

Comprehensive Annual Financial Report

City of Fernley, Nevada

For the Fiscal Year Ended
June 30, 2007

Prepared by:
Finance Department

Bonnie Duke CPA
Finance Director
City Treasurer

CITY OF FERNLEY, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

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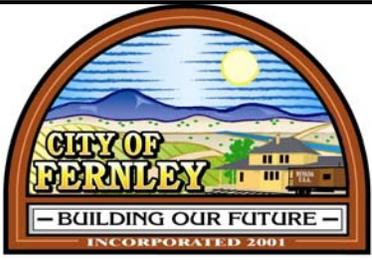
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INTRODUCTORY SECTION



City of Fernley
Finance
Department

Utility Billing
Accounting
Budgeting
Treasury

November 12, 2007

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, 2007 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, 2007 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, 2007, 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.

Because the City of Fernley did not expend more than \$500,000 in federal financial assistance during the fiscal year ended June 30, 2007, the City of Fernley was not required to have the federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements would have required 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. Because a Single Audit was not required, a Single Audit Report is not available.

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.

Local economy: The City of Fernley currently enjoys a favorable economic environment and is the fastest growing city (in percentage terms) in Nevada. Connections to the water and sewer system and population have more than doubled in the last 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 have 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. Lowe's opened in October 2007 and Wal Mart will be opening in Fernley

within the next three to six months. Several new casinos/restaurants, and additional food and beverage locations have opened or are under construction.

During FY07, the City of Fernley had a tax rate of \$0.3481 per \$100 of assessed valuation. This property tax had remained unchanged for the past several years and was one of the lowest in the State of Nevada. In the FY07 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:

- Development of at least three parks utilizing proceeds from the recently enacted Residential Construction Tax
- Completion of expansion of the sewer treatment plant
- 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 5.5%.

City of Fernley
Finance Department

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.

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, 2006. This was the second 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.

Respectfully submitted,

Bonnie Duke CPA
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, 2006

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.



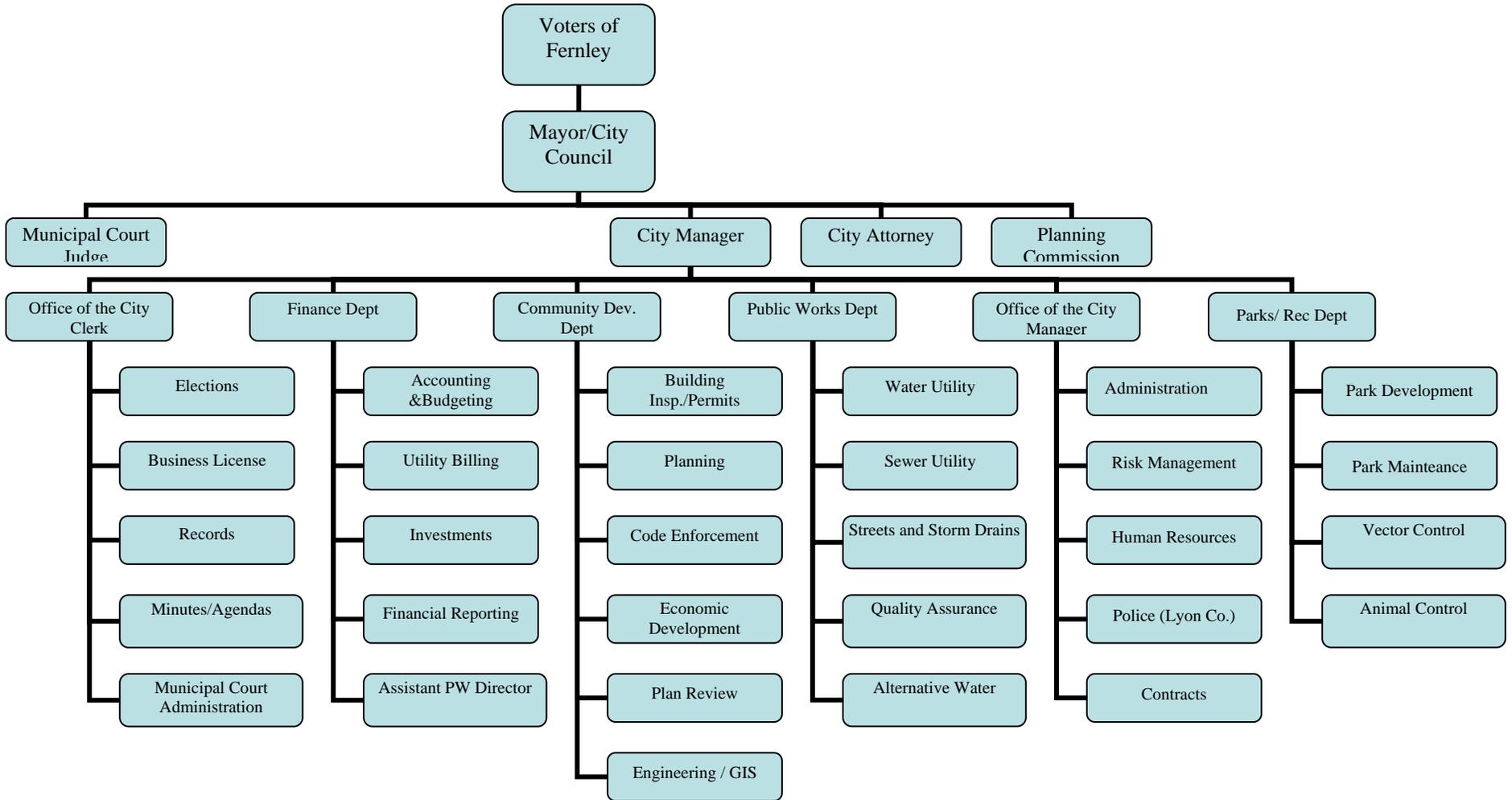
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

City of Fernley Organizational Chart



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>	Charles Shepperd
<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>	Ralph Menke

Appointed Officials:

<i>City Attorney</i>	Jeff McGowan
<i>City Manager</i>	Gary Bacock
<i>City Clerk</i>	Patricia Norman
<i>City Treasurer and Finance Director</i>	Bonnie Duke
<i>Chief of Police</i>	Allen Veil Lyon County Sheriff
<i>Community Development Director</i>	Robert "Terry" Gilbert
<i>Municipal Court Judge</i>	Daniel Bauer
<i>Parks and Recreation Director</i>	Keith Penner
<i>Public Works Director</i>	Lowell Patton

FINANCIAL SECTION

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, 2007, 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 an opinion 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. 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 opinion.

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, 2007, 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.

The 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, Nevada's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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 tables 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.

Fallon, Nevada
November 12, 2007

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, 2007. 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 v 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 \$131,125,409 (*net assets*). Of this amount, \$65,081,075 (*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 \$24,880,405. 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 \$4,584,334, a decrease of \$5,791,456 in comparison with the prior year. Approximately \$6 million was used for construction of the City Hall Expansion Project in FY07. Of the \$4,584,334, approximately \$1 million is committed for additional expenditures for the City Hall Project. The remaining amounts (approximately \$3.6 million) are available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$588,946 or 17 % of general fund expenditures. This ending fund balance is in line with the targeted ending fund balance of 8% to 17% of general fund expenditures.
- The City of Fernley's total bonded debt increased by \$49,722,498 during the fiscal year, primarily due to issuance of \$50 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 39 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 40 through 51 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 \$131,125,409 at the close of the most recent fiscal year.

A large portion of the City of Fernley's net assets (35%) 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	
	FY07	FY06	FY07	FY06	FY07	FY06
Current & other assets	\$5,950,705	\$11,871,446	\$64,315,362	\$19,877,496	\$70,266,067	\$31,748,942
Capital	35,534,157	24,608,748	87,129,484	59,178,986	122,663,641	83,787,734
Total Assets	41,484,862	36,480,194	151,444,846	79,056,482	192,929,708	115,536,676
Long-term liabilities	4,752,359	4,919,944	51,461,804	1,357,749	56,214,163	6,277,693
Other liabilities	1,461,993	1,416,179	4,128,143	1,597,800	5,443,271	3,013,979
Total liabilities	6,214,352	6,336,123	55,589,947	2,955,549	61,657,434	9,291,672
Net assets:						
Invested in capital assets, net of related debt	30,692,157	24,608,748	35,352,177	57,581,522	66,044,334	82,190,270
Restricted	-	-	-	579,560	-	579,560
Unrestricted	4,578,353	5,535,323	60,502,722	17,939,851	65,081,075	23,475,174
Total net assets	\$35,270,510	\$30,144,071	\$95,854,899	\$76,100,933	\$131,125,409	\$106,245,004

Unrestricted net assets 65,081,075 may be used to meet the government's ongoing obligations to citizens and creditors. Approximately \$50 million of this amount is going to be used for water and sewer projects during FY2008.

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.

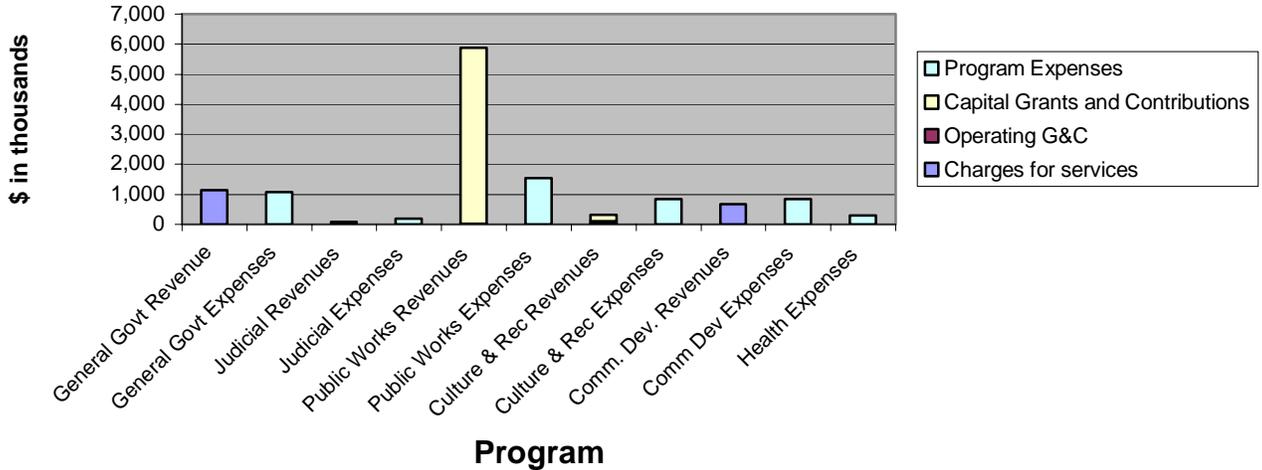
The government's net assets increased \$24,880,405 during the current fiscal year. The increase is primarily due to capital grants and contributions that were greater than the related program expenses. Net Assets Invested in Capital Assets, net of related debt, declined about \$11 million due to the \$50 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 \$5,126,439, thereby accounting for 21% 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 128% between FY06 and FY07 and assessed value of property increased 35.32%; however the increased revenue from property taxes was only 57% due to property tax limitation legislation. The City also transferred money into its Streets and Storm Drains fund that resulted in an increase in fund balance of that fund.

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

	Governmental Activities		Business-Type Activities		Total	
	FY07	FY06	FY07	FY06	FY07	FY06
Revenues:						
Program revenues:						
Charges for services	\$1,988,793	\$ 2,378,981	\$4,061,013	\$3,888,017	\$6,049,806	\$6,266,998
Operating grants and contributions	60,000	348,627	-	-	60,000	348,627
Capital grants and contributions	6,052,749	7,531,080	19,015,855	18,729,430	25,068,604	26,260,510
General revenues:						
Property taxes	925,297	591,082	-	-	925,297	591,082
Shared revenues	546,484	513,970	-	-	546,484	513,970
Other revenues	361,411	718,960	1,557,688	762,222	1,919,099	1,481,182
Total revenues	9,934,734	12,082,700	24,634,556	23,379,669	34,569,290	35,462,369
Expenses:						
General government	1,084,095	796,403	-	-	1,084,095	796,403
Judicial	194,353	170,479	-	-	194,353	170,479
Public works	1,547,750	954,419	-	-	1,547,750	954,419
Culture & recreation	838,674	646,259	-	-	838,674	646,259
Community develop.	848,010	875,056	-	-	848,010	875,056
Health	295,413	263,919	-	-	295,413	263,919
Water	-	-	3,058,605	2,422,583	3,058,605	2,422,583
Sewer	-	-	1,812,645	1,530,898	1,812,645	1,530,898
Other	-	-	9,340	700	9,340	700
Total expenses	4,808,295	3,706,535	4,880,590	3,954,181	4,880,590	7,660,716
Increase in net assets	5,126,439	8,376,165	19,753,966	19,425,488	24,880,405	27,801,653
Net assets, July 1	30,144,071	21,767,906	76,100,933	56,675,445	106,245,004	78,443,351
Net assets, June 30	\$35,270,510	\$30,144,071	\$95,854,899	\$76,100,933	\$131,125,409	\$106,245,004

FY07 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 Finance Department. 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 depreciation related to streets and storm drain activities as well as the City Hall Expansion Project. Overhead costs are not allocated.

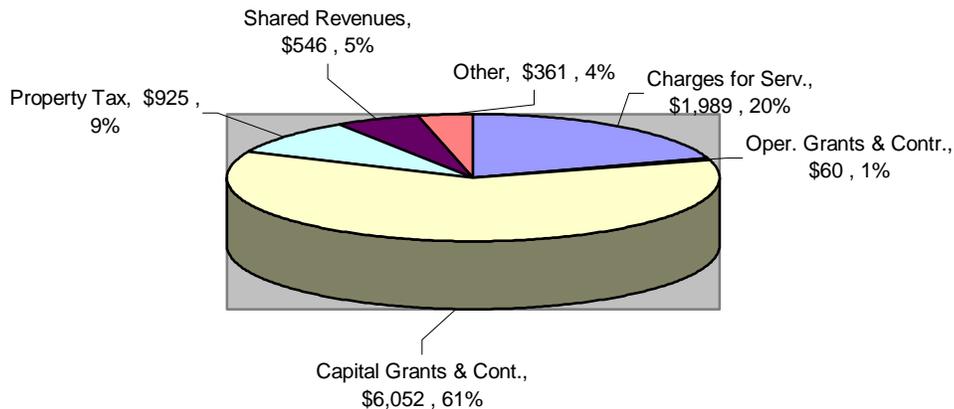
The major sources of program revenues for culture and recreation activities include grants, dedications of park property and improvements, and residential construction tax. The program expenses associated with culture and recreation activities include the operating costs in the general fund parks budget 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 community development activities is building permits and fees. Planning fees are also included in program revenues. 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.

FY07 Revenues by Source - Governmental Activities (in thousands of \$)



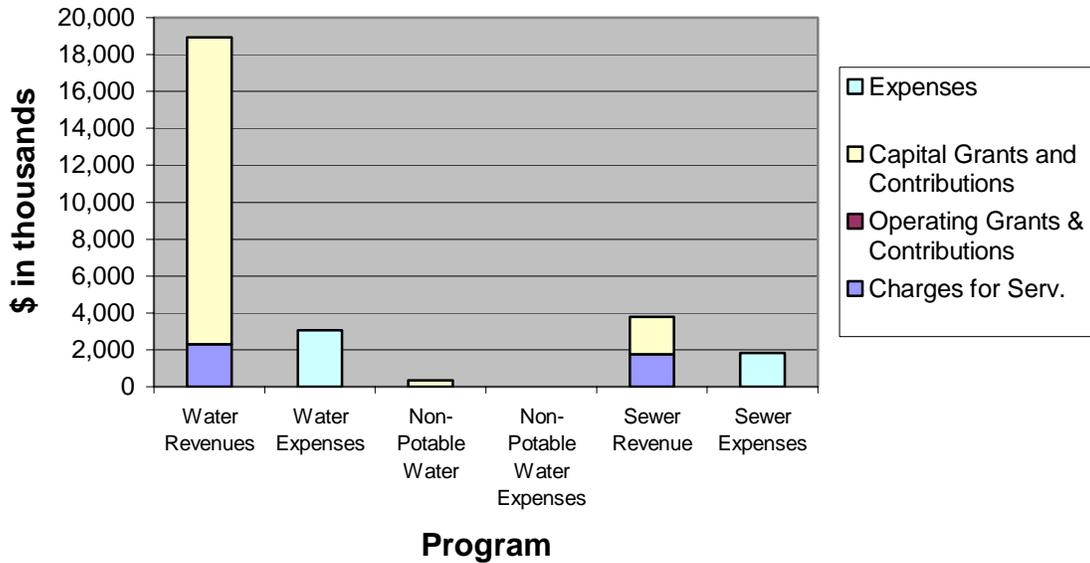
The Charges for Services category includes primarily fees, fines, and licenses. The Capital Grants and Contributions primarily includes donated (dedicated) infrastructure (streets and storm drains). The Shared Revenue category includes primarily consolidated tax, fuel tax and gaming licenses. The Other 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 \$19,753,966 accounting for 79% 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 \$172,996 or 4% due to a greater number of customers. User rates were not increased during FY07. User rates were increased approximately 50% effective July 1, 2007.

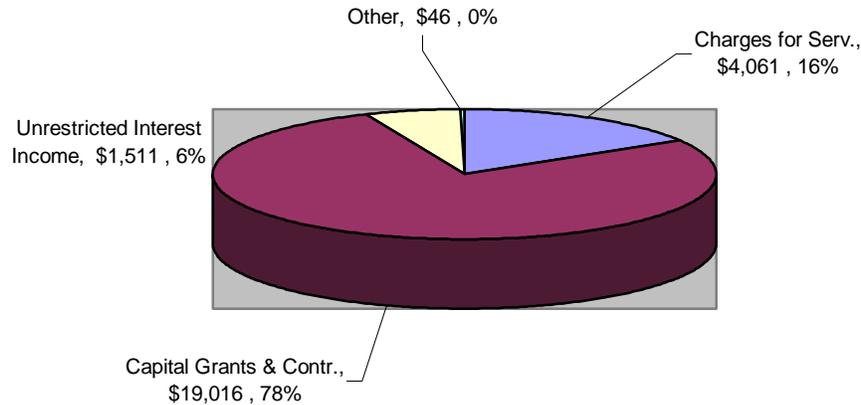
- Capital contributions increased by \$286,425 or 1.5%, primarily as a result of acceptance of subdivision improvements.
- Investment earnings increased due to higher interest rates and higher levels of cash available for investment.

FY07 Program Revenues and Expenses Business-type Activities



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

**FY07 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 \$4,584,334, a decrease of \$5,791,456 in comparison with the prior year. Approximately \$6 million was spent during FY07 for the construction of the City Hall Expansion Project. The remaining amount (approximately \$3.4 million) 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 \$582,237, while total fund balance reached \$588,946. 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 17% of total general fund expenditures, while total fund balance also represents about 17% of that same amount.

The fund balance of the City of Fernley's general fund decreased by \$356,050 during the current fiscal year. Key factors in this decrease are as follows:

- Increased appropriations in various cost centers in the general fund to provide services to more people
- Increased debt service for the City Hall Expansion Project
- Transfers out of the general fund to other funds

Expenditures exceeded estimates in several cost centers in the general fund. The general government cost center exceeded estimated due to additional wages and supplies for the new City Hall building. The parks cost center exceeded estimates due to use of parks employees for special events. The community development cost center exceeded estimates (based on a revised final budget) due to anticipated lower costs from unfilled positions, although expenditures were significantly less than planned in the original budget.

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 \$(9,000). 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 FY08. Amounts were collected during the first quarter of FY08 to bring the fund balance out of the negative ending position.

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 projects associated with street and storm drains. At the end of the current fiscal year, unreserved, undesignated fund balance of the fund was \$444,108. Unreserved, undesignated fund balance represents 19% of total fund expenditures, while total fund balance also represents about 19% of that same amount. 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. The largest project accounted for in this fund during FY07 is the City Hall Expansion Project. The total project cost for the City Hall Expansion project is \$7 million of which \$5 million is funded through the issuance of debt and \$2 million from the money in the Capital Fund. At the end of the current fiscal year fund balance of the Capital Fund was \$2,426,800. Approximately \$1 million of this fund balance will be used in FY08 to complete the City Hall Expansion Project. Smaller projects planned for FY08 include 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 \$50,188,079; those for the Sewer Fund amounted to \$9,194,273; and those of the Non-Potable Water Fund amounts to \$1,120,370 resulting in total unrestricted net assets of \$59,908,266. The total growth in net assets for these funds was \$16,952,293, \$2,404,587, and \$397,086, 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 \$456,500 decrease in revenues between the original and final amended budget, primarily due to decreased building permit revenue from a slow down in the residential development market.

There was a \$446,340 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- Appropriations were reduced in the Community Development to reflect unfilled positions during the year.
- Appropriation for the General Government, Judicial, Culture and Recreation, and Health were increased due to higher than estimated costs for services to the growing customer base.
- 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 20, 2007 amounts to \$122,663,641 (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 46% (a 44% increase for governmental activities and a 47% increase for business-type activities).

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

- Donation of capital assets from developers
- Construction of the City Hall Expansion Project
- Design costs for the planned water treatment plant
- Sewer interceptor improvements
- Well improvements
- Street improvements

City of Fernley Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Totals	
	FY07	FY06	FY07	FY06	FY07	FY06
Land	\$3,909,624	\$3,789,274	\$677,677	\$ 268,810	\$4,587,301	\$4,058,084
Water rights	-	-	33,278,836	18,798,981	33,278,836	18,798,981
Construction in progress	6,469,314	730,876	13,322,319	3,281,172	19,791,633	4,012,048
Buildings	676,050	882,648	3,662	4,661	679,712	887,309
Improvements other than buildings	5,758,849	3,938,635	38,366,458	35,500,087	44,125,307	39,438,722
Machinery & Equipment	423,386	409,161	287,234	67,387	710,620	476,548
Infrastructure	18,326,224	14,858,154	-	-	18,326,224	14,858,154
Other capital assets	-	-	1,193,298	1,257,888	1,193,298	1,257,888
TOTAL	\$35,563,447	\$24,608,748	\$87,129,484	\$59,178,986	\$122,692,931	\$83,787,734

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 \$51,282,780 and lease-purchase debt of \$4,842,000. All of the debt is backed by the full faith and credit of the government.

	Governmental activities		Business-type activities		Totals	
	7/1/07	7/1/06	7/1/07	7/1/06	7/1/07	7/1/06
General obligation/revenue bonds	-	-	\$51,282,780	\$1,560,282	\$51,282,780	\$1,560,282
Lease/Purchase Debt	\$4,842,000	\$5,000,000	-	-	4,842,000	5,000,000
Unamortized bond premium	-	-	494,527	37,181	494,527	37,181
Compensated absences	94,359	77,944	41,308	37,789	135,667	115,733
TOTAL	\$4,936,359	\$5,077,944	\$51,818,615	\$1,635,252	\$56,754,974	\$6,713,196

The City of Fernley's total debt increased by \$50,041,778 during the current fiscal year. The key factor in this increase was issuance of \$50 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 \$153 million, which is significantly in excess of the City of Fernley's outstanding general obligation debt of \$51,282,780.

Additional information of the City of Fernley's long-term debt can be found in note 7 on pages 36 through 37 of this report.

Economic Factors and Next Year's Budget and Rates

Both water rates and sewer rates were increased effective July 1, 2007 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

All of these factors were considered in preparing the City of Fernley budget for FY08.

During the current fiscal year, unreserved, undesignated fund balance in the general fund decreased to \$582,237. The FY08 General Fund budget assumes a beginning fund balance of \$575,149. Very little of the current fiscal year ending fund balance is used for FY08 costs.

The rates for the enterprise funds went up effective July 1, 2007 to provide the necessary funds to operate the water and sewer utility funds. Additional increases are scheduled to be implemented on July 1 each subsequent four years.

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 City Treasurer/Finance Director, 595 Silver Lace Blvd, Fernley NV 89408.

BASIC FINANCIAL STATEMENTS

**CITY OF FERNLEY
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Current assets:			
Cash and investments	\$ 5,398,685	\$ 62,444,951	\$ 67,843,636
Cash held for customer deposits	-	594,456	594,456
Interest receivable	20,638	231,545	252,183
Taxes receivable	15,211	-	15,211
Accounts receivable, net	229,903	421,730	651,633
Accounts receivable, other	83,144	85,484	168,628
Due from other governments	196,415	-	196,415
Inventories	-	151,461	151,461
Prepaid expenses	6,709	5,000	11,709
Total Current Assets	<u>5,950,705</u>	<u>63,934,627</u>	<u>69,885,332</u>
Noncurrent assets:			
Deferred charges	-	380,735	380,735
Capital assets:			
Land and construction in progress	10,378,938	47,278,832	57,657,770
Other capital assets, net of depreciation	25,184,509	39,850,652	65,035,161
Total Capital Assets	<u>35,563,447</u>	<u>87,129,484</u>	<u>122,692,931</u>
Total Noncurrent Assets	<u>35,563,447</u>	<u>87,510,219</u>	<u>123,073,666</u>
Total Assets	<u>41,514,152</u>	<u>151,444,846</u>	<u>192,958,998</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	688,242	2,587,261	3,275,503
Accrued interest	-	589,615	589,615
Refundable deposits	-	594,456	594,456
Due to developers	392,395	-	392,395
Due to other governments	146,865	-	146,865
Due within one year	184,000	356,811	540,811
Unearned revenue	79,781	-	79,781
Total Current Liabilities	<u>1,491,283</u>	<u>4,128,143</u>	<u>5,619,426</u>
Noncurrent liabilities:			
Due in more than one year	4,752,359	51,461,804	56,214,163
Total Liabilities	<u>6,243,642</u>	<u>55,589,947</u>	<u>61,833,589</u>
NET ASSETS			
Invested in capital assets, net of related debt	30,721,447	35,352,177	66,073,624
Unrestricted	4,549,063	60,502,722	65,051,785
Total Net Assets	<u>\$ 35,270,510</u>	<u>\$ 95,854,899</u>	<u>\$ 131,125,409</u>

See accompanying notes.

**CITY OF FERNLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

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
Governmental Activities:							
General government	\$ 1,173,360	\$ 1,137,510	\$ -	\$ -	\$ (35,850)	\$ -	\$ (35,850)
Judicial	194,353	89,248	-	-	(105,105)	-	(105,105)
Public works	1,547,750	29,754	-	5,851,177	4,333,181	-	4,333,181
Culture and recreation	838,674	48,355	60,000	201,572	(528,747)	-	(528,747)
Community development	848,010	679,608	-	-	(168,402)	-	(168,402)
Health	295,413	4,318	-	-	(291,095)	-	(291,095)
Total Governmental Activities	<u>4,897,560</u>	<u>1,988,793</u>	<u>60,000</u>	<u>6,052,749</u>	<u>3,203,982</u>	<u>-</u>	<u>3,203,982</u>
Business-type Activities:							
Water	3,058,553	2,306,193	-	16,610,645	-	15,858,285	15,858,285
Sewer	1,812,583	1,754,820	-	2,047,468	-	1,989,705	1,989,705
Other	9,340	-	-	357,743	-	348,403	348,403
Total Business- type Activities	<u>4,880,476</u>	<u>4,061,013</u>	<u>-</u>	<u>19,015,856</u>	<u>-</u>	<u>18,196,393</u>	<u>18,196,393</u>
Total	<u>\$ 9,778,036</u>	<u>\$ 6,049,806</u>	<u>\$ 60,000</u>	<u>\$ 25,068,605</u>	<u>3,203,982</u>	<u>18,196,393</u>	<u>21,400,375</u>
General Revenues:							
Property taxes					925,297	-	925,297
Consolidated taxes					188,128	-	188,128
Fuel taxes					259,603	-	259,603
Unrestricted gaming licenses					98,753	-	98,753
Unrestricted interest income					361,301	1,511,286	1,872,587
Miscellaneous revenue					89,375	46,287	135,662
Total General Revenues					<u>1,922,457</u>	<u>1,557,573</u>	<u>3,480,030</u>
Change in Net Assets					5,126,439	19,753,966	24,880,405
NET ASSETS, July 1					<u>30,144,071</u>	<u>76,100,933</u>	<u>106,245,004</u>
NET ASSETS, June 30					<u>\$ 35,270,510</u>	<u>\$ 95,854,899</u>	<u>\$ 131,125,409</u>

See accompanying notes.

**CITY OF FERNLEY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	GENERAL FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and investments	\$ 979,360	\$ -	\$ 472,613	\$ 2,703,620	\$ 1,243,092	\$ 5,398,685
Interest receivable	4,778	-	517	11,218	4,125	20,638
Accounts receivable	232,292	-	-	-	7,588	239,880
Due from other governments	92,720	-	103,695	-	-	196,415
Prepaid items	6,709	-	-	-	-	6,709
Total Assets	<u>\$ 1,315,859</u>	<u>\$ -</u>	<u>\$ 576,825</u>	<u>\$ 2,714,838</u>	<u>\$ 1,254,805</u>	<u>\$ 5,862,327</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable and accrued liabilities	\$ 227,872	\$ -	\$ 132,717	\$ 317,328	\$ 10,325	\$ 688,242
Due to developers	272,395	9,000	-	-	111,000	392,395
Due to other governments	146,865	-	-	-	-	146,865
Deferred revenue	79,781	-	-	-	-	79,781
Total Liabilities	<u>726,913</u>	<u>9,000</u>	<u>132,717</u>	<u>317,328</u>	<u>121,325</u>	<u>1,307,283</u>
Fund Balance:						
Reserved for prepaid items	6,709	-	-	-	-	6,709
Unreserved - reported in:						
General Fund	582,237	-	-	-	-	582,237
Special revenue funds	-	(9,000)	444,108	-	1,133,480	1,568,588
Capital projects funds	-	-	-	2,397,510	-	2,397,510
Total Fund Balance	<u>588,946</u>	<u>(9,000)</u>	<u>444,108</u>	<u>2,397,510</u>	<u>1,133,480</u>	<u>4,555,044</u>
Total Liabilities and Fund Balance	<u>\$ 1,315,859</u>	<u>\$ -</u>	<u>\$ 576,825</u>	<u>\$ 2,714,838</u>	<u>\$ 1,254,805</u>	<u>\$ 5,862,327</u>

See accompanying notes.

CITY OF FERNLEY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total Fund Balances - Governmental Funds		\$ 4,555,044
<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	38,475,266	
Less: Accumulated depreciation	2,911,819	35,563,447
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
		88,378
<p>Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period:</p>		
Bonds payable	(4,842,000)	
Compensated absences	(94,359)	(4,936,359)
Total Net Assets - Governmental Activities		<u><u>\$ 35,270,510</u></u>

See accompanying notes.

**CITY OF FERNLEY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007**

	GENERAL FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 929,276	\$ 6,000	\$ -	\$ -	\$ 52,780	\$ 988,056
Licenses and permits	1,920,189	-	29,758	-	-	1,949,947
Intergovernmental	248,128	-	2,025,205	-	60,000	2,333,333
Fines and forfeits	199,723	-	-	-	34,630	234,353
Miscellaneous	256,871	4,641	2,235	258,076	60,010	581,833
Total Revenues	<u>3,554,187</u>	<u>10,641</u>	<u>2,057,198</u>	<u>258,076</u>	<u>207,420</u>	<u>6,087,522</u>
EXPENDITURES						
Current:						
General government	1,025,295	-	-	-	-	1,025,295
Judicial	192,468	-	-	-	2,050	194,518
Public works	-	-	515,394	-	-	515,394
Culture and recreation	646,383	-	-	-	1,159	647,542
Community development	800,700	-	-	-	33,803	834,503
Health	275,905	-	-	-	-	275,905
Total Current	<u>2,940,751</u>	<u>-</u>	<u>515,394</u>	<u>-</u>	<u>37,012</u>	<u>3,493,157</u>
Debt service:						
Principal	158,000	-	-	-	-	158,000
Interest	221,032	-	-	-	-	221,032
Total Debt Service	<u>379,032</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,032</u>
Capital outlay:						
Public works	-	-	1,827,862	-	-	1,827,862
Culture and recreation	6,700	-	-	-	157,269	163,969
Community development	16,741	-	-	6,027,811	-	6,044,552
Health	61,146	-	-	-	-	61,146
Total Capital Outlay	<u>84,587</u>	<u>-</u>	<u>1,827,862</u>	<u>6,027,811</u>	<u>157,269</u>	<u>8,097,529</u>
Total Expenditures	<u>3,404,370</u>	<u>-</u>	<u>2,343,256</u>	<u>6,027,811</u>	<u>194,281</u>	<u>11,969,718</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>149,817</u>	<u>10,641</u>	<u>(286,058)</u>	<u>(5,769,735)</u>	<u>13,139</u>	<u>(5,882,196)</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	(567,317)	(144,395)	-	-	-	(711,712)
Transfers in	-	-	550,000	134,766	26,946	711,712
Proceeds from Sale of Capital Assets	61,450	-	-	-	-	61,450
Total Other Financing Sources (Uses)	<u>(505,867)</u>	<u>(144,395)</u>	<u>550,000</u>	<u>134,766</u>	<u>26,946</u>	<u>61,450</u>
Net Change in Fund Balance	<u>(356,050)</u>	<u>(133,754)</u>	<u>263,942</u>	<u>(5,634,969)</u>	<u>40,085</u>	<u>(5,820,746)</u>
FUND BALANCE, JULY 1	<u>944,996</u>	<u>124,754</u>	<u>180,166</u>	<u>8,032,479</u>	<u>1,093,395</u>	<u>10,375,790</u>
FUND BALANCE, JUNE 30	<u>\$ 588,946</u>	<u>\$ (9,000)</u>	<u>\$ 444,108</u>	<u>\$ 2,397,510</u>	<u>\$ 1,133,480</u>	<u>\$ 4,555,044</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, 2007

Net Change if Fund Balances - Governmental Funds **\$ (5,820,746)**

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	\$ 8,085,908	
Less: Current year depreciation	1,059,479	
Sale/disposition of assets	157,305	6,869,124

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	4,085,575
Fine and forfeitures	(149,098)

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.

158,000

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	(16,416)
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Change in Net Assets - Governmental Activities **\$ 5,126,439**

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, 2007
(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>
REVENUES					
Taxes:					
Ad valorem	\$ 888,000	\$ 934,000	\$ 929,276	\$ 46,000	\$ (4,724)
Licenses and permits:					
Business licenses	120,000	140,000	123,382	20,000	(16,618)
Franchise fees	850,000	850,000	968,650	-	118,650
Liquor licenses	27,000	32,000	27,736	5,000	(4,264)
City gaming licenses	82,000	92,000	98,753	10,000	6,753
Building permits and fees	1,400,000	815,000	614,080	(585,000)	(200,920)
Planning and zoning permits and fees	100,000	65,000	65,528	(35,000)	528
Other permits	12,000	14,500	22,060	2,500	7,560
	<u>2,591,000</u>	<u>2,008,500</u>	<u>1,920,189</u>	<u>(582,500)</u>	<u>(88,311)</u>
Intergovernmental revenues:					
Consolidated tax distribution	215,345	215,345	188,128	-	(27,217)
Fernley park agreement	60,000	60,000	60,000	-	-
	<u>275,345</u>	<u>275,345</u>	<u>248,128</u>	<u>-</u>	<u>(27,217)</u>
Fines and forfeits:					
Municipal court fines	120,000	120,000	174,971	-	54,971
Municipal court fees	18,500	20,500	24,752	2,000	4,252
	<u>138,500</u>	<u>140,500</u>	<u>199,723</u>	<u>2,000</u>	<u>59,223</u>
Miscellaneous:					
Interest	65,000	65,000	40,234	-	(24,766)
Building rental	20,000	20,000	20,000	-	-
Park development	1,000	3,500	48,355	2,500	44,855
Developer agreements	-	55,500	55,414	55,500	(86)
Miscellaneous	25,000	35,000	92,868	10,000	57,868
	<u>111,000</u>	<u>179,000</u>	<u>256,871</u>	<u>68,000</u>	<u>77,871</u>
Total Revenues	<u>4,003,845</u>	<u>3,537,345</u>	<u>3,554,187</u>	<u>(466,500)</u>	<u>16,842</u>
EXPENDITURES					
General government:					
Administration:					
Salaries and wages	266,500	266,500	296,960	-	(30,460)
Employee benefits	113,000	113,000	112,929	-	71
Services and supplies	401,400	427,950	445,916	(26,550)	(17,966)
Total Administration	<u>780,900</u>	<u>807,450</u>	<u>855,805</u>	<u>(26,550)</u>	<u>(48,355)</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, 2007
(Page 2 of 3)**

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
Finance:					
Salaries and wages	\$ 91,700	\$ 83,700	\$ 80,529	\$ 8,000	\$ 3,171
Employee benefits	44,700	42,700	35,393	2,000	7,307
Services and supplies	46,200	56,200	53,568	(10,000)	2,632
Total Finance	182,600	182,600	169,490	-	13,110
Total General Government	963,500	990,050	1,025,295	(26,550)	(35,245)
Judicial:					
Municipal court:					
Salaries and wages	81,000	89,000	93,473	(8,000)	(4,473)
Employee benefits	32,400	40,300	27,142	(7,900)	13,158
Services and supplies	78,000	72,250	71,853	5,750	397
Total Judicial	191,400	201,550	192,468	(10,150)	9,082
Culture and Recreation:					
Parks:					
Salaries and wages	246,100	265,500	301,049	(19,400)	(35,549)
Employee benefits	155,800	118,000	97,844	37,800	20,156
Services and supplies	222,060	248,520	247,490	(26,460)	1,030
Capital outlay	13,000	13,000	6,700	-	6,300
Total Culture and Recreation	636,960	645,020	653,083	(8,060)	(8,063)
Community development:					
Building and planning:					
Salaries and wages	611,000	378,000	439,229	233,000	(61,229)
Employee benefits	316,900	183,600	157,412	133,300	26,188
Services and supplies	257,400	174,900	204,059	82,500	(29,159)
Capital Outlay	15,000	16,800	16,741	(1,800)	59
Total Community Development	1,200,300	753,300	817,441	447,000	(64,141)
Health:					
Animal control:					
Salaries and wages	61,600	49,600	48,643	12,000	957
Employee benefits	32,800	30,100	17,084	2,700	13,016
Services and supplies	24,250	47,250	39,585	(23,000)	7,665
Capital outlay	-	25,100	25,044	(25,100)	56
Total Animal Control	118,650	152,050	130,356	(33,400)	21,694
Vector control:					
Salaries and wages	55,800	55,800	38,380	-	17,420
Employee benefits	26,700	26,700	16,103	-	10,597
Services and supplies	93,900	126,400	116,110	(32,500)	10,290
Capital outlay	39,200	39,200	36,102	-	3,098
Total Vector Control	215,600	248,100	206,695	(32,500)	41,405
Total Health	334,250	400,150	337,051	(65,900)	63,099

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, 2007

	<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>
REVENUES					
Taxes:					
Residential construction tax	\$ 200,000	\$ 46,000	\$ 6,000	\$ (154,000)	\$ (40,000)
Miscellaneous:					
Interest	<u>1,000</u>	<u>5,000</u>	<u>4,641</u>	<u>4,000</u>	<u>(359)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	201,000	51,000	10,641	(150,000)	(40,359)
OTHER FINANCING SOURCES (USES)					
Transfers in (out:)					
Residential construction tax district #2	<u>-</u>	<u>175,000</u>	<u>(144,395)</u>	<u>175,000</u>	<u>(319,395)</u>
Net Change in Fund Balance	201,000	226,000	(133,754)	25,000	(359,754)
FUND BALANCE, July 1	<u>21</u>	<u>124,754</u>	<u>124,754</u>	<u>124,733</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 201,021</u>	<u>\$ 350,754</u>	<u>\$ (9,000)</u>	<u>\$ 149,733</u>	<u>\$ (359,754)</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, 2007
(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>
Debt service:					
Principal	\$ 158,000	\$ 158,000	\$ 158,000	\$ -	\$ -
Interest	220,400	220,400	221,032	-	(632)
Total Debt Service	<u>378,400</u>	<u>378,400</u>	<u>379,032</u>	<u>-</u>	<u>(632)</u>
Total Expenditures	<u>3,704,810</u>	<u>3,368,470</u>	<u>3,404,370</u>	<u>336,340</u>	<u>(35,900)</u>
Excess of Revenues Over Expenditures	<u>299,035</u>	<u>168,875</u>	<u>149,817</u>	<u>(130,160)</u>	<u>(19,058)</u>
OTHER FINANCING SOURCES (USES)					
Contingency	(155,000)	(155,000)	-	-	155,000
Transfer out:					
Capital Projects Fund	(250,000)	(565,000)	(567,317)	(315,000)	(2,317)
Proceeds from Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>61,450</u>	<u>-</u>	<u>61,450</u>
Total Other Financing Sources (Uses)	<u>(405,000)</u>	<u>(720,000)</u>	<u>(505,867)</u>	<u>(315,000)</u>	<u>214,133</u>
Net Change in Fund Balance	(105,965)	(551,125)	(356,050)	(445,160)	195,075
FUND BALANCE, July 1	<u>489,161</u>	<u>944,996</u>	<u>944,996</u>	<u>455,835</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 383,196</u>	<u>\$ 393,871</u>	<u>\$ 588,946</u>	<u>\$ 10,675</u>	<u>\$ 195,075</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, 2007**

	<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>
REVENUES					
Licenses and permits:					
Public works fees	\$ 34,000	\$ 16,000	\$ 29,758	\$ (18,000)	\$ 13,758
Intergovernmental revenues:					
Motor vehicle fuel tax	273,348	273,348	259,603	-	(13,745)
Regional transportation commission	1,133,000	1,800,000	1,765,602	667,000	(34,398)
	<u>1,406,348</u>	<u>2,073,348</u>	<u>2,025,205</u>	<u>667,000</u>	<u>(48,143)</u>
Miscellaneous:					
Interest	30,000	-	2,235	(30,000)	2,235
Total Revenues	<u>1,470,348</u>	<u>2,089,348</u>	<u>2,057,198</u>	<u>619,000</u>	<u>(32,150)</u>
EXPENDITURES					
Public works:					
Salaries and wages	102,200	122,200	132,565	(20,000)	(10,365)
Employee benefits	53,245	41,595	49,825	11,650	(8,230)
Services and supplies	430,100	357,100	333,004	73,000	24,096
Capital outlay	1,516,500	1,620,000	1,827,862	(103,500)	(207,862)
Total Expenditures	<u>2,102,045</u>	<u>2,140,895</u>	<u>2,343,256</u>	<u>(38,850)</u>	<u>(202,361)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(631,697)	(51,547)	(286,058)	580,150	(234,511)
OTHER FINANCING SOURCES (USES)					
Transfers in:					
General Fund	250,000	550,000	550,000	300,000	-
Net Change in Fund Balance	(381,697)	498,453	263,942	880,150	(234,511)
FUND BALANCE, July 1	<u>1,083,679</u>	<u>180,166</u>	<u>180,166</u>	<u>(903,513)</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 701,982</u>	<u>\$ 678,619</u>	<u>\$ 444,108</u>	<u>\$ (23,363)</u>	<u>\$ (234,511)</u>

See accompanying notes.

**CITY OF FERNLEY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER UTILITY FUND	SEWER UTILITY FUND	OTHER ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 51,260,441	\$ 10,068,161	\$ 1,116,349	\$ 62,444,951
Cash - refundable deposits	284,066	310,390	-	594,456
Interest receivable	188,443	39,081	4,021	231,545
Accounts receivable, net	259,098	162,632	-	421,730
Accounts receivable, other	70,032	15,452	-	85,484
Inventories	145,144	6,317	-	151,461
Prepaid expenses	5,000	-	-	5,000
Total Current Assets	<u>52,212,224</u>	<u>10,602,033</u>	<u>1,120,370</u>	<u>63,934,627</u>
Noncurrent assets:				
Deferred charges	<u>340,308</u>	<u>40,427</u>	<u>-</u>	<u>380,735</u>
Capital assets:				
Not being depreciated	38,981,622	8,194,993	102,217	47,278,832
Depreciable assets	<u>28,458,098</u>	<u>22,255,446</u>	<u>571,478</u>	<u>51,285,022</u>
	67,439,720	30,450,439	673,695	98,563,854
Less: Accumulated depreciation	<u>6,380,651</u>	<u>5,043,799</u>	<u>9,920</u>	<u>11,434,370</u>
Total Capital Assets	<u>61,059,069</u>	<u>25,406,640</u>	<u>663,775</u>	<u>87,129,484</u>
Total Noncurrent Assets	<u>61,399,377</u>	<u>25,447,067</u>	<u>663,775</u>	<u>87,510,219</u>
Total Assets	<u>113,611,601</u>	<u>36,049,100</u>	<u>1,784,145</u>	<u>151,444,846</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	1,548,238	1,039,023	-	2,587,261
Accrued interest	511,495	78,120	-	589,615
Refundable deposits	284,066	310,390	-	594,456
Debt due within one year	<u>206,984</u>	<u>149,827</u>	<u>-</u>	<u>356,811</u>
Total Current Liabilities	<u>2,550,783</u>	<u>1,577,360</u>	<u>-</u>	<u>4,128,143</u>
Noncurrent liabilities:				
Bonds payable, due after one year	<u>45,271,526</u>	<u>6,190,278</u>	<u>-</u>	<u>51,461,804</u>
Total Noncurrent Liabilities	<u>45,271,526</u>	<u>6,190,278</u>	<u>-</u>	<u>51,461,804</u>
Total Liabilities	<u>47,822,309</u>	<u>7,767,638</u>	<u>-</u>	<u>55,589,947</u>
NET ASSETS				
Invested in capital assets, net of related debt	15,601,213	19,087,189	663,775	35,352,177
Unrestricted	<u>50,188,079</u>	<u>9,194,273</u>	<u>1,120,370</u>	<u>60,502,722</u>
Total Net Assets	<u>\$ 65,789,292</u>	<u>\$ 28,281,462</u>	<u>\$ 1,784,145</u>	<u>\$ 95,854,899</u>

See accompanying notes.

**CITY OF FERNLEY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2007**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER UTILITY FUND	SEWER UTILITY FUND	OTHER ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES				
User fees	\$ 2,306,193	\$ 1,754,820	\$ -	\$ 4,061,013
OPERATING EXPENSES				
Salaries and wages	392,176	379,598	-	771,774
Employee benefits	157,984	155,831	-	313,815
Services and supplies	1,146,095	641,523	-	1,787,618
Depreciation	836,132	540,918	(9,340)	1,367,710
Total Operating Expenses	2,532,387	1,717,870	(9,340)	4,240,917
Operating Income (Loss)	(226,194)	36,950	(9,340)	(179,904)
NONOPERATING REVENUE (EXPENSE)				
Interest earned on investments	1,047,914	414,689	48,683	1,511,286
In lieu of water rights fees	307,160	-	-	307,160
Miscellaneous	46,094	193	-	46,287
Interest expense	(526,166)	(94,713)	-	(620,879)
Total Nonoperating Revenue (Expense)	875,002	320,169	48,683	1,243,854
Income (Loss) Before Capital Contributions	648,808	357,119	39,343	1,063,950
CAPITAL CONTRIBUTIONS				
Customer connection fees	362,051	497,034	105,301	964,386
Developer agreements	48,562	4,410	-	52,972
Developer contributed infrastructure	1,520,734	1,546,024	252,442	3,319,200
Developer contributed water rights	14,372,138	-	-	14,372,138
Total Capital Contributions	16,303,485	2,047,468	357,743	18,708,696
Change in Net Assets	16,952,293	2,404,587	397,086	19,772,646
NET ASSETS, July 1	48,836,999	25,876,875	1,387,059	76,100,933
NET ASSETS, June 30	<u>\$ 65,789,292</u>	<u>\$ 28,281,462</u>	<u>\$ 1,784,145</u>	<u>\$ 95,873,579</u>

See accompanying notes.

**CITY OF FERNLEY
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2007**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER UTILITY FUND	SEWER UTILITY FUND	OTHER ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,330,586	\$ 1,741,523	\$ -	\$ 4,072,109
Cash paid for employees services	(389,122)	(376,508)	-	(765,630)
Cash paid to vendors for services and supplies	(1,305,438)	(1,304,270)	(120)	(2,609,828)
Net Cash Provided (Used) by Operating Activities	<u>636,026</u>	<u>60,745</u>	<u>(120)</u>	<u>696,651</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal payments on debt	(167,394)	(122,502)	-	(289,896)
Interest paid on debt	(19,638)	(34,398)	-	(54,036)
Deferred charges	(321,986)	(40,427)	-	(362,413)
In lieu of water rights fees	307,160	-	-	307,160
Acquisition of capital assets	(5,602,388)	(5,940,945)	(102,217)	(11,645,550)
Developer agreements	48,562	4,410	-	52,972
Connection fees	362,051	497,034	105,301	964,386
Proceeds from short-term trade accounts used to finance equipment acquisition	1,414,106	970,931	-	2,385,037
Proceeds from issuance of debt	44,918,068	5,551,671	-	50,469,739
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>40,938,541</u>	<u>885,774</u>	<u>3,084</u>	<u>41,827,399</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	910,903	428,923	50,689	1,390,515
Net Increase (Decrease) in Cash and Cash Equivalents	<u>42,485,470</u>	<u>1,375,442</u>	<u>53,653</u>	<u>43,914,565</u>
CASH AND CASH EQUIVALENTS, July 1	<u>9,059,037</u>	<u>9,003,109</u>	<u>1,062,696</u>	<u>19,124,842</u>
CASH AND CASH EQUIVALENTS, June 30	<u>\$ 51,544,507</u>	<u>\$ 10,378,551</u>	<u>\$ 1,116,349</u>	<u>\$ 63,039,407</u>
REPRESENTED BY:				
Cash and cash equivalents	\$ 51,260,441	\$ 10,068,161	\$ 1,116,349	\$ 62,444,951
Cash - refundable deposits	284,066	310,390	-	594,456
	<u>\$ 51,544,507</u>	<u>\$ 10,378,551</u>	<u>\$ 1,116,349</u>	<u>\$ 63,039,407</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (226,194)	\$ 36,950	\$ (9,340)	\$ (198,584)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	836,132	540,918	9,340	1,386,390
Miscellaneous Revenues	46,128	159	-	46,287
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable, net	(32,749)	(13,713)	-	(46,462)
Accounts receivable, other	5,281	-	-	5,281
Due from other funds	5,733	255	-	5,988
Inventories	(4,268)	(656)	-	(4,924)
Increase (decrease) in:				
Accounts payable	(640)	(541,125)	(120)	(541,885)
Accrued liabilities	3,054	23,090	-	26,144
Compensated absences payable	1,760	1,760	-	3,520
Refundable deposits	1,789	13,107	-	14,896
Total Adjustments	<u>862,220</u>	<u>23,795</u>	<u>9,220</u>	<u>895,235</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 636,026</u>	<u>\$ 60,745</u>	<u>\$ (120)</u>	<u>\$ 696,651</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES				
Contribution of capital assets from developers	<u>\$ 17,306,978</u>	<u>\$ 2,516,955</u>	<u>\$ 252,442</u>	<u>\$ 20,076,375</u>

See accompanying notes.

**CITY OF FERNLEY
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007**

	<u>AGENCY FUND</u>
ASSETS	
Cash and cash equivalents	\$ 9,433
LIABILITIES	
Bail bond deposits held for others	\$ 9,433

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007

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, 2007

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-side 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, 2007

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, 2007

- 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, 2007

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 Prepaids:

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, 2007

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 subject to an extended implementation period and is first effective for fiscal years ending June 30, 2008. The City will implement the retroactive infrastructure provisions for major assets acquired between July 1, 1980 and June 30, 2003, by or before fiscal year ending June 30, 2008.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 refundings 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, 2007

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.

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.
2. Public hearings on the tentative budget are held on the third Tuesday in May to obtain taxpayer comments.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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.

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 General Government function of the General Fund by \$35,254. This is an apparent violation of NRS 354.626.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

- Actual expenditures exceeded appropriations in the Culture and Recreation function of the General Fund by \$8,063. This is an apparent violation of NRS 354.626.
- Actual expenditures exceeded appropriations in the Community Development function of the General Fund by \$64,141. This is an apparent violation of NRS 354.626.
- Actual expenditures exceeded appropriations in the Debt Service function of the General Fund by \$632. This is an apparent violation of NRS 354.626.
- Actual expenditures exceeded appropriations in the Culture and Recreation function of the Private Sector Community Support Special Revenue Fund by \$4,662. This is an apparent violation of NRS 354.626.
- Actual expenditures exceeded appropriations in the Community Development function of the Capital Projects Fund by \$198,521. This is an apparent violation of NRS 354.626.
- Actual operating and nonoperating expenses exceeded appropriations in the Water Utility Enterprise Fund by \$69,043. This is an apparent violation of NRS 354.626.
- Actual operating and nonoperating expenses exceeded appropriations in the Sewer Utility Enterprise Fund by \$22,383. This is an apparent violation of NRS 354.626.
- Actual operating expenses exceeded appropriations in the Non-Potable Water Enterprise Fund by \$9,340. This is an apparent violation of NRS 354.626.

NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2007 is as follows:

Cash Balances Held by:	
Governmental Funds	\$ 5,398,685
Fiduciary Funds	9,433
Proprietary Funds	
Unrestricted	62,444,951
Restricted	594,456*
Total Cash and Investments	\$ 68,447,525

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Balances Classified by:	
On hand	\$ 400
Wells Fargo Bank:	
Checking	236,994
NVEST	10,648,701
Local Government Investment Pool	57,561,430
Total Cash and Investments	\$ 68,447,525

As of June 30, 2007, 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	\$ 890,156	\$ 890,156	\$ -	\$ -	\$ -
U.S. Agencies	3,263,859	-	3,263,859	-	-
Mortgage-Backed	1,902,339	-	1,316,192	586,147	-
Corporate Bonds	3,808,387	710,446	3,097,941	-	-
Money Market Fund	783,960	383,335	400,625	-	-
State of Nevada					
Local Government Investment Pool	<u>57,561,430</u>	<u>57,561,430*</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$68,210,131</u>	<u>\$59,545,367</u>	<u>\$8,078,617</u>	<u>\$586,147</u>	<u>\$ -</u>

* 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.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 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, 2007, 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, \$2,283,823 was rated AAA/Aaa, \$1,133,276 was rated AA/Aa, and \$391,288 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, 2007

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions or Transfers In	Deletions or Transfers Out	Completed Construction	Balance June 30, 2007
Governmental Activities:					
Capital assets, not being depreciated					
Land	\$ 3,789,274	\$ 120,350	\$ -	\$ -	\$ 3,909,624
Construction in progress	730,876	7,806,745	-	(2,068,307)	6,469,314
Total capital assets, not being depreciated	4,520,150	7,927,095	-	(2,068,307)	10,378,938
Capital assets, being depreciated					
Buildings	1,395,144	-	(168,983)	-	1,226,161
Improvements other than buildings	4,135,320	2,056,488	-	-	6,191,808
Machinery and Equipment	709,769	170,632	(11,313)	-	869,088
Infrastructure	15,723,696	4,085,575	-	-	19,809,271
Total capital assets, being depreciated	21,963,929	6,312,695	(180,296)	-	28,096,328
Less accumulated depreciation for:					
Buildings	(512,496)	(55,883)	18,268	-	(550,111)
Improvements other than buildings	(196,685)	(236,274)	-	-	(432,959)
Machinery and Equipment	(300,608)	(149,817)	4,723	-	(445,702)
Infrastructure	(865,542)	(617,505)	-	-	(1,483,047)
Total accumulated depreciation	(1,875,331)	(1,059,479)	22,991	-	(2,911,819)
Total capital assets, being depreciated, net	20,088,598	5,253,216	(157,305)	-	25,184,509
Governmental activities capital assets, net	\$ 24,608,748	\$ 13,180,311	\$ (157,305)	\$ (2,068,307)	\$ 35,563,447

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

	Balance July 1, 2006	Additions or Transfers In	Deletions or Transfers Out	Completed Construction	Balance June 30, 2007
Business-Type Activities:					
Capital assets, not being depreciated					
Land	\$ 268,810	\$ 408,867	\$ -	\$ -	\$ 677,677
Water rights	18,798,981	14,479,855	-	-	33,278,836
Construction in progress	3,281,172	11,034,780	(16,035)	(977,598)	13,322,319
Total capital assets, not being depreciated	<u>22,348,963</u>	<u>25,923,502</u>	<u>(16,035)</u>	<u>(977,598)</u>	<u>47,278,832</u>
Capital assets, being depreciated					
Buildings	17,530	-	-	-	17,530
Improvements other than buildings	44,390,965	4,131,092	-	-	48,522,057
Machinery and Equipment	813,944	259,861	-	-	1,073,805
Other capital assets	1,655,564	16,066	-	-	1,671,630
Total capital assets, being depreciated	<u>46,878,003</u>	<u>4,407,019</u>	<u>-</u>	<u>-</u>	<u>51,285,022</u>
Less accumulated depreciation for:					
Buildings	(12,869)	(999)	-	-	(13,868)
Improvements other than buildings	(8,890,878)	(1,264,721)	-	-	(10,155,599)
Machinery and Equipment	(746,557)	(40,014)	-	-	(786,571)
Other capital assets	(397,676)	(80,656)	-	-	(478,332)
Total accumulated depreciation	<u>(10,047,980)</u>	<u>(1,386,390)</u>	<u>-</u>	<u>-</u>	<u>(11,434,370)</u>
Total capital assets, being depreciated, net	<u>36,830,023</u>	<u>3,020,629</u>	<u>-</u>	<u>-</u>	<u>39,850,652</u>
Business-type activities capital assets, net	<u>\$ 59,178,986</u>	<u>\$ 28,944,131</u>	<u>\$ (16,035)</u>	<u>\$ (977,598)</u>	<u>\$ 87,129,484</u>

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

Governmental Activities:

General government	\$	50,886
Public works		797,860
Culture and recreation		158,373
Health		15,131
Community development		37,229
Total depreciation expense – governmental activities	\$	1,059,479

Business-type Activities:

Water	\$	836,132
Sewer		540,918
Non Potable		9,340
Total depreciation expense – business-type activities	\$	1,386,390

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, 2007

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
2006-07	20.50%	10.50%	\$203,027
2005-06	19.75%	10.50%	\$194,978
2004-05	20.25%	10.50%	\$271,684

NOTE 6 – INTERFUND TRANSFERS:

The composition of interfund transfers as of June 30, 2007, is as follows:

<u>Transfer Out:</u>	<u>Transfer In:</u>			<u>Total</u>
	<u>Capital Projects Fund</u>	<u>Streets and Storm Drains Fund</u>	<u>Other Governmental Funds</u>	
General Fund	\$ -	\$ 550,000	\$ 17,317	\$ 567,317
Residential Const. Tax District # 1 Fund	<u>134,766</u>	<u>-</u>	<u>9,629</u>	<u>144,395</u>
Total	<u>\$ 134,766</u>	<u>\$ 550,000</u>	<u>\$ 26,946</u>	<u>\$ 711,712</u>

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 – LONG TERM DEBT:

A. The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2007.

B. The bonded following schedule summarizes the changes in long-term debt:

	Issue Date	Interest Rate	Maturity Date	Authorized and Issued	Outstanding July 1, 2006	Additions	(Deletions)	Outstanding June 30, 2007	Due in 2007-2008
Governmental Activities:									
Compensated absences payable	-	-	-	-	\$ 77,944	\$ 35,259	\$ (18,844)	\$ 94,359	\$ 19,000
City Hall Expansion Bonds	12/29/05	4.49%	12/01/2025	\$ 5,000,000	5,000,000	-	(158,000)	4,842,000	165,000
Total governmental activities					5,077,944	35,259	(176,844)	4,936,359	184,000
Business-type Activities:									
State Water Pollution Control Revolving Fund	10/28/92	4.00%	6/30/2012	\$ 2,000,000	890,282	-	(122,502)	767,780	127,451
2003 Refunding Bonds	11/25/03	3% - 5%	5/01/2010	\$ 950,000	670,000	-	(155,000)	515,000	160,000
2007 Water/Sewer Bonds	3/28/07	4% - 5%	2/1/2037	\$50,000,000	-	50,000,000	-	50,000,000	-
					1,560,282	50,000,000	(277,502)	51,282,780	287,451
Unamortized Bond Premium					37,181	469,739	(12,393)	494,527	28,052
Compensated Absences payable					37,789	78,479	(74,960)	41,308	41,308
Total business-type activities					1,635,252	50,548,218	(364,855)	51,818,615	356,811
Total Long Term Debt					\$ 6,713,196	\$50,583,477	\$ (541,699)	\$ 56,754,974	\$ 540,811

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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
2008	\$ 165,000	\$ 213,702	\$ 127,451	\$ 235,053	\$ 160,000	\$ 1,681,577	\$ 452,451	\$ 2,130,332
2009	173,000	206,113	222,800	268,583	899,800	1,986,268	1,295,600	2,460,964
2010	181,000	198,166	232,557	259,392	950,400	1,948,226	1,363,957	2,405,784
2011	189,000	189,860	241,981	249,917	796,550	1,913,878	1,227,531	2,353,655
2012	198,000	181,172	252,729	240,180	836,600	1,882,016	1,287,329	2,303,368
2013- 2017	1,132,000	761,055	672,562	1,097,311	4,819,350	8,865,802	6,623,912	10,724,168
2018- 2022	1,417,000	476,097	760,650	938,094	6,154,350	7,590,031	8,332,000	9,004,222
2023- 2027	1,387,000	127,987	970,200	738,026	7,849,800	5,971,305	10,207,000	6,837,318
2028- 2032	-	-	1,235,850	505,562	9,999,150	4,090,457	11,235,000	4,596,019
2033- 2037	-	-	1,551,000	203,713	12,549,000	1,648,224	14,100,000	1,851,937
Total	\$ 4,842,000	\$ 2,354,152	\$ 6,267,780	\$ 4,735,831	\$ 45,015,000	\$ 37,577,784	\$ 56,124,780	\$ 44,667,767

* Exclusive of unamortized premium and issuance costs.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 – 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 coverage for its members for up to \$10,000,000 per event and a \$13,000,000 general aggregate per member

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.

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 9 – COMMITMENTS AND CONTINGENCIES:

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

The City has entered into a construction contract for \$6,719,910 to build an expansion of the City Hall. At June 30, 2007, \$6,263,421 has been billed by the contractor related to the original contract. The project is expected to be completed by August 2007.

NOTE 10 – SUBSEQUENT EVENTS:

In July 2007, the City began the process to authorize up to \$50 million of General Obligation Water and Sewer Bonds for the purpose of providing infrastructure for the City's water and sewer system. The Lyon County Debt Management Commission approved the authorization process in August 2007. A public hearing on the bond issue was held in November 2007. The City anticipates that the bond authorization process, including a required 90 day petition period, will be completed on January 3, 2008. The City intends to issue bonds in all or part of the authorized amount between February and April 2008.

Effective July 1, 2007 new water and sewer rates will go into effect, primarily due to the increasing debt service demands. On average, the water rate increase is approximately 50%, and the sewer rates are 2.5%. These amounts are consistent with the rate study completed during fiscal year 2007, which suggested the rates increase 200% over the next five years.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF FERNLEY
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACILITIES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TOTAL
ASSETS						
Cash and investments	\$ 3,907	\$ -	\$ 693,311	\$ 545,589	\$ 285	\$ 1,243,092
Interest receivable	174	-	1,980	1,971	-	4,125
Accounts receivable	3,171	4,417	-	-	-	7,588
Total Assets	<u>\$ 7,252</u>	<u>\$ 4,417</u>	<u>\$ 695,291</u>	<u>\$ 547,560</u>	<u>\$ 285</u>	<u>\$ 1,254,805</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 924	\$ -	\$ 8,490	\$ -	\$ 911	\$ 10,325
Due to developers	-	-	111,000	-	-	111,000
Total Liabilities	<u>924</u>	<u>-</u>	<u>119,490</u>	<u>-</u>	<u>911</u>	<u>121,325</u>
Fund Balance:						
Designated for subsequent year's expenditures	6,328	-	575,801	-	-	582,129
Undesignated	-	4,417	-	547,560	(626)	551,351
Total Fund Balance	<u>6,328</u>	<u>4,417</u>	<u>575,801</u>	<u>547,560</u>	<u>(626)</u>	<u>1,133,480</u>
Total Liabilities and Fund Balance	<u>\$ 7,252</u>	<u>\$ 4,417</u>	<u>\$ 695,291</u>	<u>\$ 547,560</u>	<u>\$ 285</u>	<u>\$ 1,254,805</u>

CITY OF FERNLEY
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACILITIES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TOTAL
REVENUES						
Taxes:						
Residential construction tax	\$ -	\$ -	\$ 52,780	\$ -	\$ -	\$ 52,780
Intergovernmental						
Grant	-	-	60,000	-	-	60,000
Fines and forfeits:						
Municipal administrative fees	13,810	20,820	-	-	-	34,630
Miscellaneous:						
Interest earnings	1,943	3,345	24,846	25,939	42	56,115
Other	-	-	-	-	3,895	3,895
Total Revenues	<u>15,753</u>	<u>24,165</u>	<u>137,626</u>	<u>25,939</u>	<u>3,937</u>	<u>207,420</u>
EXPENDITURES						
Services and supplies:						
Judicial	2,050	-	-	-	-	2,050
Culture and recreation	-	-	1,159	-	-	1,159
Community development	-	-	-	1,141	32,662	33,803
Total Services and supplies	<u>2,050</u>	<u>-</u>	<u>1,159</u>	<u>1,141</u>	<u>32,662</u>	<u>37,012</u>
Capital outlay:						
Culture and recreation	-	-	157,269	-	-	157,269
Total Expenditures	<u>2,050</u>	<u>-</u>	<u>158,428</u>	<u>1,141</u>	<u>32,662</u>	<u>194,281</u>
Excess (Deficiency) of Revenues over (under) Expenditures	13,703	24,165	(20,802)	24,798	(28,725)	13,139
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	<u>(45,000)</u>	<u>(89,766)</u>	<u>144,395</u>	<u>-</u>	<u>17,317</u>	<u>26,946</u>
Net Change in Fund Balance	(31,297)	(65,601)	123,593	24,798	(11,408)	40,085
FUND BALANCE, JULY 1	<u>37,625</u>	<u>70,018</u>	<u>452,208</u>	<u>522,762</u>	<u>10,782</u>	<u>1,093,395</u>
FUND BALANCE, JUNE 30	<u>\$ 6,328</u>	<u>\$ 4,417</u>	<u>\$ 575,801</u>	<u>\$ 547,560</u>	<u>\$ (626)</u>	<u>\$ 1,133,480</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, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Fines and forfeits:			
Municipal administrative fees	\$ 15,000	\$ 13,810	\$ (1,190)
Miscellaneous:			
Interest earnings	<u>1,500</u>	<u>1,943</u>	<u>443</u>
Total Revenues	16,500	15,753	(747)
EXPENDITURES			
Judicial			
Services and supplies	<u>5,000</u>	<u>2,050</u>	<u>2,950</u>
Excess (Deficiency) of Revenue Over Expenditures	11,500	13,703	2,203
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
Net Change in Fund Balance	(33,500)	(31,297)	2,203
FUND BALANCE, July 1	<u>37,625</u>	<u>37,625</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 4,125</u>	<u>\$ 6,328</u>	<u>\$ 2,203</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, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Fines and forfeits:			
Municipal administrative fees	\$ 21,000	\$ 20,820	\$ (180)
Miscellaneous:			
Interest earnings	<u>2,500</u>	<u>3,345</u>	<u>845</u>
Total Revenues	23,500	24,165	665
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(90,000)</u>	<u>(89,766)</u>	<u>234</u>
Net Change in Fund Balance	(66,500)	(65,601)	899
FUND BALANCE, July 1	<u>70,018</u>	<u>70,018</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 3,518</u>	<u>\$ 4,417</u>	<u>\$ 899</u>

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, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Taxes:			
Residential construction tax	\$ 130,000	\$ 52,780	\$ (77,220)
Intergovernmental:			
Grant	60,000	60,000	-
Miscellaneous:			
Interest earnings	<u>23,000</u>	<u>24,846</u>	<u>1,846</u>
Total Revenues	<u>213,000</u>	<u>137,626</u>	<u>(75,374)</u>
EXPENDITURES			
Culture and recreation:			
Services and supplies	-	1,159	(1,159)
Capital outlay	<u>170,000</u>	<u>157,269</u>	<u>12,731</u>
Total Expenditures	<u>170,000</u>	<u>158,428</u>	<u>11,572</u>
Excess (Deficiency) of Revenue Over Expenditures	43,000	(20,802)	(86,946)
OTHER FINANCING SOURCES			
Transfers in	<u>175,000</u>	<u>144,395</u>	<u>(30,605)</u>
Net Change in Fund Balance	218,000	123,593	(117,551)
FUND BALANCE, July 1	<u>452,208</u>	<u>452,208</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 670,208</u>	<u>\$ 575,801</u>	<u>\$ (117,551)</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, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest earnings	\$ 20,200	\$ 25,939	\$ 5,739
EXPENDITURES			
Community Development:			
Services and supplies	5,000	1,141	3,859
Excess (Deficiency) of Revenues Over Expenditures	15,200	24,798	9,598
FUND BALANCE, July 1	<u>522,762</u>	<u>522,762</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 537,962</u>	<u>\$ 547,560</u>	<u>\$ 9,598</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, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest earnings	\$ -	\$ 42	\$ 42
Other	<u>3,000</u>	<u>3,895</u>	<u>895</u>
Total Revenues	3,000	3,937	937
EXPENDITURES			
Culture and Recreation:			
Capital outlay	<u>28,000</u>	<u>32,662</u>	<u>(4,662)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(25,000)</u>	<u>(28,725)</u>	<u>(3,725)</u>
OTHER FINANCING SOURCES			
Transfers in:	<u>15,000</u>	<u>17,317</u>	<u>2,317</u>
Net Change in Fund Balance	(10,000)	(11,408)	(1,408)
FUND BALANCE, July 1	<u>10,782</u>	<u>10,782</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 782</u>	<u>\$ (626)</u>	<u>\$ (1,408)</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, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest earnings	\$ 300,000	\$ 258,076	\$ (41,924)
EXPENDITURES			
Community development:			
Capital outlay	<u>5,800,000</u>	<u>6,027,811</u>	<u>(227,811)</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,500,000)	(5,769,735)	(269,735)
OTHER FINANCING SOURCES			
Transfers in:			
General Fund	<u>135,000</u>	<u>134,766</u>	<u>(234)</u>
Net Change in Fund Balance	(5,365,000)	(5,634,969)	(269,969)
FUND BALANCE, July 1	<u>8,032,479</u>	<u>8,032,479</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 2,667,479</u>	<u>\$ 2,397,510</u>	<u>\$ (269,969)</u>

**CITY OF FERNLEY
WATER UTILITY FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
User fees	\$ 2,540,000	\$ 2,306,193	\$ (233,807)
OPERATING EXPENSES			
Salaries and wages	392,000	392,176	(176)
Employee benefits	187,100	157,984	29,116
Services and supplies	1,125,400	1,146,095	(20,695)
Depreciation	750,000	836,132	(86,132)
Total Operating Expenses	<u>2,454,500</u>	<u>2,532,387</u>	<u>(77,887)</u>
Operating Income (Loss)	<u>85,500</u>	<u>(226,194)</u>	<u>(311,694)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	860,000	1,047,914	187,914
In lieu of water rights fees	350,000	307,160	(42,840)
Miscellaneous	35,000	46,094	11,094
Interest expense	(535,000)	(526,166)	8,834
Total Nonoperating Revenue (Expense)	<u>710,000</u>	<u>875,002</u>	<u>165,002</u>
Income (Loss) Before Capital Contributions	<u>795,500</u>	<u>648,808</u>	<u>(146,692)</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	750,000	362,051	(387,949)
Developer agreements	50,000	48,562	(1,438)
Developer contributed infrastructure	5,000,000	1,520,734	(3,479,266)
Developer contributed water rights	10,000,000	14,372,138	4,372,138
Total Capital Contributions	<u>15,800,000</u>	<u>16,303,485</u>	<u>503,485</u>
Change in Net Assets	16,595,500	16,952,293	356,793
NET ASSETS, July 1	<u>48,836,999</u>	<u>48,836,999</u>	<u>-</u>
NET ASSETS, June 30	<u>\$ 65,432,499</u>	<u>\$ 65,789,292</u>	<u>\$ 356,793</u>

**CITY OF FERNLEY
SEWER UTILITY FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
User fees	\$ 1,660,500	\$ 1,754,820	\$ 94,320
OPERATING EXPENSES			
Salaries and wages	394,900	379,598	15,302
Employee benefits	139,100	155,831	(16,731)
Services and supplies	575,200	641,525	(66,325)
Depreciation	580,000	540,916	39,084
Total Operating Expenses	<u>1,689,200</u>	<u>1,717,870</u>	<u>(28,670)</u>
Operating Income (Loss)	<u>(28,700)</u>	<u>36,950</u>	<u>65,650</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	410,000	414,689	4,689
Miscellaneous	1,000	193	(807)
Interest expense	(101,000)	(94,713)	6,287
Total Nonoperating Revenue (Expense)	<u>310,000</u>	<u>320,169</u>	<u>10,169</u>
Income (Loss) Before Capital Contributions	<u>281,300</u>	<u>357,119</u>	<u>75,819</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	924,000	497,034	(426,966)
Developer agreements	97,000	4,410	(92,590)
Developer contributed infrastructure	5,095,000	1,546,024	(3,548,976)
Total Capital Contributions	<u>6,116,000</u>	<u>2,047,468</u>	<u>(4,068,532)</u>
Change in Net Assets	6,397,300	2,404,587	(3,992,713)
NET ASSETS, July 1	<u>25,876,875</u>	<u>25,876,875</u>	<u>-</u>
NET ASSETS, June 30	<u>\$ 32,274,175</u>	<u>\$ 28,281,462</u>	<u>\$ (3,992,713)</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, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING EXPENSES			
Depreciation	\$ -	\$ (9,340)	\$ (9,340)
Operating Income (Loss)	<u>-</u>	<u>(9,340)</u>	<u>(9,340)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	<u>40,000</u>	<u>48,683</u>	<u>8,683</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	130,000	105,301	(24,699)
Developer contributed infrastructure	<u>300,000</u>	<u>252,442</u>	<u>(47,558)</u>
Total Capital Contributions	<u>430,000</u>	<u>357,743</u>	<u>(72,257)</u>
Change in Net Assets	470,000	397,086	(72,914)
NET ASSETS, July 1	<u>1,387,059</u>	<u>1,387,059</u>	<u>(72,914)</u>
NET ASSETS, June 30	<u>\$ 1,857,059</u>	<u>\$ 1,784,145</u>	<u>\$ (72,914)</u>

CITY OF FERNLEY
AGENCY FUND - MUNICIPAL TRUST FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>
ASSETS				
Cash and cash equivalents	\$ 9,014	\$ 65,926	\$ 65,507	\$ 9,433
LIABILITIES				
Bail bond deposits held for others	\$ 9,014	\$ 65,926	\$ 65,507	\$ 9,433

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.

<u>Section Contents</u>	<u>Schedule #</u>
Financial Trends <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>	1 - 4
Revenue Capacity <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>	5 - 9
Debt Capacity <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>	10 - 14
Demographic and Economic Information <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>	15 - 16
Operating Information <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>	17 - 19

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 FOUR FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
GOVERNMENTAL ACTIVITIES				
Invested in capital assets, net of related debt	\$ 11,913,896	\$ 15,883,001	\$ 24,608,748	\$ 30,721,447
Restricted	-	-	-	-
Unrestricted	<u>3,927,329</u>	<u>5,884,904</u>	<u>5,535,323</u>	<u>4,549,063</u>
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>
BUSINESS-TYPE ACTIVITIES				
Invested in capital assets, net of related debt	\$ 32,471,737	\$ 39,238,863	\$ 57,581,522	\$ 35,352,177
Restricted	-	535,237	579,560	-
Unrestricted	<u>12,780,664</u>	<u>16,901,342</u>	<u>17,939,851</u>	<u>60,502,722</u>
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>
PRIMARY GOVERNMENT				
Invested in capital assets, net of related debt	\$ 44,385,633	\$ 55,121,864	\$ 82,190,270	\$ 66,073,624
Restricted	-	535,237	579,560	-
Unrestricted	<u>16,707,993</u>	<u>22,786,246</u>	<u>23,475,174</u>	<u>65,051,785</u>
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>

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

CITY OF FERNLEY, NEVADA

CHANGE IN NET ASSETS

LAST FOUR FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
EXPENSES				
Governmental Activities:				
General government	\$ 587,873	\$ 595,912	\$ 796,403	\$ 1,173,360
Judicial	156,796	173,804	170,479	194,353
Public works	463,188	642,480	954,419	1,547,750
Culture and recreation	362,983	458,828	646,259	838,674
Community development	434,627	861,555	875,056	848,010
Health	50,560	102,768	263,919	295,413
Total Governmental Activities Expenses	<u>2,056,027</u>	<u>2,835,347</u>	<u>3,706,535</u>	<u>4,897,560</u>
Business-type Activities:				
Water	2,035,646	2,134,429	2,422,583	3,058,553
Sewer	1,347,388	1,509,433	1,530,898	1,812,583
Other	-	-	700	9,340
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>
Total Primary Government Expenses	<u>\$ 5,439,061</u>	<u>\$ 6,479,209</u>	<u>\$ 7,660,716</u>	<u>\$ 9,778,036</u>
PROGRAM REVENUES				
Governmental Activities:				
Charges for Services:				
General government	\$ 731,510	\$ 887,827	\$ 1,008,662	\$ 1,137,510
Judicial	170,835	423,178	196,249	89,248
Public works	10,901	31,278	40,071	29,754
Culture and recreation	16,950	13,400	8,150	48,355
Community development	1,422,438	1,804,978	1,123,508	679,608
Health	1,766	1,611	2,341	4,318
Operating Grants and Contributions	276,701	268,632	348,627	60,000
Capital Grants and Contributions	8,112,137	4,232,398	7,531,080	6,052,749
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>
Business-type Activities:				
Charges for Services:				
Water	1,794,430	1,975,451	2,201,916	2,306,193
Sewer	1,187,212	1,441,455	1,686,101	1,754,820
Other	-	131,300	-	-
Capital Grants and Contributions:	10,829,870	11,157,733	18,729,430	19,015,856
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>
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>
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ 8,687,211	\$ 4,827,956	\$ 6,552,153	\$ 3,203,982
Business-type Activities	<u>10,428,478</u>	<u>11,062,077</u>	<u>18,663,266</u>	<u>18,196,393</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>

CITY OF FERNLEY, NEVADA

CHANGE IN NET ASSETS

LAST FOUR FISCAL YEARS

CONTINUED

GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS

Governmental Activities:

Taxes:

Property	\$ 427,738	\$ 496,207	\$ 591,082	\$ 925,297
Consolidated	137,610	163,429	189,158	188,128
Fuel	216,736	233,448	227,691	259,603
Gaming licenses	75,015	71,271	97,121	98,753
Unrestricted interest income	22,441	97,729	329,341	361,301
Miscellaneous revenue	35,660	36,640	389,619	89,378
Total Governmental Activities	<u>915,200</u>	<u>1,098,724</u>	<u>1,824,012</u>	<u>1,922,460</u>

Business-type Activities:

Unrestricted interest income	86,972	295,730	702,781	1,511,286
Miscellaneous revenue	37,142	65,234	59,441	46,287
Total Business-type Activities	<u>124,114</u>	<u>360,964</u>	<u>762,222</u>	<u>1,557,573</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>

CHANGE IN NET ASSETS

Governmental activities	\$ 9,602,411	\$ 5,926,680	\$ 8,376,165	\$ 5,126,439
Business-type activities	<u>10,552,592</u>	<u>11,423,041</u>	<u>19,425,488</u>	<u>19,753,966</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>

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

CITY OF FERNLEY, NEVADA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST FOUR FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
General fund				
Reserved	\$ 1,330	\$ 5,205	\$ 6,239	\$ 6,709
Unreserved	790,990	869,817	938,757	582,237
Total general fund	<u>\$ 792,320</u>	<u>\$ 875,022</u>	<u>\$ 944,996</u>	<u>\$ 588,946</u>
All other governmental funds				
Unreserved, reported in:				
Residential construction tax district #1 fund	\$ 4,091	\$ 178,421	\$ 124,754	\$ -9,000
Streets and storm drains fund	858,436	1,224,841	180,166	444,108
Capital projects fund	1,499,182	2,502,129	8,032,479	2,397,510
Other governmental funds	825,599	899,710	1,093,395	1,133,480
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>

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

CITY OF FERNLEY, NEVADA

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST FOUR FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
REVENUES				
Taxes	\$ 1,190,598	\$ 1,316,826	\$ 1,787,949	\$ 988,056
Licenses and permits	2,241,629	2,796,965	2,271,703	1,949,947
Intergovernmental	1,415,460	1,354,521	1,231,732	2,333,333
Fines and forfeits	170,836	175,167	228,424	234,353
Miscellaneous	199,081	192,613	794,352	581,833
Total revenues	<u>5,217,604</u>	<u>5,836,092</u>	<u>6,314,160</u>	<u>6,087,522</u>
EXPENDITURES				
General government	528,906	595,297	717,355	1,025,295
Judicial	154,514	171,868	169,163	194,518
Public works	331,318	420,500	376,571	515,394
Culture and recreation	324,629	381,962	508,797	647,542
Community development	405,298	669,105	810,965	834,503
Health	48,395	96,876	256,738	275,905
Debt service:				
Principal	-	-	-	158,000
Interest	-	-	94,789	221,032
Capital outlay	<u>1,499,163</u>	<u>1,799,989</u>	<u>3,684,115</u>	<u>8,097,529</u>
Total expenditures	<u>3,292,223</u>	<u>4,135,597</u>	<u>6,618,493</u>	<u>11,969,718</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>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,931,030)	(1,690,000)	(1,050,000)	(711,712)
Transfers in	1,931,030	1,690,000	1,050,000	711,712
General obligations bonds issued	-	-	5,000,000	-
Sale of capital assets	<u>4,277</u>	<u>-</u>	<u>-</u>	<u>61,450</u>
Total other financing sources (uses)	<u>4,277</u>	<u>-</u>	<u>5,000,000</u>	<u>61,450</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>
Debt service as a percentage of noncapital expenditures	0.0%	0.0%	3.3%	10.9%

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

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

Fiscal Year	Total		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

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 SIX FISCAL YEARS*

Fiscal Year	City of Fernley	State of Nevada	School District	County	Special Districts	Total
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

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, 2007

Taxpayer	Product/Service	Taxable		Approximate Percentage of Taxable Assessed Valuation
		Estimated Appraised Value (1)	Taxable Assessed Value	
Amazon.com	Electronic Shopping	\$ 45,692,423	\$ 15,992,348	3.129%
BMO Leasing US, Inc. (Quebecor)	Printing	40,514,734	14,180,157	2.774%
TREX Company	Wood Product Manufacturer	23,210,054	8,123,519	1.589%
Nevada Cement Company	Cement Manufacturer	22,698,257	7,944,390	1.554%
MSC Industrial Direct Co. Inc.	Machinery Merchant Wholesale	18,821,794	6,587,628	1.289%
Reynen & Bardis	Paint Manufacturer	17,706,454	6,197,259	1.212%
Sonterra Development Co. Inc.	Electronic Manufacturer	12,088,514	4,230,980	0.828%
Sherwin-Williams Acceptance Corp	Product Manufacturer	11,306,243	3,957,185	0.774%
John Manville International Inc.	Motor Vehicle Body Manufacturer	10,766,266	3,768,193	0.737%
Paramount-Nevada Asphalt Co. LLC	Siding/Roofing Manufacturer	5,619,943	1,966,980	0.385%
Totals	Asphalt	\$ <u>208,424,683</u>	\$ <u>72,948,639</u>	<u>14.270%</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 SIX FISCAL YEARS*

	FISCAL YEAR ENDED JUNE 30,					
	2002	2003	2004	2005	2006	2007
WATER UTILITY						
Number of Customers	3,309	3,966	4,980	6,083	6,634	6,816
Annual Average Day Demand per customer (1)	750	750	750	750	750	750
Gallons of water used (in thousands)	905,839	1,085,693	1,363,275	1,665,221	1,816,058	1,865,880
Direct rater per 1000 gallons	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95

Source: City of Fernley

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

CITY OF FERNLEY, NEVADA

PRINCIPLE WATER USERS

JUNE 30,

Employer	2007		2004*	
	User Fees	Rank	User Fees	Rank
Trex Manufacturing Company	\$ 65,584	1	\$ 42,141	1
Quebecor World MS #2	36,771	2	31,703	2
Hollywood Investments	19,122	3	18,076	3
Veterans Cemetery	16,038	4	15,059	4
Fernley High School	11,679	5	11,081	7
Trails End Mobile Home Park	8,976	6	12,016	5
Rewana Mobile Home Park	8,880	7	5,708	10
Fernley Intermediate School	8,774	8	6,318	9
Blue Beacon Wash	8,518	9	7,413	8
Green Valley Park	7,443	10	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 SIX 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

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 SIX FISCAL YEARS*

Fiscal Year	General Obligation Bonds	Total	Percentage of Actual Property Value (1)	Per Capita (2)
2002	\$ 90,314	\$ 90,314	0.014%	9.48
2003	-	-	-	-
2004	-	-	-	-
2005	-	-	-	-
2006	5,000,000	5,000,000	0.46%	305.68
2007	4,842,000	4,842,000	0.33%	256.87

Note: (1) See the Schedule of Assessed Value and Estimated Actual Value of 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, 2007

	Total General Obligation Debt	Presently Self-Supporting General Obligation Debt	Net Debt Outstanding	% Applicable	Applicable Net Debt
Direct:					
City of Fernley	\$ 56,124,780	\$ 51,282,780	\$ 4,842,000	100.00%	\$ <u>4,842,000</u>
Overlapping:					
State of Nevada (1)	2,954,015	878,257	2,075,758	0.44%	9,133
Lyon County (2)	77,924,035	77,059,057	864,978	35.88%	310,354
Lyon County School (3) District	60,440,000	-	60,440,000	35.88%	<u>21,685,872</u>
Total Overlapping debt					<u>22,005,359</u>
Total Direct and Overlapping Debt					<u>\$ 26,847,359</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, 2007

Estimated Assessed Value	\$ 511,154,623
Debt Limit - 30 Percent of Total Assessed Value	153,346,387
Total Amount of Debt Applicable to Debt Limit	56,124,780
Legal Debt Margin	\$ 102,063,607

Note: Legal debt margin as set forth in NRS 266.600

CITY OF FERNLEY, NEVADA
WATER AND SEWER FUNDS REVENUE BOND COVERAGE - COMBINED
LAST SIX 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%

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 SIX 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%

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	2007			2005*		
	Employees	Rank	Percentage of Total County Employment (1)	Employees	Rank	Percentage of Total County Employment (1)
Amazon.com	800-899	1	6.71%	700-799	1	6.14%
BMO Leasing US Inc (Quebecor)	200-299	2	1.97%	200-299	2	2.05%
MSC Industrial Supply Co.	200-299	3	1.97%	100-199	3	1.23%
TREX Company	100-199	4	1.18%	100-199	4	1.23%
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	100-199	7	1.18%	90-99	7	0.78%
Manpower Temporary Services	90-99	8	0.75%	90-99	8	0.78%
Fernley Pioneers, LLC.	90-99	9	0.75%			
Valley Joist Inc.	80-89	10	0.67%			
A.R.E. Inc.				100-199	5	1.23%
Fernley Truck Inn				90-99	10	0.78%

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 SIX FISCAL YEARS*

FUNCTION/PROGRAM	FISCAL YEAR ENDED JUNE 30,					
	2002	2003	2004	2005	2006	2007
General government	11.9	14.3	14.7	15.5	12.1	18.6
Judicial	1.7	1.7	1.9	1.9	2.0	1.9
Public works	1.2	1.2	1.3	1.3	2.0	1.5
Culture and recreation	3.5	4.5	4.5	7.5	7.5	10.9
Community development	4.5	7.0	7.0	12.0	15.5	16.0
Health	-	-	-	2.0	3.9	2.9
Water	5.4	5.4	5.6	5.9	8.6	6.8
Sewer	5.4	5.4	5.6	5.9	9.1	6.8
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>

Source: City of Fernley, Nevada FY 2006/2007 Annual Budget

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

CITY OF FERNLEY, NEVADA
OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST FIVE FISCAL YEARS*

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

Sources: City of Fernley

*Information presented for fiscal years as available

CITY OF FERNLEY, NEVADA

CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM

LAST SIX FISCAL YEARS*

Function/Program	FISCAL YEAR ENDED JUNE 30,					
	2002	2003	2004	2005	2006	2007
Streets						
Public Road Mileage	89.5	92.03	95.45	104.12	106.64	116.96
Parks and Recreation:						
Park and Open Space	56.9	68	68.3	85.3	150	155
Developed Parks	5	7	7	8	11	11
Tennis Courts	1	1	1	1	1	1
Rodeo Arena	1	1	1	1	2	2
Playing Fields	6	6	7	8	10	19
Pavilions	1	1	1	2	2	2
Skate Park	1	1	1	1	1	1
Water Utility:						
Water lines (miles)	73.5	79.4	85.7	92.6	105	115.2
Fire Hydrants	700	775	850	925	1000	1033
Sewer Utility:						
Sanitary Sewer lines (miles)	63.0	68.0	73.5	79.4	90.0	93.6
Sanitary Sewer Manhole Count	615	864	1113	1362	1510	1600

Sources: City of Fernley

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

AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

June 30, 2007

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, 2006.

Current Year Recommendations

We did not find any financial weaknesses of a magnitude to justify inclusion within our audit report.

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, 2006	\$111,075
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Adjustment to Base:

Base year:

- | | |
|--|-------------|
| 1. Percentage increase in population of the local
government | 43.0% |
| 2. Percentage increase in the Consumer Price Index for
the year ending on December 31, next preceding the
year for which the limit is being calculated | <u>2.5%</u> |

Adjusted Base at June 30, 2007	45.5%	161,614
Actual Revenue		<u>140,000</u>
Actual Amount over (under) Allowable Amount		<u><u>\$(21,614)</u></u>

Fee calculated on a Percentage of Gross Revenue:

Adjusted base at June 30, 2006	\$863,449
Percentage change in CPI	<u>1.025</u>
Adjust base at June 30, 2007	885,035
Actual Revenue	<u>850,000</u>
Actual Amount over (under) Allowable Amount	<u><u>\$(35,035)</u></u>

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, 2007 (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, 2007 (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.

Fallon, Nevada
November 12, 2007