
Total City Clerk	<u>256,550</u>	<u>253,450</u>	<u>226,805</u>	<u>3,100</u>	<u>26,645</u>
Office of the City Manager:					
Salaries and wages	131,100	165,000	154,733	(33,900)	10,267
Employee benefits	58,000	59,100	52,876	(1,100)	6,224
Services and supplies	59,750	72,550	64,033	(12,800)	8,517
Total City Manager	<u>248,850</u>	<u>296,650</u>	<u>271,642</u>	<u>(47,800)</u>	<u>25,008</u>
Office of the City Attorney:					
Salaries and wages	53,100	49,660	45,341	3,440	4,319
Employee benefits	22,800	14,900	14,222	7,900	678
Services and supplies	14,250	59,500	56,449	(45,250)	3,051
Total City Attorney	<u>90,150</u>	<u>124,060</u>	<u>116,012</u>	<u>(33,910)</u>	<u>8,048</u>
Mayor/City Council:					
Salaries and wages	54,100	54,100	53,579	-	521
Employee benefits	10,100	10,100	9,332	-	768
Services and supplies	14,250	65,100	56,358	(50,850)	8,742
Total Mayor/City Council	<u>78,450</u>	<u>129,300</u>	<u>119,269</u>	<u>(50,850)</u>	<u>10,031</u>
Facilities (City Hall) & General					
Salaries and wages	-	60,196	59,820	(60,196)	376
Employee benefits	-	22,323	22,189	(22,323)	134
Services and supplies	182,500	240,850	222,453	(58,350)	18,397
Total Mayor/City Council	<u>182,500</u>	<u>323,369</u>	<u>304,462</u>	<u>(140,869)</u>	<u>18,907</u>
Total General Government	<u>1,073,400</u>	<u>1,337,529</u>	<u>1,238,982</u>	<u>(264,129)</u>	<u>98,547</u>
Judicial:					
Municipal court:					
Salaries and wages	141,800	141,800	134,561	-	7,239
Employee benefits	64,300	75,500	61,505	(11,200)	13,995
Services and supplies	37,000	48,600	49,841	(11,600)	(1,241)
Total Judicial	<u>243,100</u>	<u>265,900</u>	<u>245,907</u>	<u>(22,800)</u>	<u>19,993</u>
Culture and Recreation:					
Parks:					
Salaries and wages	319,500	241,400	190,524	78,100	50,876
Employee benefits	165,000	83,000	57,443	82,000	25,557
Services and supplies	247,400	287,400	243,287	(40,000)	44,113
Capital outlay	-	63,853	-	(63,853)	63,853
Total Culture and Recreation	<u>731,900</u>	<u>675,653</u>	<u>491,254</u>	<u>56,247</u>	<u>184,399</u>

See accompanying notes.

**CITY OF FERNLEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008  
(Page 3 of 3)**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
Community development:					
Building and planning:					
Salaries and wages	\$ 611,300	\$ 576,800	\$ 568,780	\$ 34,500	\$ 8,020
Employee benefits	333,200	209,000	177,296	124,200	31,704
Services and supplies	180,180	143,280	139,232	36,900	4,048
Total Community Development	<u>1,124,680</u>	<u>929,080</u>	<u>885,308</u>	<u>195,600</u>	<u>43,772</u>
Health:					
Animal control:					
Salaries and wages	88,100	85,000	71,713	3,100	13,287
Employee benefits	51,500	26,300	21,123	25,200	5,177
Services and supplies	26,550	25,950	18,808	600	7,142
Total Animal Control	<u>166,150</u>	<u>137,250</u>	<u>111,644</u>	<u>28,900</u>	<u>25,606</u>
Vector control:					
Salaries and wages	65,700	69,700	69,610	(4,000)	90
Employee benefits	33,500	28,500	23,452	5,000	5,048
Services and supplies	126,560	93,660	57,820	32,900	35,840
Total Vector Control	<u>225,760</u>	<u>191,860</u>	<u>150,882</u>	<u>33,900</u>	<u>40,978</u>
Total Health	<u>391,910</u>	<u>329,110</u>	<u>262,526</u>	<u>62,800</u>	<u>66,584</u>
Debt service:					
Principal	165,000	165,000	165,000	-	-
Interest	213,702	213,702	214,326	-	(624)
Total Debt Service	<u>378,702</u>	<u>378,702</u>	<u>379,326</u>	<u>-</u>	<u>(624)</u>
Total Expenditures	<u>3,943,692</u>	<u>3,915,974</u>	<u>3,503,303</u>	<u>(27,718)</u>	<u>(412,671)</u>
Excess of Revenues Over Expenditures	<u>116,044</u>	<u>6,679</u>	<u>66,911</u>	<u>(109,365)</u>	<u>60,232</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Contingency	(50,000)	-	-	50,000	-
Transfer out:					
Privates Sectore Community Support	-	(20,000)	(20,000)	(20,000)	-
Tranfer in:					
Grant Fund	10,000	10,000	10,000	-	-
Total Other Financing Sources (Uses)	<u>(40,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>30,000</u>	<u>-</u>
Net Change in Fund Balance	76,044	(3,321)	56,911	(79,365)	60,232
<b>FUND BALANCE, July 1</b>	<u>489,161</u>	<u>588,948</u>	<u>588,946</u>	<u>99,787</u>	<u>(2)</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 565,205</u>	<u>\$ 585,627</u>	<u>\$ 645,857</u>	<u>\$ 20,422</u>	<u>\$ 60,230</u>

See accompanying notes.

**CITY OF FERNLEY**  
**RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
<b>REVENUES</b>					
Taxes:					
Residential construction tax	\$ 200,000	\$ 10,000	\$ 16,836	\$ (190,000)	\$ 6,836
Miscellaneous:					
Interest	<u>1,000</u>	<u>250</u>	<u>305</u>	<u>(750)</u>	<u>55</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	201,000	10,250	17,141	(190,750)	6,891
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out:)					
Residential construction tax district #2	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>
Net Change in Fund Balance	226,000	10,250	17,141	(215,750)	6,891
<b>FUND BALANCE, July 1</b>	<u>21</u>	<u>(9,000)</u>	<u>(9,000)</u>	<u>(9,021)</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 226,021</u>	<u>\$ 1,250</u>	<u>\$ 8,141</u>	<u>\$ (224,771)</u>	<u>\$ 6,891</u>

See accompanying notes.

**CITY OF FERNLEY  
STREETS AND STORM DRAINS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
<b>REVENUES</b>					
Licenses and permits:					
Public works fees	\$ 31,000	\$ 26,000	\$ 23,021	\$ (5,000)	\$ (2,979)
Intergovernmental revenues:					
Motor vehicle fuel tax	287,381	287,381	304,718	-	17,337
Regional transportation commission	958,883	958,883	857,016	-	(101,867)
	<u>1,246,264</u>	<u>1,246,264</u>	<u>1,161,734</u>	<u>-</u>	<u>(84,530)</u>
Miscellaneous:					
Interest	-	10,000	10,425	10,000	425
Other	-	-	3,718	-	3,718
Total Miscellaneous Revenues	<u>-</u>	<u>10,000</u>	<u>14,143</u>	<u>10,000</u>	<u>4,143</u>
Total Revenues	<u>1,277,264</u>	<u>1,282,264</u>	<u>1,198,898</u>	<u>5,000</u>	<u>(83,366)</u>
<b>EXPENDITURES</b>					
Public works:					
Salaries and wages	149,900	109,300	87,544	40,600	21,756
Employee benefits	77,800	49,050	38,610	28,750	10,440
Services and supplies	415,500	320,000	302,834	95,500	17,166
Capital outlay	1,156,279	1,156,279	1,004,195	-	152,084
Total Expenditures	<u>1,799,479</u>	<u>1,634,629</u>	<u>1,433,183</u>	<u>164,850</u>	<u>201,446</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(522,215)	(352,365)	(234,285)	169,850	118,080
<b>FUND BALANCE, July 1</b>	<u>701,982</u>	<u>444,109</u>	<u>444,109</u>	<u>(257,873)</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 179,767</u>	<u>\$ 91,744</u>	<u>\$ 209,824</u>	<u>\$ (88,023)</u>	<u>\$ 118,080</u>

See accompanying notes.

**CITY OF FERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			
	<b>WATER UTILITY FUND</b>	<b>SEWER UTILITY FUND</b>	<b>OTHER ENTERPRISE FUND</b>	<b>TOTAL ENTERPRISE FUNDS</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 64,288,823	\$ 10,633,420	\$ 971,110	\$ 75,893,353
Cash - refundable deposits, restricted	310,268	299,452	-	609,720
Interest receivable	173,188	28,588	2,567	204,343
Accounts receivable, net	413,161	175,893	299	589,353
Accounts receivable, other	138,622	15,451	-	154,073
Inventories	126,017	6,642	-	132,659
Prepaid expenses	5,000	-	-	5,000
Total Current Assets	<u>65,455,079</u>	<u>11,159,446</u>	<u>973,976</u>	<u>77,588,501</u>
Noncurrent assets:				
Deferred charges	<u>552,387</u>	<u>59,019</u>	<u>-</u>	<u>611,406</u>
Capital assets:				
Not being depreciated	58,460,732	9,241,766	120,358	67,822,856
Depreciable assets	<u>32,249,786</u>	<u>24,520,760</u>	<u>800,724</u>	<u>57,571,270</u>
	90,710,518	33,762,526	921,082	125,394,126
Less: Accumulated depreciation	<u>7,297,773</u>	<u>5,665,303</u>	<u>25,880</u>	<u>12,988,956</u>
Total Capital Assets	<u>83,412,745</u>	<u>28,097,223</u>	<u>895,202</u>	<u>112,405,170</u>
Total Noncurrent Assets	<u>83,965,132</u>	<u>28,156,242</u>	<u>895,202</u>	<u>113,016,576</u>
Total Assets	<u>149,420,211</u>	<u>39,315,688</u>	<u>1,869,178</u>	<u>190,605,077</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	2,785,477	61,900	10,862	2,858,239
Accrued interest	1,178,087	145,219	-	1,323,306
Refundable deposits	310,268	299,452	-	609,720
Debt due within one year	<u>934,010</u>	<u>243,469</u>	<u>-</u>	<u>1,177,479</u>
Total Current Liabilities	<u>5,207,842</u>	<u>750,040</u>	<u>10,862</u>	<u>5,968,744</u>
Noncurrent liabilities:				
Bonds payable, due after one year	<u>74,099,497</u>	<u>8,441,047</u>	<u>-</u>	<u>82,540,544</u>
Total Liabilities	<u>79,307,339</u>	<u>9,191,087</u>	<u>10,862</u>	<u>88,509,288</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	56,736,460	19,438,728	895,202	77,070,390
Unrestricted	<u>13,376,412</u>	<u>10,685,873</u>	<u>963,114</u>	<u>25,025,399</u>
Total Net Assets	<u>\$ 70,112,872</u>	<u>\$ 30,124,601</u>	<u>\$ 1,858,316</u>	<u>\$ 102,095,789</u>

See accompanying notes.

**CITY OF FERNLEY  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2008**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			
	<b>WATER UTILITY FUND</b>	<b>SEWER UTILITY FUND</b>	<b>OTHER ENTERPRISE FUND</b>	<b>TOTAL ENTERPRISE FUNDS</b>
<b>OPERATING REVENUES</b>				
User fees	\$ 3,273,625	\$ 1,829,736	\$ 1,055	\$ 5,104,416
Operating grants	424,671	-	-	424,671
Total Operating Revenue	<u>3,698,296</u>	<u>1,829,736</u>	<u>1,055</u>	<u>5,529,087</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	468,961	420,689	108,803	998,453
Employee benefits	169,253	153,949	36,818	360,020
Services and supplies	1,530,603	676,754	51,071	2,258,428
Depreciation	917,123	621,502	15,959	1,554,584
Total Operating Expenses	<u>3,085,940</u>	<u>1,872,894</u>	<u>212,651</u>	<u>5,171,485</u>
Operating Income (Loss)	<u>612,356</u>	<u>(43,158)</u>	<u>(211,596)</u>	<u>357,602</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest earned on investments	699,687	377,633	48,938	1,126,258
In lieu of water rights fees	56,489	-	-	56,489
Miscellaneous	310,744	17,322	-	328,066
Interest expense	(66,905)	(139,968)	-	(206,873)
Total Nonoperating Revenue (Expense)	<u>1,000,015</u>	<u>254,987</u>	<u>48,938</u>	<u>1,303,940</u>
Income (Loss) Before Capital Contributions	<u>1,612,371</u>	<u>211,829</u>	<u>(162,658)</u>	<u>1,661,542</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Customer connection fees	116,211	250,756	22,102	389,069
Developer agreements	12,831	2,182	-	15,013
Developer contributed infrastructure	1,637,104	1,378,372	214,727	3,230,203
Developer contributed water rights	945,063	-	-	945,063
Total Capital Contributions	<u>2,711,209</u>	<u>1,631,310</u>	<u>236,829</u>	<u>4,579,348</u>
Change in Net Assets	4,323,580	1,843,139	74,171	6,240,890
<b>NET ASSETS, July 1</b>	<u>65,789,292</u>	<u>28,281,462</u>	<u>1,784,145</u>	<u>95,854,899</u>
<b>NET ASSETS, June 30</b>	<u>\$ 70,112,872</u>	<u>\$ 30,124,601</u>	<u>\$ 1,858,316</u>	<u>\$ 102,095,789</u>

See accompanying notes.

**CITY OF FERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			
	<b>WATER UTILITY FUND</b>	<b>SEWER UTILITY FUND</b>	<b>OTHER ENTERPRISE FUND</b>	<b>TOTAL ENTERPRISE FUNDS</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 3,786,385	\$ 1,833,800	\$ 757	\$ 5,620,942
Cash paid for employees services	(654,174)	(591,146)	(145,621)	(1,390,941)
Cash paid to vendors for services and supplies	(2,631,168)	(1,642,488)	(40,209)	(4,313,865)
Net Cash Provided (Used) by Operating Activities	<u>501,043</u>	<u>(399,834)</u>	<u>(185,073)</u>	<u>(83,864)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal payments on debt	(160,000)	(127,451)	-	(287,451)
Interest paid on debt	625,166	(69,675)	-	555,491
Deferred charges	(212,079)	(18,592)	-	(230,671)
In lieu of water rights fees	56,489	-	-	56,489
Acquisition of capital assets	(20,719,588)	(1,963,114)	(32,660)	(22,715,362)
Developer agreements	12,831	2,182	-	15,013
Connection fees	116,211	250,756	22,101	389,068
Proceeds from short-term trade accounts used to finance equipment acquisition	2,384,460	22,234	-	2,406,694
Proceeds from issuance of debt	29,735,109	2,469,689	-	32,204,798
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>11,838,599</u>	<u>566,029</u>	<u>(10,559)</u>	<u>12,394,069</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received on investments	714,942	388,126	50,393	1,153,461
Net Increase (Decrease) in Cash and Cash Equivalents	13,054,584	554,321	(145,239)	13,463,666
<b>CASH AND CASH EQUIVALENTS, July 1</b>	<u>51,544,507</u>	<u>10,378,551</u>	<u>1,116,349</u>	<u>63,039,407</u>
<b>CASH AND CASH EQUIVALENTS, June 30</b>	<u>\$ 64,599,091</u>	<u>\$ 10,932,872</u>	<u>\$ 971,110</u>	<u>\$ 76,503,073</u>
<b>REPRESENTED BY:</b>				
Cash and cash equivalents	\$ 64,288,823	\$ 10,633,420	\$ 971,110	\$ 75,893,353
Cash - refundable deposits	310,268	299,452	-	609,720
	<u>\$ 64,599,091</u>	<u>\$ 10,932,872</u>	<u>\$ 971,110</u>	<u>\$ 76,503,073</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 612,356	\$ (43,158)	\$ (211,596)	\$ 357,602
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	917,123	621,502	15,959	1,554,584
Miscellaneous Revenues	310,744	17,322	-	328,066
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable, net	(154,063)	(13,260)	(298)	(167,621)
Accounts receivable, other	(68,590)	-	-	(68,590)
Inventories	19,127	(325)	-	18,802
Increase (decrease) in:				
Accounts payable	(1,131,263)	(982,849)	10,862	(2,103,250)
Accrued liabilities	(15,960)	(16,508)	-	(32,468)
Compensated absences payable	(14,633)	5,367	-	(9,266)
Refundable deposits	26,202	(10,938)	-	15,264
Total Adjustments	<u>(111,313)</u>	<u>(379,689)</u>	<u>26,523</u>	<u>(464,479)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 501,043</u>	<u>\$ (422,847)</u>	<u>\$ (185,073)</u>	<u>\$ (106,877)</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Contribution of capital assets from developers	\$ 2,582,166	\$ 1,378,372	\$ 214,727	\$ 4,175,265

See accompanying notes.

**CITY OF FERNLEY  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2008**

	<u><b>AGENCY FUND</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$       10,936
<b>LIABILITIES</b>	
Bail bond deposits held for others	\$       10,153
Other liabilities	<u>          783</u>
Total Liabilities	<u><u>\$       10,936</u></u>

See accompanying notes.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the City of Fernley, Nevada (“the City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Government Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the more significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows.

A. Reporting Entity:

The City of Fernley, Nevada was incorporated on July 1, 2001. The City operates under a Council-Manager form of government and provides the following services as authorized by law: water and sewer utilities, streets, culture and recreation, planning and zoning, animal control, and general administrative services. Prior to July 1, 2001, the entity was organized as an unincorporated town in accordance with Nevada Revised Statutes 269. The financial statements present the financial position and results of operations and changes in fund balances for those funds under the direct jurisdiction of the Mayor and City Council of the City of Fernley for which the Mayor and City Council are financially accountable.

B. Government-wide and Fund Financial Statements:

The government-wide financial statements report information on all of the non-fiduciary activities of the City of Fernley, Nevada. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activities are offset by program revenues. *Direct expenses* are those that are specifically associated with a specific function or business-type activity. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items properly not included among program revenues are reported instead as *general revenues*.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *measurable* when the amount of the transaction can be determined and *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. When revenues are due, but will not be collected within this 60 day period, the receivable is recorded and an offsetting deferred revenue account is established. Deferred revenues also arise when the government receives resources before it has legal claim to them, and thus in subsequent periods, when both revenues recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

Property taxes, consolidated tax revenue (sales tax, cigarette taxes, business services tax, liquor taxes), gaming taxes, gasoline taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

In accordance with GASB Statement No. 20 “Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting”, the City applied all applicable FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used and other charges between the City’s business-type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from an exchange transaction such as providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Nonoperating revenues and nonoperating expenses result from nonexchange transactions and ancillary services.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

The City reports the following major governmental funds:

The *General Fund* is the City’s general operating fund and is used to account for all financial resources except those required to be accounted for in other funds.

The *Residential Construction Tax District #1 Special Revenue Fund* is used to account for a tax to be used for park development in the District #1 identified in the City of Fernley park plan.

The *Streets and Storm Drains Special Revenue Fund* is used to account for gas taxes that must be used for street maintenance and capital expenditures as well as other revenues that may be used for projects associated with streets and storm drains.

The *Capital Projects Fund* is used to accrue funds under a “pay as you go” program to provide funding for future projects involving replacement of equipment or buildings or new facilities and equipment.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

The City reports the following major enterprise funds:

The *Water Utility Fund* is used to account for the provision of water services to the residents of the City and some residents of Lyon County. All activities necessary to provide services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt.

The *Sewer Utility Fund* is used to account for the provision of sewer services to the residents of the City and some residents of Lyon County. All activities necessary to provide services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt.

Additionally, the City reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agent capacity. Included are bonds posted with the municipal court. These funds are excluded from the government-wide financial statements.

D. Assets, Liabilities and Net Assets or Equity:

***Cash and Investments:***

Cash resources of the individual funds are combined to form a pool of cash and investments, which is managed by the City Treasurer. The City invests in the State of Nevada Local Government Pooled Investment Fund, which is reported at fair value. Interest income earned is distributed to the appropriate funds based on each fund's equity in the investment.

Pursuant to NRS 355 and NRS 355.170, the City of Fernley may only invest in the following types of securities:

- Certain "A" rated notes and bonds purchased by a registered broker-dealer that are issued by corporations organized and operating in the United States and that mature within five (5) years from the date of purchase; asset-backed securities and collateralized mortgage obligations rated "AAA" or higher by a nationally recognized rating service. These investments must not, in the aggregate, exceed 20 percent of the total portfolio at the time of purchase, nor include notes and bonds issued by any one corporation in excess of 25 percent of such investments
- United States bonds and debentures maturing within ten (10) years from the date of purchase
- Certain farm loan bonds
- Bills and notes of the United States Treasury, maturing within ten (10) years from the date of purchase

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

- Obligations of an agency of the United States or a corporation sponsored by the government, maturing within ten (10) years from the date of purchase
- Obligations of state and local governments if, (1) the interest is exempt for federal income tax purposes and (2) the obligations have been rated “A” or higher by a nationally recognized bond credit rating agency
- Negotiable and nonnegotiable certificates of deposit from commercial banks and insured savings and loan associations
- State of Nevada Local Government Pooled Investment Fund
- Certain securities issued by local governments of the State of Nevada
- Certain bankers’ acceptances
- Certain short-term paper issued by a corporation organized and operating in the United States
- Other securities expressly provided by other statutes, including repurchase agreements
- Certain “AAA” rated mutual funds that invest in (1) securities issued by the Federal Government or agencies of the Federal Government, (2) Master, bank notes or other short-term commercial paper rates as “A-1” or “P-1” issued by a corporation or depository institution organized, licensed and operating in the United States and/or (3) Repurchase agreements that are fully collateralized by (1) and (2) above.

***Cash Equivalents:***

Cash equivalents include short-term highly liquid investments (with maturities of 3 months or less when purchased) that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk in changes in value. Based on the nature of the investment policies, all amounts are available on demand and are, therefore, classified as cash equivalents on the Statements of Cash Flows.

***Receivables and Payables:***

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Significant receivable balances not expected to be collected within one year are classified as notes receivable on the government-wide financial statements.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Real property taxes result in a lien on the property and attach on July 1 (the levy date) of the year for which the taxes are levied. Taxes may be paid in four installments payable on the third Monday in August, and the first Mondays in October, January and March to the County Clerk/Treasurer of Lyon County in which the City of Fernley is located. Penalties are assessed if a taxpayer fails to pay an installment within ten days of the installment due date. After a two year waiting period, if taxes remain unpaid, a tax deed is issued conveying the property to Lyon County with a lien for back taxes and accumulated charges. Redemption may be made by the owner and such persons as described by statute by paying all back taxes and accumulated penalties, interest and costs before sale. As such, real property taxes receivable reflect only those taxes receivable from the delinquent roll years, and current taxes collected within 60 days of year end and delinquent taxes from all roll years prior to 2003-2004 have been written off. No provision for uncollectible accounts has been established, as management does not anticipate any material collection losses with respect to the remaining balances.

Taxes on personal property are collected currently. Personal property declarations are mailed out annually and the tax is computed using percentages of taxable values established by the Department of Taxation at the tax rates described above.

Receivables in proprietary fund types have arisen in the ordinary course of business, and are shown net of an allowance for uncollectible accounts, if applicable.

***Inventories and Prepays:***

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds in the fund financial statements are considered consumable supplies and as such are recorded as expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

***Restricted Assets:***

City policy requires that certain resources be set aside for various purposes in the City's water and sewer utility funds. These amounts are reported as restricted assets.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

*Capital Assets:*

Capital assets, which include land, construction in progress, water rights, property, plant, equipment and infrastructure, are capitalized and reported in the applicable governmental activities and business-type activities columns of the government-wide financial statements. For governmental fund types, outlays for capital assets are expensed during the current period. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 for non-infrastructure assets and \$100,000 for infrastructure assets and an estimated useful life in excess of two years.

Water rights are considered real property. A water right can be conveyed or transferred. Water rights, however, are appurtenant to the land and are conveyed by deed with the land unless the seller specifically reserves the water right in the deed. Water rights are not depreciable or amortizable.

Capital assets are recorded at cost for purchased or constructed assets. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	25-40 years
Improvements other than buildings	10-20 years
Machinery and equipment	5-10 years
Other capital assets	25-40 years
Infrastructure	20-40 years

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective fiscal year June 30, 2004, the initial year of implementation. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has been reported in prior years' financial statements. The retroactive reporting of infrastructure is not required for the City based on its size. As such, the City has elected not to retroactively report all major general infrastructure acquired between July 1, 1980 and June 30, 2003.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

***Long-Term Liabilities:***

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term liabilities are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets.

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for compensated absences is calculated under the provisions of GASB Statement No. 16, "Accounting for Compensated Absences."

All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. For current and advance refunding resulting in a defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using the straight-line method.

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

A liability for compensated absences is reported in the governmental funds, primarily the General Fund, only if they have matured as a result of employee resignations, terminations and retirements. For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. The face amount of bonds is reported as other financing sources, as are bond premiums. Bond discounts are recorded as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

***Equity Classification:***

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted Net Assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations or other governments; (2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, governmental fund equity is reported as fund balances and is displayed as reserved, unreserved/designated and unreserved/undesignated. Reservations of fund balance are established for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Unreserved/designated fund balance represents amounts that are designated by management for a specific purpose.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

The following amounts are restricted for future capital projects:

Developer/ Development	Balance at June 30, 2008	Project Description
Upland Ranches	\$ 22,258	Farm District Rd Bike Lane
Sundance	4,140	Farm District Rd Bike Lane
Country Ranch Estates	936	Farm District Rd Bike Lane
Aspen Meadows	5,100	Farm District Rd Bike Lane
Mt View Estates	10,282	Farm District Rd Bike Lane
Silverland Estates, Ph 1	19,387	Farm District Rd Bike Lane
Truckee River Ranch, Ph 1 & 2	40,673	Farm District Rd Bike Lane
Skyridge II	7,866	Farm District Rd Bike Lane
Sierra Vista	14,670	95A Turn Lane
Shady Grove	5,925	95A Turn Lane
Fernley Chiropractic	7,260	95A Curb, Gutter & Sidewalk
Renslow Commercial Bldg	14,200	95A Curb, Gutter & Sidewalk
Nevada State Bank	9,328	95A Curb, Gutter & Sidewalk
Quick Stop Markets	3,850	95A Curb, Gutter & Sidewalk
North Seneca Falls	27,180	Hardie Ln Improvements
SVWW II, LLC	105,381	Shadow Ln Improvements
Willow Springs Apartments	63,853	Willow Springs Park
Total	\$ <u>362,289</u>	

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A. Budgetary Information:

The City of Fernley adheres to the Local Government Budget and Finance Act (Act) incorporated within the statutes of the State of Nevada, in which annual budgets are legally adopted for all funds except Agency funds. The Act and City policy include the following procedures to establish the budgetary data, which is reflected in these financial statements:

1. On or before April 15, the City Manager submits to the Fernley City Council a tentative budget for the fiscal year commencing the following July 1, to be filed with the Nevada Department of Taxation.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

2. Public hearings on the tentative budget are held on the third Tuesday in May to obtain taxpayer comments.
3. Prior to June 1, at a public hearing, the Council indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members of the Council. The final budget must then be forwarded to the Nevada Tax Commission for final approval.
4. The City may not amend the budget without approval by the City Council. The City Manager is authorized to transfer appropriations between accounts within any department, with notification to the City Council. Any revisions that alter the total appropriations of a function or fund must be approved in advance by the City Council. Formal budgetary integration in the financial records of all funds is employed to enhance management control during the year. The City does not use the encumbrance method of accounting.
5. Budgets for all fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Appropriations lapse at year end.
6. In accordance with State statute, actual expenditures may not exceed budgeted appropriations of the various governmental functions of the General, Special Revenue, and Capital Project Funds. Per NRS 354.626, expenditures over budgeted appropriations are allowed for bond repayments, medium term obligation repayments, and other long-term contracts expressly authorized by law. The sum of operating and nonoperating expenses in Proprietary Funds also may not exceed total appropriations.

The budget reflected in the financial statements has been amended from the original budget amounts in accordance with State statute. Such amendments included augmentations for prior obligations, as well as supplemental appropriations needed for grants, contingencies, and other uses.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

B. Excess of Expenditures/Expenses Over Appropriations:

The City conformed to all significant statutory constraints on its financial administration during the year with the following possible exceptions:

- Actual expenditures exceeded appropriations in the Culture and Recreation function of the Private Sector Community Support Non-Major Special Revenue Fund by \$4,638. This is an apparent violation of NRS 354.626.
- Actual operating expenses exceeded appropriations in the Non-Potable Water Enterprise Fund by \$7,549.

These appear to be apparent violations of NRS 354.626.

NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2008 is as follows:

<b>Cash Balances Held by:</b>	
Governmental Funds	\$ 2,656,906
Fiduciary Funds	10,936
Proprietary Funds	
Unrestricted	75,893,353
Restricted	609,720*
<b>Total Cash and Investments</b>	<b>\$ 79,170,915</b>

\*Restricted cash in the Proprietary Funds consists of refundable customer deposits.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Balances Classified by:	
On hand	\$ 400
Wells Fargo Bank:	
Checking	683,350
EFT Transaction Account	35,912
NVEST	11,345,691
Local Government Investment Pool	67,105,562
<b>Total Cash and Investments</b>	<b>\$ 79,170,915</b>

As of June 30, 2008, the City of Fernley had the following investments and maturities:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasuries	\$ 1,127,565	\$ 1,127,565	\$ -	\$ -	\$ -
U.S. Agencies	4,334,536	-	4,334,536	-	-
Mortgage-Backed	2,157,193	-	696,110	1,461,083	-
Corporate Bonds	3,459,535	130,730	3,328,805	-	-
Money Market Fund	266,862	266,862	-	-	-
State of Nevada					
Local Government Investment Pool	67,105,562	67,105,562*	-	-	-
<b>Total</b>	<b>\$78,451,253</b>	<b>\$68,630,719</b>	<b>\$8,359,451</b>	<b>\$1,461,083</b>	<b>\$ -</b>

\* represents average weighted maturity

The City is a voluntary participant in the State of Nevada Local Government Investment Pool (LGIP), which has regulatory oversight from the Board of Finance of the State of Nevada. The City's investment in the LGIP is equal to its original investment plus monthly allocation of interest income, and realized and unrealized gains and losses, which is the same as the value of the pool shares. The City's investment in the LGIP is reported at fair value.

Nevada Revised Statutes (NRS 355.170) set forth acceptable investments for Nevada local governments. The City has not adopted a formal investment policy that would further limit its investment choices nor further limit its exposure to certain risks as set forth below.

*Interest Rate Risk.* Interest rate risk is the risk of possible reduction in the value of a

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

security, especially a bond, resulting from a rise in interest rates. As noted above, the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates beyond those specified in the statute.

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation and is a function of the credit quality ratings of its investments. As of June 30, 2008, the City's investments in Mortgage-Backed securities were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. Of the City's investments in corporate bonds, \$1,703,276 was rated AAA/Aaa, \$1,163,167 was rated AA/Aa, and \$593,092 was rated A. The State of Nevada Local Government Investment Pool is an unrated external investment pool. As noted above, the City does not have a formal investment policy that specifies minimum acceptable credit ratings.

*Custodial Credit Risk- Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. All of the bank balance was covered by FDIC insurance or collateralized by the Office of the State Treasurer/ Nevada Collateral Pool.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2008
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 3,909,624	\$ -	\$ -	\$ 3,909,624
Construction in progress	6,469,314	2,231,466	(8,062,166)	638,614
Total capital assets, not being depreciated	10,378,938	2,231,466	(8,062,166)	4,548,238
Capital assets, being depreciated				
Buildings	1,226,161	7,372,937	-	8,599,098
Improvements other than buildings	6,191,808	689,229	-	6,881,037
Machinery and Equipment	869,088	191,341	-	1,060,429
Infrastructure	19,809,271	3,981,748	-	23,791,019
Total capital assets, being depreciated	28,096,328	12,235,255	-	40,331,583
Less accumulated depreciation for:				
Buildings	(550,111)	(342,792)	-	(892,903)
Improvements other than buildings	(432,959)	(398,270)	-	(831,229)
Machinery and Equipment	(445,702)	(172,878)	-	(618,580)
Infrastructure	(1,483,047)	(700,052)	-	(2,183,099)
Total accumulated depreciation	(2,911,819)	(1,613,992)	-	(4,525,811)
Total capital assets, being depreciated, net	25,184,509	10,621,263	-	35,805,772
Governmental activities capital assets, net	\$ 35,563,447	\$ 12,852,729	\$ (8,062,166)	\$ 40,354,010

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

	Balance July 1, 2007	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2008
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 677,677	\$ -	\$ -	\$ 677,677
Water rights	33,278,836	945,063	-	34,223,899
Construction in progress	13,322,319	22,282,939	(2,683,978)	32,921,280
Total capital assets, not being depreciated	<u>47,278,832</u>	<u>23,228,002</u>	<u>(2,683,978)</u>	<u>67,822,856</u>
Capital assets, being depreciated				
Buildings	17,530	-	-	17,530
Improvements other than buildings	48,522,057	5,859,899	-	54,381,956
Machinery and Equipment	1,073,805	426,349	-	1,500,154
Other capital assets	1,671,630	-	-	1,671,630
Total capital assets, being depreciated	<u>51,285,022</u>	<u>6,286,248</u>	<u>-</u>	<u>57,571,270</u>
Less accumulated depreciation for:				
Buildings	(13,868)	(999)	-	(14,867)
Improvements other than buildings	(10,155,599)	(1,361,457)	-	(11,517,056)
Machinery and Equipment	(786,571)	(110,670)	-	(897,241)
Other capital assets	(478,332)	(81,458)	-	(559,790)
Total accumulated depreciation	<u>(11,434,370)</u>	<u>(1,554,584)</u>	<u>-</u>	<u>(12,988,954)</u>
Total capital assets, being depreciated, net	<u>39,850,652</u>	<u>4,731,664</u>	<u>-</u>	<u>44,582,316</u>
Business-type activities capital assets, net	<u>\$ 87,129,484</u>	<u>\$ 27,959,666</u>	<u>\$ (2,683,978)</u>	<u>\$ 112,405,172</u>

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Depreciation expense was charged to functions/programs of the City as follows:

**Governmental Activities:**

General government	\$ 364,122
Public works	1,070,549
Culture and recreation	152,487
Health	18,217
Community development	8,617
	8,617

Total depreciation expense – governmental activities	\$ 1,613,992
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**Business-type Activities:**

Water	\$ 917,123
Sewer	621,504
Non Potable	15,959
	15,959

Total depreciation expense – business-type activities	\$ 1,554,586
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**NOTE 5 – DEFINED BENEFIT PENSION PLAN:**

Plan Description. The City of Fernley contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing, multiple employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada. PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may only be amended through legislation. The Public Employees Retirement System of the State of Nevada issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, NV 89703-1599 or by calling (775) 687-4200.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Funding Policy. Benefits for plan members are funded under one of two methods; the employer (ER) pay contribution plan or the employer/employee (ER/EE) paid contribution plan. Under the ER contribution plan, the City is required to contribute all amounts due under the plan. Under the ER/EE contribution plan, employees are required to contribute a percentage of their compensation to the plan, while the City is required to match that contribution. The contribution requirements of the City are established by Chapter 286 of Nevada Revised Statutes. The funding mechanism may only be amended through legislation. The City's contribution rates and amounts contributed (equal to the required contributions for the year) for the last three years are as follows:

Fiscal Year	Contribution Rate ER	Contribution Rate ER/EE	Total Contribution
2007-08	20.50%	10.50%	\$509,714
2006-07	20.50%	10.50%	\$391,872
2005-06	19.75%	10.50%	\$367,120

NOTE 6 – INTERFUND TRANSFERS:

The composition of interfund transfers as of June 30, 2008, is as follows:

	Transfer In:		
<u>Transfer Out:</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 20,000	\$ 20,000
Other Governmental Funds	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total	<u>\$ 10,000</u>	<u>\$ 20,000</u>	<u>\$ 30,000</u>

Transfers were used to move fund revenues to finance capital projects in the current year.

NOTE 7 – LONG TERM DEBT:

- A. The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2008.
- B. The bonded following schedule summarizes the changes in long-term debt:

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

	Issue Date	Interest Rate	Maturity Date	Authorized and Issued	Outstanding July 1, 2007	Additions	(Deletions)	Outstanding June 30, 2008	Due in 2008-2009
<b>Governmental Activities:</b>									
Compensated absences payable	-	-	-	-	\$ 94,359	\$ 35,259	\$ (24,644)	\$ 104,974	\$ 25,000
City Hall Expansion Bonds	12/29/05	4.49%	12/01/2025	\$ 5,000,000	4,842,000	-	(165,000)	4,677,000	173,000
Total governmental activities					4,936,359	35,259	(189,644)	4,781,974	198,000
<b>Business-type Activities:</b>									
State Water Pollution Control Revolving Fund	10/28/92	4.00%	6/30/2012	\$ 2,000,000	767,780	-	(127,451)	640,329	132,600
2003 Refunding Bonds	11/25/03	3% - 5%	5/01/2010	\$ 950,000	515,000	-	(160,000)	355,000	170,000
2007 Water/Sewer Bonds	3/28/07	4% - 5%	2/01/2037	\$50,000,000	50,000,000	-	-	50,000,000	820,000
2008 Water/Sewer Bonds	4/01/08	3.25% - 5%	2/01/2038	\$32,600,000	-	32,600,000	-	32,600,000	-
					51,282,780	32,600,000	(287,451)	83,595,329	1,122,600
Unamortized Bond Discount/(Premium)					494,527	(395,203)	(28,672)	70,652	14,879
Compensated Absences payable					41,308	78,479	(67,745)	52,042	40,000
Total business-type activities					51,818,615	32,283,276	(383,868)	83,718,023	1,177,479
Total Long Term Debt					\$ 56,754,974	\$32,318,535	\$ (573,512)	\$ 88,499,997	\$ 1,375,479

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

The following schedule reflects debt service requirements to maturity of the City's long-term debt:

	Debt Supported by General Obligation		Debt Supported by Sewer Fund Revenues		Debt Supported by Water Fund Revenues		Total Requirements to Maturity	
Fiscal Year	Principal	Interest	Principal	Interest	Principal*	Interest*	Principal	Interest
2009	\$ 173,000	\$ 206,113	\$ 222,800	\$ 366,447	\$ 899,800	\$ 3,164,554	\$ 1,295,600	\$ 3,737,114
2010	181,000	198,166	281,637	376,829	1,541,320	3,362,170	2,003,957	3,937,165
2011	189,000	189,860	292,595	365,759	1,405,937	3,308,617	1,887,532	3,864,236
2012	198,000	181,172	304,493	354,377	1,459,836	3,256,950	1,962,329	3,792,499
2013	207,000	172,079	238,010	342,526	1,513,900	3,203,231	1,958,910	3,717,836
2014- 2017	925,000	588,976	718,678	1,297,093	6,726,322	12,191,957	8,370,000	14,078,026
2018- 2022	1,417,000	476,097	1,099,991	1,415,095	10,240,010	13,333,130	12,757,001	15,224,322
2023- 2027	1,387,000	127,987	1,385,461	1,133,193	12,849,539	10,729,113	15,622,000	11,990,293
2028- 2032	-	-	1,752,338	787,421	16,217,662	7,484,036	17,970,000	8,271,457
2033- 2037	-	-	2,196,706	340,408	20,323,294	3,294,030	22,520,000	3,634,438
2038	-	-	147,623	7,381	1,777,377	88,869	1,925,000	96,250
<b>Total</b>	<b>\$ 4,677,000</b>	<b>\$ 2,140,450</b>	<b>\$ 8,640,332</b>	<b>\$ 6,786,529</b>	<b>\$ 74,954,997</b>	<b>\$ 63,416,657</b>	<b>\$ 88,272,329</b>	<b>\$ 72,343,636</b>

\* Exclusive of unamortized premium and issuance costs.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

The liability for compensated absences is included in noncurrent liabilities on the government-wide Statement of Net Assets. The liability will be liquidated primarily by the General Fund for governmental activities and the Water and Sewer Funds for business-type activities.

**NOTE 8 – POST EMPLOYMENT RETIREMENT HEALTH INSURANCE BENEFIT:**

In addition to the pension benefit described in Note 5, the City provides a subsidy for postretirement health care benefits, in accordance with NRS 287.023, to all retired employees who enroll with the Nevada Public Employee's Benefits Program (PEBP). As of June 30, 2008, there were 6 retirees belonging to the program. Enrolled retirees pay monthly premiums for health insurance benefits directly to the program, while the City is required to subsidize the partial or total costs of the premium based incrementally on a retiree's number of years of service with the City. As of June 30, 2008, the City paid \$12,969 for retirees participating in PEBP. Premium payments are funded by operating resources as incurred and no provision has been made to permanently fund future liabilities.

**NOTE 9 – RISK MANAGEMENT:**

The City, like any governmental entity, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries of employees; and natural disasters.

The City has joined together with similar public agencies (cities, counties and special districts) throughout the State of Nevada to create a pool under the Nevada Interlocal Cooperation Act. The Nevada Public Agency Pool Insurance (Pool) is a public entity risk pool currently operating as a common risk management and insurance program for its members.

The City pays an annual premium and specific deductibles, as necessary, to the Pool for its general insurance coverage. The Pool is considered a self-sustaining risk pool that will provide liability coverage for its members for up to \$10,000,000 per event and a \$13,000,000 general aggregate per member. Property, crime and equipment breakdown coverage is provided to its members up to \$300,000,000 per loss with various sublimits established for earthquake, flood, equipment breakdown, and money and securities.

The City has also joined together with similar public agencies, under the Nevada Interlocal Cooperation Act, to create an intergovernmental self-insured association for workers compensation insurance, the Public Agency Compensation Trust (PACT).

The City pays premiums based on payroll costs to the PACT. The PACT is considered a self-sustaining pool that will provide coverage based on established statutory limits.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

The City continues to carry commercial insurance for other risks of loss, including specific risks of loss not covered by the Pool, including bonding and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage for the past three years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

There are lawsuits and unresolved disputes involving the city or its employees in which the City is represented by counsel. However, in the opinion of the City Attorney's office, these actions will not, in aggregate, have a material adverse effect upon the operations or financial position of the City.

At June 30, 2008, the City had several construction contracts in progress. Management has estimated that of the \$58,500,000 in contracts awarded, approximately \$26,100,000 will be billed for work completed over the next fiscal year.

NOTE 111 – SUBSEQUENT EVENTS:

Effective July 1, 2008 new water and sewer rates went into effect, primarily due to increasing operating costs and debt service demands. On average, the water rate increase is approximately 25%, and the sewer rates increase is 2.5%. These amounts are consistent with the rate study completed during fiscal year 2007, which recommended a water rate increase of 180% over a five year period beginning July 1, 2007 and a sewer rate increase of approximately 10% over a five year period beginning July 1, 2007.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

CITY OF FERNLEY  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACILITIES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TOTAL
<b>ASSETS</b>						
Cash and investments	\$ 9,482	\$ 16,239	\$ 637,140	\$ 24,827	\$ 26	\$ 687,714
Interest receivable	22	39	1,664	-	-	1,725
Accounts receivable	1,638	2,212	-	-	4,715	8,565
Due from other governments	-	-	-	698,535	-	698,535
Total Assets	<u>\$ 11,142</u>	<u>\$ 18,490</u>	<u>\$ 638,804</u>	<u>\$ 723,362</u>	<u>\$ 4,741</u>	<u>\$ 1,396,539</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ 4,353	\$ 712	\$ 2,170	\$ 7,235
Due to developers	-	-	129,125	-	-	129,125
Due to other funds	-	-	-	505,000	1,600	506,600
Total Liabilities	<u>-</u>	<u>-</u>	<u>133,478</u>	<u>505,712</u>	<u>3,770</u>	<u>642,960</u>
Fund Balance:						
Designated for subsequent year's expenditures	11,142	-	505,326	-	-	516,468
Undesignated	-	18,490	-	217,650	971	237,111
Total Fund Balance	<u>11,142</u>	<u>18,490</u>	<u>505,326</u>	<u>217,650</u>	<u>971</u>	<u>753,579</u>
Total Liabilities and Fund Balance	<u>\$ 11,142</u>	<u>\$ 18,490</u>	<u>\$ 638,804</u>	<u>\$ 723,362</u>	<u>\$ 4,741</u>	<u>\$ 1,396,539</u>

**CITY OF FERNLEY**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>MUNICIPAL COURT ADMINISTRATIVE FEES FUND</b>	<b>MUNICIPAL COURT FACILITIES FEES FUND</b>	<b>RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND</b>	<b>GRANTS FUND</b>	<b>PRIVATE SECTOR COMMUNITY SUPPORT FUND</b>	<b>TOTAL</b>
<b>REVENUES</b>						
Taxes:						
Residential construction tax	\$ -	\$ -	\$ 27,208	\$ -	\$ -	\$ 27,208
Intergovernmental						
Grant	-	-	-	698,535	-	698,535
Fines and forfeits:						
Municipal administrative fees	10,660	13,697	-	-	-	24,357
Miscellaneous:						
Interest earnings	75	376	30,277	17,486	9	48,223
Other	-	-	4,053	-	12,725	16,778
Total Revenues	<u>10,735</u>	<u>14,073</u>	<u>61,538</u>	<u>716,021</u>	<u>12,734</u>	<u>815,101</u>
<b>EXPENDITURES</b>						
Services and supplies:						
Judicial	5,922	-	-	-	-	5,922
Culture and recreation	-	-	-	-	31,138	31,138
Community development	-	-	-	315,230	-	315,230
Total Services and supplies	<u>5,922</u>	<u>-</u>	<u>-</u>	<u>315,230</u>	<u>31,138</u>	<u>352,290</u>
Capital outlay:						
Culture and recreation	-	-	132,013	-	-	132,013
Community development	-	-	-	720,701	-	720,701
Total Capital outlay	<u>-</u>	<u>-</u>	<u>132,013</u>	<u>720,701</u>	<u>-</u>	<u>852,714</u>
Total Expenditures	<u>5,922</u>	<u>-</u>	<u>132,013</u>	<u>1,035,931</u>	<u>31,138</u>	<u>1,205,004</u>
Excess (Deficiency) of Revenues over (under) Expenditures	4,813	14,073	(70,475)	(319,910)	(18,404)	(389,903)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in (out)	-	-	-	(10,000)	20,000	10,000
Net Change in Fund Balance	4,813	14,073	(70,475)	(329,910)	1,596	(379,903)
<b>FUND BALANCE, JULY 1</b>	<u>6,329</u>	<u>4,417</u>	<u>575,801</u>	<u>547,560</u>	<u>(625)</u>	<u>1,133,482</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 11,142</u>	<u>\$ 18,490</u>	<u>\$ 505,326</u>	<u>\$ 217,650</u>	<u>\$ 971</u>	<u>\$ 753,579</u>

**CITY OF FERNLEY  
MUNICIPAL COURT ADMINISTRATIVE FEES FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Fines and forfeits:			
Municipal administrative fees	\$ 8,500	\$ 10,660	\$ 2,160
Miscellaneous:			
Interest earnings	<u>600</u>	<u>75</u>	<u>(525)</u>
Total Revenues	9,100	10,735	1,635
<b>EXPENDITURES</b>			
Judicial			
Services and supplies	<u>8,000</u>	<u>5,922</u>	<u>2,078</u>
Excess (Deficiency) of Revenue Over Expenditures	1,100	4,813	3,713
<b>FUND BALANCE, July 1</b>	<u>6,329</u>	<u>6,329</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 7,429</u>	<u>\$ 11,142</u>	<u>\$ 3,713</u>

**CITY OF FERNLEY  
MUNICIPAL COURT FACILITY FEES FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<b>REVENUES</b>			
Fines and forfeits:			
Municipal administrative fees	\$ 16,000	\$ 13,697	\$ (2,303)
Miscellaneous:			
Interest earnings	500	376	(124)
Total Revenues	16,500	14,073	(2,427)
<b>FUND BALANCE, July 1</b>	4,417	4,417	-
<b>FUND BALANCE, June 30</b>	\$ 20,917	\$ 18,490	\$ (2,427)

**CITY OF FERNLEY  
RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Taxes:			
Residential construction tax	\$ 20,000	\$ 27,208	\$ 7,208
Intergovernmental:			
Grant	3,800	-	(3,800)
Miscellaneous:			
Interest earnings	24,000	30,277	6,277
Other	<u>38,600</u>	<u>4,053</u>	(34,547)
Total Revenues	86,400	61,538	(24,862)
<b>EXPENDITURES</b>			
Culture and recreation:			
Capital outlay	<u>178,400</u>	<u>132,013</u>	<u>46,387</u>
Excess (Deficiency) of Revenue Over Expenditures	(92,000)	(70,475)	21,525
<b>FUND BALANCE, July 1</b>	<u>575,801</u>	<u>575,801</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 483,801</u>	<u>\$ 505,326</u>	<u>\$ 21,525</u>

**CITY OF FERNLEY  
GRANTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Intergovernmental Grant	\$ 715,793	\$ 698,535	\$ (17,258)
Miscellaneous: Interest earnings	<u>15,000</u>	<u>17,486</u>	<u>2,486</u>
Total Revenues	<u>730,793</u>	<u>716,021</u>	<u>(14,772)</u>
<b>EXPENDITURES</b>			
Community Development: Services and supplies	1,255,390	315,230	940,160
Capital outlay	<u>-</u>	<u>720,701</u>	<u>(720,701)</u>
Total Expenditures	<u>1,255,390</u>	<u>1,035,931</u>	<u>219,459</u>
Excess (Deficiency) of Revenues Over Expenditures	(524,597)	(319,910)	204,687
<b>OTHER FINANCING USES</b>			
Transfers out:	<u>10,000</u>	<u>10,000</u>	<u>-</u>
<b>FUND BALANCE, July 1</b>	<u>547,560</u>	<u>547,560</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 12,963</u>	<u>\$ 217,650</u>	<u>\$ 204,687</u>

**CITY OF FERNLEY  
PRIVATE SECTOR COMMUNITY SUPPORT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ -	\$ 9	\$ 9
Other	<u>7,510</u>	<u>12,725</u>	<u>5,215</u>
Total Revenues	7,510	12,734	5,224
<b>EXPENDITURES</b>			
Culture and Recreation:			
Services and supplies	<u>26,500</u>	<u>31,138</u>	<u>(4,638)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(18,990)</u>	<u>(18,404)</u>	<u>586</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in:	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Net Change in Fund Balance	1,010	1,596	586
<b>FUND BALANCE, July 1</b>	<u>(625)</u>	<u>(625)</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 385</u>	<u>\$ 971</u>	<u>\$ 586</u>

**CITY OF FERNLEY  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 75,000	\$ 75,593	\$ 593
<b>EXPENDITURES</b>			
Community development:			
Services and supplies	-	25,611	(25,611)
Capital outlay	<u>1,471,000</u>	<u>1,286,600</u>	<u>184,400</u>
Total Expenditures	<u>1,471,000</u>	<u>1,312,211</u>	<u>158,789</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,396,000)	(1,236,618)	(159,382)
<b>FUND BALANCE, July 1</b>	<u>2,397,511</u>	<u>2,397,511</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 1,001,511</u>	<u>\$ 1,160,893</u>	<u>\$ (159,382)</u>

**CITY OF FERNLEY  
WATER UTILITY ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
User fees	\$ 3,750,000	\$ 3,273,625	\$ (476,375)
Operating Grant	438,681	424,671	(14,010)
Total Operating Revenues	<u>4,188,681</u>	<u>3,698,296</u>	<u>(490,385)</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	522,000	468,961	53,039
Employee benefits	268,100	169,253	98,847
Services and supplies	1,784,891	1,530,603	254,288
Depreciation	860,000	917,123	(57,123)
Total Operating Expenses	<u>3,434,991</u>	<u>3,085,940</u>	<u>349,051</u>
Operating Income (Loss)	<u>753,690</u>	<u>612,356</u>	<u>(141,334)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	20,000	699,687	679,687
In lieu of water rights fees	100,000	56,489	(43,511)
Miscellaneous	293,042	310,744	17,702
Interest expense	(18,000)	(66,905)	(48,905)
Total Nonoperating Revenue (Expense)	<u>395,042</u>	<u>1,000,015</u>	<u>604,973</u>
Income (Loss) Before Capital Contributions	<u>1,148,732</u>	<u>1,612,371</u>	<u>463,639</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	100,000	116,211	16,211
Developer agreements	30,000	12,831	(17,169)
Developer contributed infrastructure	5,000,000	1,637,104	(3,362,896)
Developer contributed water rights	10,000,000	945,063	(9,054,937)
Total Capital Contributions	<u>15,130,000</u>	<u>2,711,209</u>	<u>(12,418,791)</u>
Change in Net Assets	16,278,732	4,323,580	(11,955,152)
<b>NET ASSETS, July 1</b>	<u>65,789,293</u>	<u>65,789,292</u>	<u>(1)</u>
<b>NET ASSETS, June 30</b>	<u>\$ 82,068,025</u>	<u>\$ 70,112,872</u>	<u>\$ (11,955,153)</u>

**CITY OF FERNLEY  
SEWER UTILITY ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
User fees	\$ 1,830,000	\$ 1,829,736	\$ (264)
<b>OPERATING EXPENSES</b>			
Salaries and wages	458,100	420,689	37,411
Employee benefits	229,200	153,949	75,251
Services and supplies	686,350	676,754	9,596
Depreciation	580,000	621,502	(41,502)
Total Operating Expenses	<u>1,953,650</u>	<u>1,872,894</u>	<u>80,756</u>
Operating Income (Loss)	<u>(123,650)</u>	<u>(43,158)</u>	<u>80,492</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	300,000	377,633	77,633
Miscellaneous	-	17,322	17,322
Interest expense	(46,100)	(139,968)	(93,868)
Total Nonoperating Revenue (Expense)	<u>253,900</u>	<u>254,987</u>	<u>1,087</u>
Income (Loss) Before Capital Contributions	<u>130,250</u>	<u>211,829</u>	<u>81,579</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	175,000	250,756	75,756
Developer agreements	1,000	2,182	1,182
Developer contributed infrastructure	5,020,000	1,378,372	(3,641,628)
Total Capital Contributions	<u>5,196,000</u>	<u>1,631,310</u>	<u>(3,564,690)</u>
Change in Net Assets	5,326,250	1,843,139	(3,483,111)
<b>NET ASSETS, July 1</b>	<u>28,281,462</u>	<u>28,281,462</u>	<u>-</u>
<b>NET ASSETS, June 30</b>	<u>\$ 33,607,712</u>	<u>\$ 30,124,601</u>	<u>\$ (3,483,111)</u>

**CITY OF FERNLEY  
NON-POTABLE WATER ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
Miscellaneous operating revenues	\$ -	\$ 1,055	\$ 1,055
<b>OPERATING EXPENSES</b>			
Salaries and wages	117,600	108,803	(8,797)
Employee benefits	47,000	36,818	(10,182)
Services and supplies	40,600	51,071	10,471
Depreciation	15,000	15,959	959
Total Operating Expense	<u>220,200</u>	<u>212,651</u>	<u>(7,549)</u>
Operating Income (Loss)	<u>(220,200)</u>	<u>(211,596)</u>	<u>8,604</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	<u>55,000</u>	<u>48,938</u>	<u>(6,062)</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	26,000	22,102	(3,898)
Developer contributed infrastructure	<u>-</u>	<u>214,727</u>	<u>214,727</u>
Total Capital Contributions	<u>26,000</u>	<u>236,829</u>	<u>210,829</u>
Change in Net Assets	(139,200)	74,171	213,371
<b>NET ASSETS, July 1</b>	<u>1,784,145</u>	<u>1,784,145</u>	<u>-</u>
<b>NET ASSETS, June 30</b>	<u>\$ 1,644,945</u>	<u>\$ 1,858,316</u>	<u>\$ 213,371</u>

**CITY OF FERNLEY**  
**AGENCY FUND - MUNICIPAL TRUST FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BALANCE</u> <u>JULY 1, 2007</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2008</u>
<b>ASSETS</b>				
Cash and investments	\$ 9,433	\$ 56,767	\$ 55,264	\$ 10,936
<b>LIABILITIES</b>				
Bail bond deposits held for others	\$ 9,433	\$ 55,984	\$ 55,264	\$ 10,153
Other liabilities	-	783	-	783
Total Liabilities	\$ 9,433	\$ 56,767	\$ 55,264	\$ 10,936

# **STATISTICAL SECTION**

# CITY OF FERNLEY, NEVADA

## STATISTICAL SECTION

*This part of the City of Fernley's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.*

<b><u>Section Contents</u></b>	<b><u>Schedule #</u></b>
<b>Financial Trends</b> <i>These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time.</i>	<b>1 - 4</b>
<b>Revenue Capacity</b> <i>These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.</i>	<b>5 - 9</b>
<b>Debt Capacity</b> <i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt, and its ability to issue additional future debt.</i>	<b>10 - 14</b>
<b>Demographic and Economic Information</b> <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.</i>	<b>15 - 16</b>
<b>Operating Information</b> <i>These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.</i>	<b>17 - 19</b>

**Sources:** *Unless otherwise noted, the information in these schedules is derived from comprehensive annual financial reports for the relevant year. The city implemented GASB 34 in 2003, and schedules presenting government-wide information include information beginning in that year.*

## CITY OF FERNLEY, NEVADA

## NET ASSETS BY COMPONENT

## LAST FIVE FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,				
	2004	2005	2006	2007	2008
<b>GOVERNMENTAL ACTIVITIES</b>					
Invested in capital assets, net of related debt	\$ 11,913,896	\$ 15,883,001	\$ 24,608,748	\$ 30,721,447	\$ 35,677,010
Restricted	-	-	-	-	362,289
Unrestricted	3,927,329	5,884,904	5,535,323	4,549,063	2,395,580
Total Governmental Activities Net Assets	\$ <u>15,841,225</u>	\$ <u>21,767,905</u>	\$ <u>30,144,071</u>	\$ <u>35,270,510</u>	\$ <u>38,434,879</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Invested in capital assets, net of related debt	\$ 32,471,737	\$ 39,238,863	\$ 57,581,522	\$ 35,352,177	\$ 77,070,390
Restricted	-	535,237	579,560	-	-
Unrestricted	12,780,664	16,901,342	17,939,851	60,502,722	25,025,399
Total Business-type Activities Net Assets	\$ <u>45,252,401</u>	\$ <u>56,675,442</u>	\$ <u>76,100,933</u>	\$ <u>95,854,899</u>	\$ <u>102,095,789</u>
<b>PRIMARY GOVERNMENT</b>					
Invested in capital assets, net of related debt	\$ 44,385,633	\$ 55,121,864	\$ 82,190,270	\$ 66,073,624	\$ 112,747,400
Restricted	-	535,237	579,560	-	362,289
Unrestricted	16,707,993	22,786,246	23,475,174	65,051,785	27,420,979
Total Primary Government Net Assets	\$ <u>61,093,626</u>	\$ <u>78,443,347</u>	\$ <u>106,245,004</u>	\$ <u>131,125,409</u>	\$ <u>140,530,668</u>

Trend data is only available for the last five years due to implementation of GASB 34.

CITY OF FERNLEY, NEVADA

CHANGE IN NET ASSETS

LAST FIVE FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,				
	2004	2005	2006	2007	2008
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government	\$ 587,873	\$ 595,912	\$ 796,403	\$ 1,173,360	\$ 1,572,115
Judicial	156,796	173,804	170,479	194,353	252,189
Public works	463,188	642,480	729,919	1,326,718	783,565
Culture and recreation	362,983	458,828	646,259	838,674	689,281
Community development	434,627	861,555	875,056	848,010	1,977,586
Health	50,560	102,768	263,919	295,413	280,743
<b>Debt Service:</b>					
Interest and fiscal charges	-	-	224,500	221,032	214,326
Total Governmental Activities Expenses	<u>2,056,027</u>	<u>2,835,347</u>	<u>3,706,535</u>	<u>4,897,560</u>	<u>5,769,805</u>
<b>Business-type Activities:</b>					
Water	2,035,646	2,134,429	2,422,583	3,058,553	3,152,845
Sewer	1,347,388	1,509,433	1,530,898	1,812,583	2,012,862
Other	-	-	700	9,340	212,651
Total Business-type Activities Expenses	<u>3,383,034</u>	<u>3,643,862</u>	<u>3,954,181</u>	<u>4,880,476</u>	<u>5,378,358</u>
Total Primary Government Expenses	<u>\$ 5,439,061</u>	<u>\$ 6,479,209</u>	<u>\$ 7,660,716</u>	<u>\$ 9,778,036</u>	<u>\$ 11,148,163</u>
<b>PROGRAM REVENUES</b>					
<b>Governmental Activities:</b>					
Charges for Services:					
General government	\$ 731,510	\$ 887,827	\$ 1,008,662	\$ 1,137,510	\$ 1,030,613
Judicial	170,835	423,178	196,249	89,248	162,416
Public works	10,901	31,278	40,071	29,754	23,021
Culture and recreation	16,950	13,400	8,150	48,355	1,600
Community development	1,422,438	1,804,978	1,123,508	679,608	509,440
Health	1,766	1,611	2,341	4,318	4,650
Operating Grants and Contributions	276,701	268,632	348,627	60,000	60,000
Capital Grants and Contributions	8,112,137	4,232,398	7,531,080	6,052,749	4,869,410
Total Governmental Activities Program Revenues	<u>10,743,238</u>	<u>7,663,302</u>	<u>10,258,688</u>	<u>8,101,542</u>	<u>6,661,150</u>
<b>Business-type Activities:</b>					
Charges for Services:					
Water	1,794,430	1,975,451	2,201,916	2,306,193	3,273,625
Sewer	1,187,212	1,441,455	1,686,101	1,754,820	1,829,736
Other	-	131,300	-	-	1,055
Operating Grants and Contributions	-	-	-	-	424,671
Capital Grants and Contributions:	10,829,870	11,157,733	18,729,430	19,015,856	4,579,348
Total Business-type Activities Program Revenues	<u>13,811,512</u>	<u>14,705,939</u>	<u>22,617,447</u>	<u>23,076,869</u>	<u>10,108,435</u>
Total Primary Government Program Revenue	<u>\$ 24,554,750</u>	<u>\$ 22,369,241</u>	<u>\$ 32,876,135</u>	<u>\$ 31,178,411</u>	<u>\$ 16,769,585</u>
<b>NET (EXPENSE)/REVENUE</b>					
Governmental Activities	\$ 8,687,211	\$ 4,827,956	\$ 6,552,153	\$ 3,203,982	\$ 891,345
Business-type Activities	<u>10,428,478</u>	<u>11,062,077</u>	<u>18,663,266</u>	<u>18,196,393</u>	<u>4,730,077</u>
Total Primary Government Net (Expense)/Revenue	<u>\$ 19,115,689</u>	<u>\$ 15,890,033</u>	<u>\$ 25,215,419</u>	<u>\$ 21,400,375</u>	<u>\$ 5,621,422</u>

CITY OF FERNLEY, NEVADA

CHANGE IN NET ASSETS

LAST FIVE FISCAL YEARS

CONTINUED

	FISCAL YEAR ENDED JUNE 30,				
	2004	2005	2006	2007	2008
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>					
<b>Governmental Activities:</b>					
Taxes:					
Property	\$ 427,738	\$ 496,207	\$ 591,082	\$ 925,297	\$ 1,074,726
Consolidated	137,610	163,429	189,158	188,128	197,040
Fuel	216,736	233,448	227,691	259,603	304,718
Unrestricted gaming licenses	75,015	71,271	97,121	98,753	96,021
Unrestricted interest income	22,441	97,729	329,341	361,301	175,866
Miscellaneous revenue	35,660	36,640	389,619	89,378	424,649
Total Governmental Activities	<u>915,200</u>	<u>1,098,724</u>	<u>1,824,012</u>	<u>1,922,460</u>	<u>2,273,020</u>
<b>Business-type Activities:</b>					
Unrestricted interest income	86,972	295,730	702,781	1,511,286	1,126,258
Miscellaneous revenue	37,142	65,234	59,441	46,287	384,555
Total Business-type Activities	<u>124,114</u>	<u>360,964</u>	<u>762,222</u>	<u>1,557,573</u>	<u>1,510,813</u>
Total Primary Government General Revenues	<u>\$ 1,039,314</u>	<u>\$ 1,459,688</u>	<u>\$ 2,586,234</u>	<u>\$ 3,480,033</u>	<u>\$ 3,783,833</u>
<b>CHANGE IN NET ASSETS</b>					
Governmental activities	\$ 9,602,411	\$ 5,926,680	\$ 8,376,165	\$ 5,126,439	\$ 3,164,365
Business-type activities	<u>10,552,592</u>	<u>11,423,041</u>	<u>19,425,488</u>	<u>19,753,966</u>	<u>6,240,890</u>
Total Primary Government Change in Net Assets	<u>\$ 20,155,003</u>	<u>\$ 17,349,721</u>	<u>\$ 27,801,653</u>	<u>\$ 24,880,405</u>	<u>\$ 9,405,255</u>

Trend data is only available for the last five years due to implementation of GASB 34.

**CITY OF FERNLEY, NEVADA**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**

**LAST FIVE FISCAL YEARS**

	<b>FISCAL YEAR ENDED JUNE 30,</b>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General fund					
Reserved	\$ 1,330	\$ 5,205	\$ 6,239	\$ 6,709	\$ 366,424
Unreserved	790,990	869,817	938,757	582,237	279,443
Total general fund	<u>\$ 792,320</u>	<u>\$ 875,022</u>	<u>\$ 944,996</u>	<u>\$ 588,946</u>	<u>\$ 645,867</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue fund	\$ 1,688,126	\$ 2,302,972	\$ 1,398,315	\$ 1,568,588	\$ 971,544
Capital projects fund	1,499,182	2,502,129	8,032,479	2,397,510	1,160,893
Total all other governmental funds	<u>\$ 3,187,308</u>	<u>\$ 4,805,101</u>	<u>\$ 9,430,794</u>	<u>\$ 3,966,098</u>	<u>\$ 2,132,437</u>

Trend data is only available for the last five years due to implementation of GASB 34.

**CITY OF FERNLEY, NEVADA**  
**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST FIVE FISCAL YEARS**

	FISCAL YEAR ENDED JUNE 30,				
	2004	2005	2006	2007	2008
<b>REVENUES</b>					
Taxes	\$ 1,190,598	\$ 1,316,826	\$ 1,787,949	\$ 988,056	\$ 1,077,545
Licenses and permits	2,241,629	2,796,965	2,271,703	1,949,947	1,663,745
Intergovernmental	1,415,460	1,354,521	1,231,732	2,333,333	2,117,309
Fines and forfeits	170,836	175,167	228,424	234,353	207,465
Miscellaneous	199,081	192,613	794,352	581,833	610,883
Total revenues	<u>5,217,604</u>	<u>5,836,092</u>	<u>6,314,160</u>	<u>6,087,522</u>	<u>5,676,947</u>
<b>EXPENDITURES</b>					
General government	528,906	595,297	717,355	1,025,295	1,238,982
Judicial	154,514	171,868	169,163	194,518	251,829
Public works	331,318	420,500	376,571	515,394	428,988
Culture and recreation	324,629	381,962	508,797	647,542	522,392
Community development	405,298	669,105	810,965	834,503	1,226,149
Health	48,395	96,876	256,738	275,905	262,526
Debt service:					
Principal	-	-	-	158,000	165,000
Interest	-	-	94,789	221,032	214,326
Capital outlay	1,499,163	1,799,989	3,684,115	8,097,529	3,143,509
Total expenditures	<u>3,292,223</u>	<u>4,135,597</u>	<u>6,618,493</u>	<u>11,969,718</u>	<u>7,453,701</u>
Excess (deficiency) of revenues over expenditures	<u>1,925,381</u>	<u>1,700,495</u>	<u>(304,333)</u>	<u>(5,882,196)</u>	<u>(1,776,754)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out	(1,931,030)	(1,690,000)	(1,050,000)	(711,712)	(20,000)
Transfers in	1,931,030	1,690,000	1,050,000	711,712	20,000
General obligations bonds issued	-	-	5,000,000	-	-
Sale of capital assets	4,277	-	-	61,450	-
Total other financing sources (uses)	<u>4,277</u>	<u>-</u>	<u>5,000,000</u>	<u>61,450</u>	<u>-</u>
Net change in fund balance	<u>\$ 1,929,658</u>	<u>\$ 1,700,495</u>	<u>\$ 4,695,667</u>	<u>\$ (5,820,746)</u>	<u>\$ (1,776,754)</u>
Debt service as a percentage of noncapital expenditures	0.0%	0.0%	3.3%	10.9%	9.6%

Trend data is only available for the last five years due to implementation of GASB 34.

**CITY OF FERNLEY, NEVADA**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST SEVEN FISCAL YEARS\***

Fiscal Year	Real and Personal Property		Ratio of Total Assessed To Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	
2002*	233,552,164	667,291,897	35.0
2003	246,640,476	704,687,074	35.0
2004	279,452,986	798,437,103	35.0
2005	303,180,006	866,228,589	35.0
2006	377,743,200	1,079,266,286	35.0
2007	511,154,623	1,460,441,780	35.0
2008	679,959,918	1,942,742,623	35.0

Source: State of NV Department of Taxation's "Local Government Finance Redbook"

\* Information presented from City incorporation on July 1, 2001 forward.

**CITY OF FERNLEY, NEVADA**  
**PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS**  
**(PER \$100 OF ASSESSED VALUE)**  
**LAST SEVEN FISCAL YEARS\***

<b>Fiscal Year</b>	<b>City of Fernley</b>	<b>State of Nevada</b>	<b>School District</b>	<b>County</b>	<b>Special Districts</b>	<b>Total</b>
2002*	0.1528	0.1500	1.3367	0.7577	0.3431	2.7403
2003	0.1528	0.1500	1.3367	0.7839	0.3544	2.7778
2004	0.1528	0.1700	1.3367	0.8350	0.3627	2.8572
2005	0.1528	0.1700	1.3367	0.8644	0.3726	2.8965
2006	0.1528	0.1700	1.3367	0.8644	0.3736	2.8975
2007	0.3481	0.1700	1.3367	0.8644	0.0274	2.7466
2008	0.3772	0.1700	1.3367	0.8644	0.3505	3.0988

Source: State of NV Department of Taxation's "Local Government Finance Redbook"

\* Information presented from City incorporation on July 1, 2001 forward.

**CITY OF FERNLEY, NEVADA  
PRINCIPAL PROPERTY OWNERS\***

**June 30, 2008**

Taxpayer	Product/Service	Taxable		Approximate Percentage of Taxable Assessed Valuation
		Estimated Appraised Value (1)	Taxable Assessed Value	
Sierra Pacific Power	Utility	\$ 107,306,331	\$ 37,557,216	5.523%
BMO Leasing US, Inc. (Quebecor)	Printing	38,805,389	13,581,886	1.997%
Southwest Gas Corp.	Utility	32,149,740	11,252,409	1.655%
TREX Company, Inc.	Wood Product Manufacturer	27,627,589	9,669,656	1.422%
Sherwin-Williams Acceptance Corp	Paint Manufacturer	26,475,009	9,266,253	1.363%
1600 East Newlands Dr., LLC	Developer	24,543,417	8,590,196	1.263%
Nevada Cement Company	Cement Manufacturer	22,698,257	7,944,390	1.168%
Sonterra Development Co. Inc.	Developer	22,220,829	7,777,290	1.144%
Reynen & Bardis	Paint Manufacturer	22,039,854	7,713,949	1.134%
Amazon.com	Retail Distributor	19,356,889	6,774,911	0.996%
Totals		<u>\$ 343,223,303</u>	<u>\$ 120,128,156</u>	<u>17.666%</u>

Source: Lyon County Assessor's Office

Note: (1) Estimated appraised value is based on assessed value at 35% of appraised value

\*Nine year period not available as date of incorporation is July 1, 2001

**CITY OF FERNLEY, NEVADA**

**WATER USER FEES**

**LAST SEVEN FISCAL YEARS\***

	FISCAL YEAR ENDED JUNE 30,						
	2002	2003	2004	2005	2006	2007	2008
<b>WATER UTILITY</b>							
Number of Customers	3309	3,966	4,980	6,083	6,634	6,816	7,170
Annual Average Day Demand per customer (1)	750	750	750	750	750	750	750
Gallons of water used (in thousands)	905839	1,085,693	1,363,275	1,665,221	1,816,058	1,865,880	1,954,754
Direct rater per 1000 gallons	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 1.11

Source: City of Fernley

\*Information presented from City incorporation on July 1, 2001 forward

## CITY OF FERNLEY, NEVADA

## PRINCIPLE WATER USERS

JUNE 30,

Employer	2008		2004*	
	User Fees	Rank	User Fees	Rank
Trex Manufacturing Company	\$ 70,619	1	\$ 42,141	1
Quebecor World MS #2	52,863	2	31,703	2
Veterans Cemetery	25,186	3	15,059	4
Fernley High School	18,621	4	11,081	7
City of Fernley	18,021	5	-	-
Hollywood Investments	17,277	6	18,076	3
Trails End Mobile Home Park	13,764	7	12,016	5
Fernley Intermediate School	11,748	8	6,318	9
Blue Beacon Wash	11,656	9	7,413	8
Trex Company	11,565	10	-	-
Rewana Mobile Home Park	-	-	5,708	10
Green Valley Park	-	-	11,957	6

Source: City of Fernley

\* Earliest year information available is 2004 due to change in tracking system.

**CITY OF FERNLEY, NEVADA**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST SEVEN FISCAL YEARS\***

Fiscal Year	Governmental Activities	Business-Type Activities		Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Water Bonds	Sewer Bonds			
2002	90,314	-	-	90,314	0.04%	9
2003	-	-	-	-	0.00%	-
2004	-	-	-	-	0.00%	-
2005	-	-	-	-	0.00%	-
2006	5,000,000	670,000	890,282	6,560,282	1.64%	401
2007	4,842,000	45,015,000	6,267,780	56,124,780	12.20%	2,977
2008	4,677,000	74,954,997	8,640,332	88,272,329	17.12%	4,507

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
 \*Information presented from City incorporation on July 1, 2001 forward  
 (1) See the Schedule of Demographic Statistics on page 65 for personal income and population data.

**CITY OF FERNLEY, NEVADA**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**LAST SEVEN FISCAL YEARS\***

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Percentage of Actual Property Value (1)</b>	<b>Per Capita (2)</b>
2002	90,314	1,341,684	1,431,998	0.21%	150.28
2003	-	1,219,713	1,219,713	0.17%	116.83
2004	-	1,108,830	1,108,830	0.14%	94.63
2005	-	1,008,027	1,008,027	0.12%	73.18
2006	5,000,000	1,560,282	6,560,282	0.61%	401.07
2007	4,842,000	51,282,780	56,124,780	3.84%	2,977.44
2008	4,677,000	83,595,329	88,272,329	4.54%	4,507.14

Note: (1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for Taxable Property for property value data.

(2) Population can be found in the Schedule of Demographic Statistics page 65.

\*Information presented from City incorporation on July 1, 2001 forward

CITY OF FERNLEY, NEVADA

COMPUTATION OF GENERAL OBLIGATION DIRECT AND OVERLAPPING DEBT

June 30, 2008

	Total General Obligation Debt	Presently Self-Supporting General Obligation Debt	Net Debt Outstanding	% Applicable	Applicable Net Debt
<b>Direct:</b>					
City of Fernley	\$ 88,272,329	\$ 83,595,329	\$ 4,677,000	100.00%	\$ <u>4,677,000</u>
<b>Overlapping:</b>					
State of Nevada (1)	2,875,218	910,602	1,964,616	0.44%	8,644
Lyon County (2)	31,843,337	6,916,014	24,927,323	52.00%	12,962,208
Lyon County School (3) District	60,440,000	-	60,440,000	35.88%	<u>21,685,872</u>
Total Overlapping debt					<u>34,656,724</u>
Total Direct and Overlapping Debt					<u>\$ 39,333,724</u>

Source:

- (1) State of Nevada
- (2) Lyon County
- (3) Lyon County School District

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Fernley. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

**CITY OF FERNLEY, NEVADA**  
**COMPUTATION OF LEGAL DEBT MARGIN**

**June 30, 2008**

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Estimated Assessed Value		\$ 679,959,918
Debt Limit - 30 Percent of Total Assessed Value		203,987,975
Total Amount of Debt Applicable to Debt Limit		<u>88,272,329</u>
Legal Debt Margin		<u><u>\$ 115,715,646</u></u>

Note: Legal debt margin as set forth in NRS 266.600

**CITY OF FERNLEY, NEVADA**  
**WATER AND SEWER FUNDS REVENUE BOND COVERAGE - COMBINED**  
**LAST SEVEN FISCAL YEARS\***

Fiscal Year	Operating Revenue	Operating Expenses(1)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002*	2,201,361	1,645,441	555,920	283,405	107,847	391,252	142%
2003	2,501,125	1,815,858	685,267	243,778	97,428	341,206	201%
2004	2,981,642	2,096,056	885,586	248,173	84,152	332,325	266%
2005	3,416,906	2,338,729	1,078,177	262,745	72,580	335,325	322%
2006	3,888,017	2,647,912	1,240,105	277,502	60,323	337,825	367%
2007	4,061,013	2,873,207	1,187,806	287,451	620,879	908,330	131%
2008	5,528,032	3,420,207	2,107,825	1,122,600	3,531,002	4,653,602	45%

Note:

(1) Total operating expenses exclusive of depreciation

\*Information presented from City incorporation on July 1, 2001 forward

**CITY OF FERNLEY, NEVADA  
 DEMOGRAPHIC STATISTICS  
 LAST SEVEN FISCAL YEARS\***

Fiscal Year	Population (1)	Total Personal Income	Per Capita Personal Income	Unemployment Rate (2)
2002	9,529	\$217,089,678	\$22,782	5.60%
2003	10,440	\$243,617,400	\$23,335	5.40%
2004	11,718	\$285,380,172	\$24,354	5.20%
2005	13,775	\$336,110,000	\$24,400	5.00%
2006	16,357	\$399,110,800	\$24,400	4.70%
2007	18,850	\$459,940,000	\$24,400	7.30%
2008	19,585	\$515,555,540	\$26,324	8.90%

**Sources:**

- (1) Nevada Demographer's Office
- (2) Bureau of Economic Analysis
- (3) Nevada Employment Security Department-  
Lyon County Data

\*Information presented from City incorporation on July 1, 2001 forward

**CITY OF FERNLEY, NEVADA**

**MAJOR EMPLOYERS**

**JUNE 30,**

Employer	2008			2005*		
	Employees	Rank	Percentage of Total County Employment (1)	Employees	Rank	Percentage of Total County Employment (1)
Amazon.com	1000-1499	1	6.71%	700-799	1	6.14%
MSC Industrial Supply Co.	200-299	2	1.97%	100-199	3	1.23%
TREX Company	200-299	3	1.97%	100-199	4	1.23%
Quebecor World Nevada Inc.	200-299	4	1.97%	200-299	2	2.05%
Nevada Cement Company	100-199	5	1.18%	100-199	6	1.23%
Scolaris Warehouse Markets, Inc.	100-199	6	1.18%	90-99	9	0.78%
Silverado Casino	90-99	7	0.75%	90-99	7	0.78%
Valley Joist Inc.	90-99	8	0.75%			
Conagra Foods Food Ingredients	80-89	9	0.67%			

Source: Nevada Department of Employment, Training and Rehabilitation

(1) Total employment statistics are for the Lyon County area, as information not available at the City level.

\* Information presented from 2005, the first year the Comprehensive Annual Financial Report was prepared.

**CITY OF FERNLEY, NEVADA**

**FULL-TIME EQUIVALENT CITY OF FERNLEY, NEVADA EMPLOYEES BY FUNCTION/PROGRAM**

**LAST SEVEN FISCAL YEARS\***

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
FUNCTION/PROGRAM							
General government	11.9	14.3	14.7	15.5	12.1	18.6	22.3
Judicial	1.7	1.7	1.9	1.9	2.0	1.9	1.9
Public works	1.2	1.2	1.3	1.3	2.0	1.5	1.8
Culture and recreation	3.5	4.5	4.5	7.5	7.5	10.9	11.5
Community development	4.5	7.0	7.0	12.0	15.5	16.0	14.0
Health	-	-	-	2.0	3.9	2.9	2.5
Water	5.4	5.4	5.6	5.9	8.6	6.8	8.1
Sewer	5.4	5.4	5.6	5.9	9.1	6.8	8.1
Total	<u>33.6</u>	<u>39.5</u>	<u>40.6</u>	<u>51.9</u>	<u>60.7</u>	<u>65.4</u>	<u>70.1</u>

Source: City of Fernley, Nevada FY 2007/2008 Annual Budget

\*Information presented from City incorporation on July 1, 2001 forward

**CITY OF FERNLEY, NEVADA**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**LAST SIX FISCAL YEARS\***

<u>Function/Program</u>	FISCAL YEAR ENDED JUNE 30,					
	2003	2004	2005	2006	2007	2008
<b>Judicial:</b>						
Municipal Court Cases Filed:						
Drug	55	33	34	68	35	28
Driving Under Influence	82	71	75	91	81	83
Domestic Violence	37	48	65	45	5	3
Traffic	1,979	2,132	2,410	2,530	1,829	1,668
Non-Traffic	160	309	314	326	319	397
Other	5	0	1	0	0	3
<b>Public Safety:</b>						
Calls for Service:						
Criminal	2,292	2,760	3,072	3,382	3,866	3,633
Non-Criminal	948	828	924	1,028	1,180	1,129
Domestic Violence	312	432	684	678	866	889
Follow-up	1,044	1,488	1,404	1,630	1,439	1,624
Traffic Stops	1,080	672	876	1,026	1,450	1,639
Civil Papers	2,028	1,596	2,028	2,232	2,136	2,601
Animal	132	192	168	102	156	204
Death/Coroner	36	36	36	42	33	45
Public Service	1,536	1,440	1,044	1,250	927	1,191
Assist other Agencies	612	600	684	732	625	1,112
Alarms	216	252	276	346	383	377
Property Damage Accident	72	120	132	92	120	98
Injury Accident	12	12	24	24	20	5
Private Property Accident	60	48	48	48	73	81
Administrative	<u>2,016</u>	<u>2,316</u>	<u>2,196</u>	<u>2,304</u>	<u>2,761</u>	<u>3,113</u>
Total Calls for Service	<u>12,372</u>	<u>12,792</u>	<u>13,572</u>	<u>15,076</u>	<u>16,035</u>	<u>17,741</u>
Total Reports Written	<u>1,788</u>	<u>1,740</u>	<u>1,704</u>	<u>1,756</u>	<u>2,298</u>	<u>2,130</u>
<b>Arrests:</b>						
Felony	84	72	60	90	123	76
Gross Misdemeanor	12	12	24	16	17	27
Misdemeanor	192	168	120	112	143	146
Driving Under the Influence	48	48	36	48	84	90
Domestic Violence	48	48	72	52	71	53
Mental Health	<u>12</u>	<u>12</u>	<u>12</u>	<u>8</u>	<u>12</u>	<u>11</u>
Total Arrests	<u>396</u>	<u>360</u>	<u>312</u>	<u>326</u>	<u>450</u>	<u>403</u>
<b>Citations:</b>						
Traffic	444	240	228	274	593	464
Non-Traffic	<u>240</u>	<u>132</u>	<u>168</u>	<u>162</u>	<u>209</u>	<u>234</u>
Total Citation	<u>684</u>	<u>372</u>	<u>408</u>	<u>436</u>	<u>802</u>	<u>698</u>
<b>Water Utility</b>						
Customer Count	3,966	4,980	6,083	6,634	6,816	6,896
New Connections	657	1,014	1,103	551	182	80
<b>Sewer Utility</b>						
Customer Count	3,950	4,957	6,049	6,600	6,782	6,862
New Connections	649	1,007	1,092	551	182	80
<b>Building</b>						
Number of Inspection Performed	868	1,492	1,445	897	500	352
	<u>7,042</u>	<u>15,929</u>	<u>19,108</u>	<u>13,302</u>	<u>5,838</u>	<u>3,107</u>
<b>Planning</b>						
Number of applications processed	144	195	211	238	223	150

Sources: City of Fernley

\*Information presented for fiscal years as available

## CITY OF FERNLEY, NEVADA

## CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM

## LAST SEVEN FISCAL YEARS\*

Function/Program	2002	2003	2004	2005	2006	2007	2008
Streets							
Public Road Mileage	89.5	92.03	95.45	104.12	106.64	116.96	125.36
Parks and Recreation:							
Park and Open Space	56.9	68	68.3	85.3	150	155	155
Developed Parks	5	7	7	8	11	11	11
Tennis Courts	1	1	1	1	1	1	1
Rodeo Arena	1	1	1	1	2	2	2
Playing Fields	6	6	7	8	10	19	19
Pavilions	1	1	1	2	2	2	3
Skate Park	1	1	1	1	1	1	1
Water Utility:							
Water lines (miles)	73.5	79.4	85.8	92.6	105	115.2	174.7
Fire Hydrants	700	775	850	925	1000	1033	1083
Sewer Utility:							
Sanitary Sewer lines	63.0	68.0	73.4	79.3	90.0	93.6	101.3
Sanitary Sewer	615	864	1113	1362	1510	1600	2126

Sources: City of Fernley

\*Information presented from City incorporation on July 1, 2001 forward

# **COMPLIANCE SECTION**



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

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and City Council of the  
City of Fernley, Nevada

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Fernley, Nevada, (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2008. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. See finding 08-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, the audit committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Fallon, Nevada  
November 28, 2008



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

## **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and City Council of  
City of Fernley, Nevada

### **Compliance**

We have audited the compliance of City of Fernley, Nevada, (the "City"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. City of Fernley's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### **Internal Control over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain

deficiencies in internal control over compliance that we considered to be significant deficiencies and material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 08-2, 08-3, and 08-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-3 and 08-4 to be material weaknesses.

The City of Fernley's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Fernley's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, the audit committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kapouy, Armstrong & Co.*

Fallon, Nevada  
November 28, 2008

**CITY OF FERNLEY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2008**

<b>15.508 PROVIDING WATER TO AT-RISK NATURAL DESERT TERMINAL LAKES</b>	<b>FEDERAL CFDA NUMBER</b>	<b>EXPENDITURES</b>
<b><u>Department of Homeland Security</u></b>		
Passed through State of Nevada:		
Department of Public Safety		
Disaster Grants-Public Assistance	97.036	\$ 698,535
<b><u>Department of Interior:</u></b>		
Direct Program		
Bureau of Reclamation		
Truckee River Operating Agreement	15.508	400,000
Total Expenditures of Federal Awards		\$ 1,098,535

**CITY OF FERNLEY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**A. REPORTING ENTITY:**

The accompanying schedule of expenditures of federal awards presents the expenditure activity of all federal awards programs of City of Fernley (the City) for the year ended June 30, 2008. The City's reporting entity is defined in Note 1 to its basic financial statements. All expenditures of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

**B. BASIS OF ACCOUNTING:**

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

**C. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS:**

Expenditures of federal awards have been included in the individual funds of the City as follows:

Business-Type Activities:	
Water Utility Fund	\$ 400,000
Other Governmental Funds:	
Grants Special Revenue Fund	<u>698,535</u>
	<u>\$ 1,098,535</u>

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Fernley, Nevada for the year ended June 30, 2008.
2. A material weakness was identified during the audit of the financial statements as reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. The audit disclosed no instances of noncompliance, which were material to the financial statements of the City of Fernley, Nevada.
4. Significant deficiencies in internal control over major Federal award programs were disclosed during the audit and are being reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. Certain deficiencies were considered to be material weaknesses.
5. The auditor's report issued an unqualified opinion for major Federal award programs of the City of Fernley, Nevada.
6. Audit findings relative to the major federal award programs for City of Fernley, Nevada for the year ended June 30, 2008 which are required to be reported under Section .510(a) of OMB Circular A-133, are reported in Part C of this schedule.
7. The programs tested as major programs were:
  - Public Assistance Grants, CFDA 97.036
  - Truckee River Settlement Act Implementation, Providing Water to At-Risk Natural Desert Terminal Lakes , CFDA 15.508
8. The dollar threshold for distinguishing Type A and B programs for the year ended June 30, 2008 was \$300,000.
9. The City of Fernley, Nevada did not qualify as a low risk auditee for the year ended June 30, 2008 under the criteria set forth in Section .530 of OMB Circular A-133.

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**B: FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT REPORTED  
IN ACCORDANCE WITH GENERALLY ACCEPTED ADITING STANDARDS  
(GAGAS):**

Finding 08-1

*Condition:* Our audit testing resulted in a significant audit adjustment to correct capital assets records at year-end

*Criteria:* An appropriate control system shall be used to safeguard equipment, equipment shall be adequately maintained and equipment shall be identified as having been purchased with federal funds and properly tracked through the capital asset record system.

*Effect:* The City's capital asset records were materially misstated and required audit adjustment in order for the financial statements to be in accordance with generally accepted accounting principles.

*Cause:* The Accounting Department did not have procedures in place to ensure assets acquired with federal funds were included in the capital asset records.

*Recommendation:* We recommended that the City enhance it's reconciliation procedures to include a review of all accounts utilized for Federal program expenditures to ensure all acquisitions with a cost in excess of the capitalization threshold that are purchased with Federal awards are captured in the capital asset record-keeping system.

*Management response:* See management's response on pages 84-86.

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**C: FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD PROGRAMS:**

U.S. Department of Interior

Finding 08-2

Truckee River Settlement Act Implementation, Providing Water to At-Risk Natural Desert Terminal Lakes, CFDA 15.508

*Condition:* Cash advances are not being limited to immediate cash needs. Two cash advances of \$100,000 and \$300,000 were requested and the related disbursements were then made over a period of several months.

*Criteria:* Cash advances should be done according to the regulations at 43 CFR 12.61 or 43 CFR 12.922 according to Section B.1 of the grant document. The document states cash advances shall be limited to the minimum amounts needed and shall be timed to be in accordance with actual, immediate cash requirements of the recipient in carrying out the purpose of the agreement. The timing and amount of cash advance shall be as close as administratively feasible (generally no more than 3 days) to actual disbursements for direct program costs.

*Questioned Costs:* None.

*Context:* The condition noted above appears to be a systemic problem.

*Effect:* Restrictions may be placed upon reimbursements.

*Cause:* The Accounting Department was unaware of the immediate cash needs requirements.

*Recommendation:* We recommend procedures be put in place to ensure cash advance requests are not made until the invoices are due.

*Management response:* See management's response on pages 84-86.

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

U.S. Department of Interior

Finding 08-3:

Truckee River Settlement Act Implementation, Providing Water to At-Risk Natural Desert Terminal Lakes, CFDA 15.508

*Condition:* Financial Status and Performance Progress reports were not being filed timely. None of the required reports were filed until the Department of Interior notified the City that the quarterly reports for the first two quarters and the semi-annual report for the first six months of the year ending September 30, 2008, and the annual report for the year ended September 30, 2007 had not been filed and were due within 30 days.

*Criteria:* The Department of Interior's regulations (43 CFR 12) require a Performance Progress Report and a Financial Status Report to be submitted quarterly and semi-annually within 30 calendar days of the end the reporting period.

*Questioned Costs:* None.

*Context:* The condition noted above appears to be a systemic problem.

*Effect:* Failure to comply may result in withholding of funds, suspension or termination of program and possible repayment of funds paid.

*Cause:* Management was unaware of the reporting requirements.

*Recommendation:* We recommend procedures be put into place to ensure all reports are filed on a timely basis.

*Management response:* See management's response on page 84-86.

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

U.S. Department of Homeland Security

Finding 08-4

Public Assistance Grants, CFDA 97.036

*Condition:* During our testing of capital asset acquisitions purchased with Public Assistance Grant funds, we noted construction improvements were not included in capital asset records.

*Criteria:* A-102 Common Rule requires that when equipment and real property are acquired under federal awards, equipment records shall be maintained, a physical inventory shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, equipment shall be adequately maintained and equipment shall be identified as having been purchased with federal funds.

*Questioned Costs:* None.

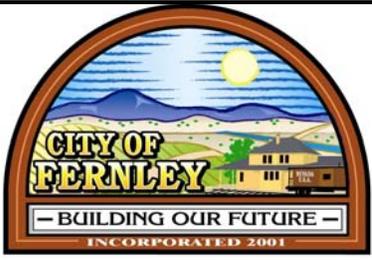
*Context:* The condition noted above appears to be a systemic problem.

*Effect:* An audit adjustment was made to include capital assets purchased with federal dollars and the capital asset inventory records were updated to include these assets.

*Cause:* The Accounting Department did not have procedures in place to ensure federal assets were included in the capital asset records.

*Recommendation:* We recommended that the City enhance its reconciliation procedures to include a review of all accounts utilized for Federal program expenditures to ensure all acquisitions with a cost in excess of the capitalization threshold that are purchased with Federal awards are captured in the capital asset record-keeping system.

*Management response:* See management's response on pages 84-86.



City of Fernley  
Finance  
Department

Utility Billing  
Accounting  
Budgeting  
Treasury

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November 28, 2008

Kafoury Armstrong & Co.  
Attn: Laurel Jackson CPA  
301 W Tolas St  
Fallon NV 89406

RE: Schedule of Findings and Questioned Costs

Dear Ms. Jackson :

Our office has reviewed the findings from the year ended June 30, 2008 grant programs audit. Below are the responses to the audit findings.

In reference to Finding 08-1

Condition: Our audit testing resulted in significant audit adjustment to correct capital asset records at year-end.

Corrective Action: The issue relates to our grants through FEMA for the emergency response to the January 2008 flood event. All of the costs of the response were posted to a single line item to attempt to reconcile the grants. The items should have been separated into two line items, capital expenditures and non-capital (e.g. emergency response, pumping operations, etc.). This was the City's first experience with FEMA grants. FEMA grant processes are extremely difficult and I intend to recommend that the City hire an experienced consultant for any future disasters. However, we are now aware of the necessity to record these transactions on the books separately according to the FEMA categories. The City intends to more thoroughly review expenditure accounts for grants and separate the accounts between capital and non-capital items. We can then prepare a separate workpaper to reconcile these accounts to the grant expenditure reports.

In reference to Finding 08-2

- Condition:** Cash advances are not being limited to immediate cash needs. Two cash advances of \$100,000 and \$300,000 were requested and the related disbursements were then made over a period of several months.
- Corrective Action:** The issue relates to our grants through the US Department of Interior for the Truckee River Operating Agreement grant. This primarily relates to internal communication between the Public Works Department and the Finance Department on activities underway, coding of project costs, and projection of cash flows. The City has since established a computerized Project Management System in which each element of cost is tracked through the Accounts Payable system and the Payroll System. We have also established meetings with any department that has responsibility for grant administrations so that we can make timely and accurate requests for reimbursement.

In reference to Finding 08-3

- Condition:** Financial Status and Performance Progress reports were not being filed timely. None of the required reports were filed until the Department of Interior notified the City that the quarterly reports for the first two quarters and the semi-annual report for the first six months of the year ending September 30, 2008, and the annual report for the year ended September 30, 2007 had not been filed and were due within 30 days.
- Corrective Action:** This issue relates to responsible City staff not prioritizing grant administration for assigned duties. We have since established meetings to review the status of all grants and to assure that the proper reports are being filed.

In reference to Finding 08-4

Condition: During our testing of capital asset acquisitions purchased with Public Assistance Grant funds, we noted construction improvements were not included in capital asset records.

Corrective Action: The issue relates to our grants through FEMA for the emergency response to the January 2008 flood event. All of the costs of the response were posted to a single line item to attempt to reconcile the grants. The items should have been separated into two line items, capital expenditures and non-capital (e.g. emergency response, pumping operations, etc.). This was the City's first experience with FEMA grants. FEMA grant processes are extremely difficult and I intend to recommend that the City hire an experienced consultant for any future disasters. However, we are now aware of the necessity to record these transactions on the books separately according to the FEMA categories. The City intends to more thoroughly review expenditure accounts for grants and separate the accounts between capital and non-capital items. We can then prepare a separate workpaper to reconcile these accounts to the grant expenditure reports. We also intend to enhance our reconciliation of capital expenditure accounts in the general ledger to the capital asset subsidiary system.

Sincerely,



Bonnie Duke  
City Treasurer  
Finance Director/City Treasurer

**CITY OF FERNLEY, NEVADA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

There were no findings reported in the June 30, 2007 audit.

# **AUDITOR'S COMMENTS**

# AUDITOR'S COMMENTS

June 30, 2008

## Statute Compliance

The required disclosure on compliance with Nevada Revised Statutes and the Nevada Administrative Code is contained in Note 2 to the financial statements.

## Progress on Prior Year Statute Compliance

The City monitored expenditures during the current year in order to prevent over expenditures; however, refer to Note 2 to the financial statements.

## Prior Year Recommendations

There were no specific recommendations made in the audit report for the fiscal year ended June 30, 2007.

## Current Year Recommendations

Our recommendations for the current year are included in the Schedule of Findings and Questioned Costs.

Schedule of Fees Imposed Subject to the Provisions of NRS  
354.5989 – Limitation of Fees for Business Licenses

Flat Fixed Fees:

Business license revenue for the year ended June 30, 2007	\$123,382
--	-----------

Adjustment to Base:

Base year:

- |  |             |  |
|--|-------------|--|
| 1. Percentage increase in population of the local<br>government  | 4.0%        |  |
| 2. Percentage increase in the Consumer Price Index for<br>the year ending on December 31, next preceding the<br>year for which the limit is being calculated | <u>4.3%</u> |  |

Adjusted Base at June 30, 2008	8.3%	133,623
Actual Revenue		<u>137,657</u>
Actual Amount over (under) Allowable Amount		<u><u>\$ 4,034</u></u>

Fee calculated on a Percentage of Gross Revenue:

Adjusted base at June 30, 2007	\$968,650
Percentage change in CPI	<u>1.043</u>
Adjust base at June 30, 2008	1,010,302
Actual Revenue	<u>840,310</u>
Actual Amount over (under) Allowable Amount	<u><u>\$(169,992)</u></u>



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

**Independent Accountant's Report  
on Nevada Revised Statute 354.6241**

To the Honorable Mayor and City Council  
of the City of Fernley, Nevada

We have reviewed the assertion provided by management in accordance with Nevada Revised Statute 354.624(5)(a):

- The identified funds are being used expressly for the purposes for which they were created,
- The funds are administered in accordance with accounting principles generally accepted in the United State of America
- The reserved fund balances/net asset in the funds were reasonable and necessary to carry out the purposes of the funds at June 30, 2008 (based on the interpretation of reasonable and necessary provided by the Legislative Counsel Bureau),
- The sources of revenues, including transfers, available for the funds are as noted in the financial statements,
- The funds conform to significant statutory and regulatory constraints on their financial administration during the fiscal year ended June 30, 2008 (except as previously noted under statute compliance in Note 2 to the financial statements),
- The balance and net assets of the funds are as noted in the financial statements.

This assertion is the responsibility of the management of the City of Fernley, Nevada.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the assertion. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the assertion provided by management referred to above is not fairly stated in all material respects.

*Kafoury, Armstrong & Co.*

Fallon, Nevada  
November 28, 2008