



# **Comprehensive Annual Financial Report**

**City of Fernley, Nevada**

**For the Fiscal Year Ended  
June 30, 2006**

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**Prepared by:  
The Administrative Services Department**

**Bonnie Duke CPA  
Administrative Services Director  
*City Treasurer***

## 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>	David Stix, Jr.
<i>Ward #1 Council Member</i>	Richard Jones
<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>	Law Offices of King and Taggart
<i>City Manager</i>	Gary Baccock
<i>City Clerk</i>	Patricia Norman
<i>City Treasurer and Administrative Services Director</i>	Bonnie Duke
<i>Chief of Police</i>	Sid Smith, 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
<i>Bill Amerman</i>	Bill Clegg
<i>Marty Hardie</i>	Bruce Maxwell
<i>Bert McCoy</i>	Jim Petersen
<i>Robert Smith</i>	

### Planning Commission:

The Planning Commission meets in regular session the second Wednesday of each month in the Council Chambers in City Hall

### Capital Improvements

#### Advisory Committee:

The Capital Improvement Committee meets periodically in the Council Council Chambers in City Hall

Bill Clegg	Tica Loooper
Curtis Loper	Ray Lowry
Bert McCoy	Bob Smith
Michael Vegas	

**CITY OF FERNLEY, NEVADA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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# **INTRODUCTORY SECTION**



# City of Fernley

## Administrative

### Services

#### Department

Utility Billing  
Accounting  
Budgeting  
Treasury  
Animal Control  
Municipal Court Adm.

November 27, 2006

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, 2006 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's 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, 2006 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, 2006, 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.

595 Silver Lace Blvd.  
Fernley NV 89408

Telephone: (775) 784-9843

Fax: (775) 784-9999

City of Fernley  
Administrative Services Department

Because the City of Fernley did not expend more than \$500,000 in federal financial assistance during the fiscal year ended June 30, 2006, 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 basis 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 19,700. 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

City of Fernley  
Administrative Services Department

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 five 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, Ytex Inc., Quebecor Printing, MSC Industrial Supply, Allied Signal, UPS Worldwide Logistics (Honeywell), ARE Campers, Johns Manville, Sherwin Williams, and Feldmeir Corporation, just to name a few. New retail development is occurring as a result of the increase in population and industrial development. Wal Mart and Lowe's recently announced plans to open stores in Fernley.

City of Fernley  
Administrative Services Department

Several new casinos/restaurants, and additional food and beverage locations have opened or are under construction.

The City of Fernley has a tax rate of \$0.1528 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
- Development of a surface water treatment plant to utilize existing surface water rights
- Planning and development of treatment facilities for arsenic removal to comply with more stringent standards by 2009
- Development of an alternative water system to deliver non-potable water for irrigation (thus conserving treated water)
  - Expansion of City Hall
  - 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 4%.

City of Fernley  
Administrative Services Department

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

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

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

The preparation of this report could not have been accomplished without the efficient and dedicated staff of the Administrative Services 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.

Respectfully submitted,

Bonnie Duke CPA  
City Treasurer  
Administrative Services Director

## **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, 2006, which collectively comprise the City of Fernley'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, 2006, 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 3L 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, 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.

*Kaplan, Nemstancy & Co.*

Fallon, Nevada  
November 27, 2006

## 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, 2006. 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 \$106,245,004 (*net assets*). Of this amount, \$23,475,174 (*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 \$27,801,653. The increase is attributable primarily to capital grants and contributions as well as a bond issue for City Hall Expansion.
- As of the close of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$10,375,790, an increase of \$4,695,667 in comparison with the prior year. Approximately \$6 million of the \$10,375,790 in fund balance is going to be used for construction of the City Hall Expansion Project. The remaining amounts (approximately \$4.4 million) are available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$944,996 or 36 % of general fund expenditures. This ending fund balance is higher than the targeted ending fund balance of 8% to 17% of general fund expenditures due to unexpended appropriations during the year and revenues higher than projected.
- The City of Fernley's total bonded debt decreased by \$262,745 (14%) during the fiscal year, due to annual payments on existing debt. The City of Fernley also incurred a new lease/purchase debt of \$5 million in FY06 to partially fund the City Hall Expansion Project.

### 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 36 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 37 through 48 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 \$106,245,004 at the close of the most recent fiscal year.

By far the largest portion of the City of Fernley's net assets (77%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); net of any related debt used to acquire those assets that is still outstanding. 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	
	FY06	FY05	FY06	FY05	FY06	FY05
Current & other assets	\$11,871,446	\$ 6,688,784	\$19,877,496	\$18,390,159	\$31,748,942	\$25,093,954
Capital	24,608,748	15,883,001	59,197,986	41,141,319	83,806,056	56,999,911
Total Assets	36,480,194	22,571,785	79,056,482	59,507,069	115,536,676	82,093,866
Long-term liabilities	4,919,944	62,629	1,357,749	1,909,777	6,277,693	1,972,406
Other liabilities	1,416,179	741,251	1,597,800	921,850	3,013,979	1,678,113
Total liabilities	6,336,123	803,880	2,955,549	2,831,627	9,291,672	3,650,519
Net assets: Invested in capital assets, net of related debt	24,608,748	15,883,001	57,581,522	39,238,863	82,190,270	55,121,864
Restricted			579,560	535,237	579,560	535,237
Unrestricted	5,535,323	5,884,904	17,939,851	16,901,342	23,475,174	22,786,246
Total net assets	\$30,144,071	\$21,767,905	\$76,100,933	\$56,675,442	\$106,245,004	\$78,443,347

A small portion of the City of Fernley's net assets (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$23,475,174) may be used to meet the government's ongoing obligations to citizens and creditors.

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

There was an increase of \$44,323 in restricted net assets reported in connection with the City of Fernley's business-type activities. The increase resulted from a greater water and sewer customer base with associated deposits.

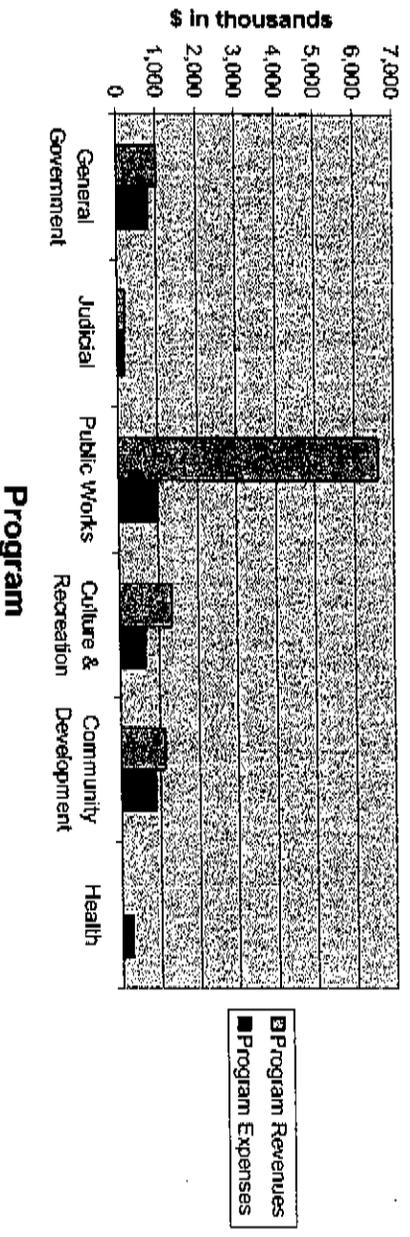
The government's net assets increased \$27,801,657 during the current fiscal year. About \$27 million of this increase represents investments in capital assets. The remaining increase represents revenues that were higher than expected and unspent appropriations in various funds.

*Governmental activities:* Governmental activities increased the City of Femley's net assets by \$8,376,165, thereby accounting for 30% of the total growth in net assets of the City of Femley. Key elements of this increase are donated (dedicated) infrastructure and purchased infrastructure for streets and storm drains. Property tax rates did not increase between FY05 and FY06; however, assessed value of property increased resulting in increased revenue from property taxes. The City also transferred money into its capital fund for future capital projects 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	
	FY06	FY05	FY06	FY05	FY06	FY05
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$2,378,981	\$ 3,162,272	\$3,888,017	\$3,548,206	\$6,266,998	\$6,710,478
Operating grants and contributions	348,627	268,632			348,627	286,632
Capital grants and contributions	7,531,080	4,232,398	18,729,430	11,157,733	26,260,510	15,390,131
General revenues:						
Property taxes	591,082	496,207			591,082	496,207
Shared revenues	513,970	468,148			513,970	468,148
Other revenues	718,960	134,369	762,222	360,964	1,481,182	495,333
Total revenues	12,082,700	8,762,026	27,867,817	15,006,903	39,950,517	23,828,929
<b>Expenses:</b>						
General government	796,403	595,912			796,403	595,912
Judicial	170,479	173,804			170,479	173,804
Public works	954,419	642,480			954,419	642,480
Culture & recreation	646,259	458,828			646,259	458,828
Community develop.	875,056	861,555			875,056	861,555
Health	263,919	102,768			263,919	102,768
Water			2,422,583	2,134,429	2,422,583	2,134,429
Sewer			1,530,898	1,509,433	1,530,898	1,509,433
Other			700		700	
Total expenses	3,706,535	2,835,347	3,954,181	3,643,862	7,660,716	6,479,209
Increase in net assets	8,376,165	5,926,680	19,425,488	11,423,041	27,801,653	17,349,721
Net assets, July 1	21,767,906	15,841,225	56,675,445	45,252,401	78,443,351	61,093,626
Net assets, June 30	\$30,144,071	\$21,767,905	\$76,100,933	\$56,675,442	\$106,245,064	\$78,443,347

## FY06 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 Administrative Services 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 Administrative Services 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 capital projects in the Public Works Department related to streets and storm drain activities. Overhead costs are not allocated. The public works section also included the City Hall Expansion Project.

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 the capital projects from the two residential construction tax funds for which the Parks Department is responsible. Overhead costs are not allocated.

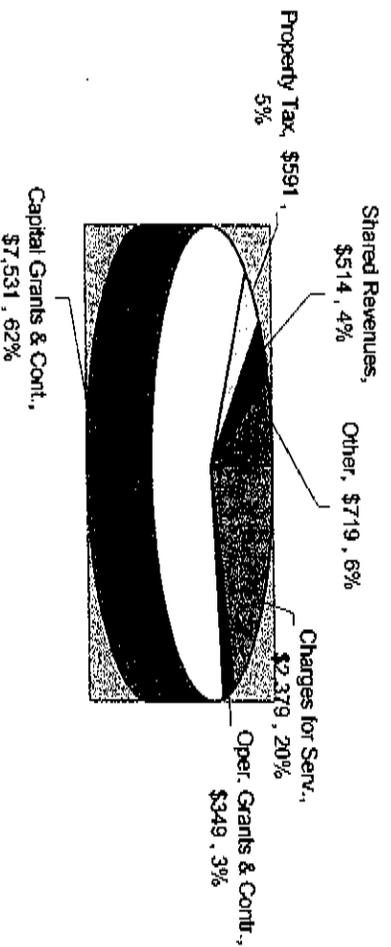
The major source of program revenues for community development activities is building permits and fees. Planning fees are also included in program revenues. The program

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.

### FY06 Revenues by Source - Governmental Activities (in thousands of \$)



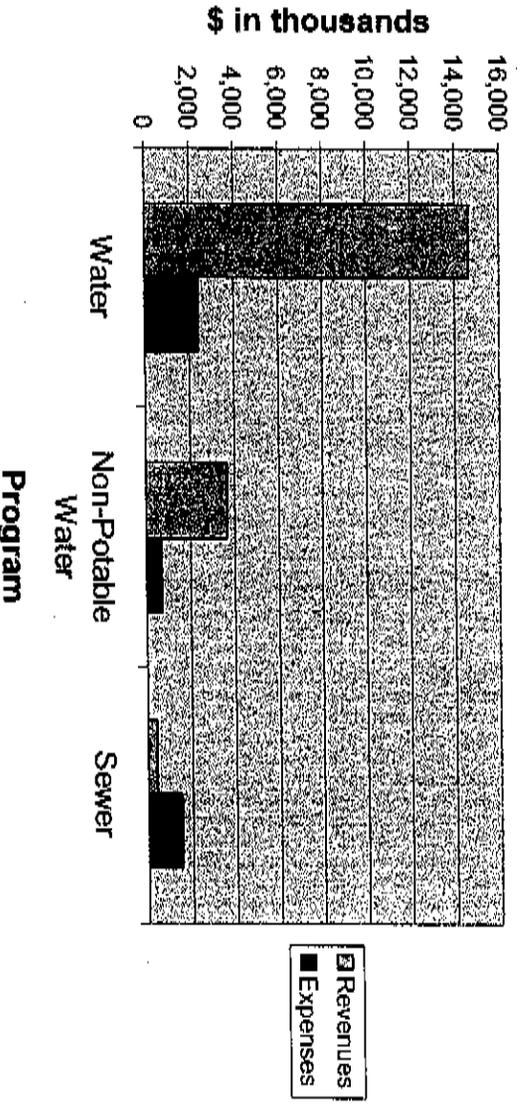
The Charges for Services category includes primarily fees, fines, and licenses. The Capital Grants and Contributions primarily includes donated (dedicated) infrastructure (streets and storm drains). The Shared Revenue category includes primarily consolidated tax, fuel tax and gaming licenses. The Other 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 \$19,425,488, accounting for 70% 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 \$339,811 or 10% due to a greater number of customers. User rates were not increased during FY06.
- Capital contributions increased by \$7,571,697 or 68%, primarily as a result of acceptance of subdivision improvements.

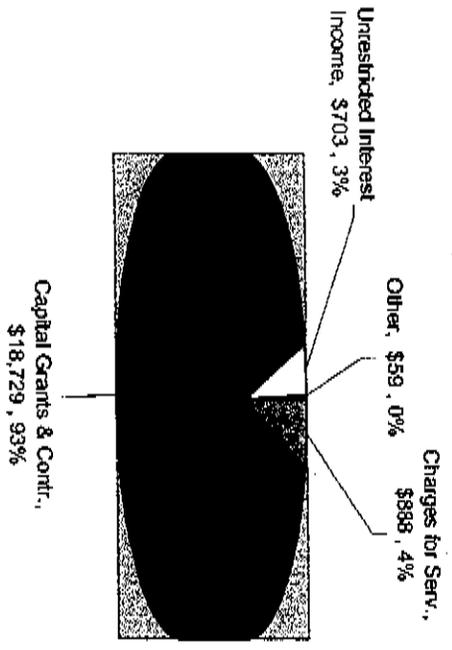
- Investment earnings increased due to higher interest rates and higher levels of cash available for investment.

### FY06 Program Revenues and Expenses Business-type Activities



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

### FY06 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 \$10,375,790, an increase of \$4,695,667 in comparison with the prior year. A portion of this fund balance (approximately \$6 million) is going to be used for the construction of the City Hall Expansion Project. The remaining amount (approximately \$4.4 million) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Fernley. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$938,757, while total fund balance reached \$944,996. 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 36% of total general fund expenditures, while total fund balance also represents about 36% of that same amount.

The fund balance of the City of Fernley's general fund increased by \$69,974 during the current fiscal year. Key factors in this growth are as follows:

- Increased revenue from property taxes due to increases in assessed values (no increase in rates), despite recent property tax limitation legislation
- Increased revenue from public utility business license/franchise fees
- Unexpended appropriations

**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 \$8,861,929; those for the Sewer Fund amounted to \$8,009,319; and those of the Non-Potable Water Fund amounts to \$1,068,603 resulting in total unrestricted net assets of \$17,939,851. The total growth in net assets for these funds was \$14,000,840, \$4,169,880, and \$1,254,769, 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 \$33,400 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 and Animal Control functions.
- Appropriation for the Vector Control function was increased due to higher than estimated costs, primarily for chemicals, for the program. The program is a very new function and initial costs were underestimated.
- 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, 2006 amounts to \$83,787,734 (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 47% (a 55% increase for governmental activities and a 44% increase for business-type activities).

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

- Donation of capital assets from developers
- Well improvements
- Street improvements

### City of Fernley Assets (net of depreciation)

	Governmental activities		Business-type activities		Totals	
	FY06	FY05	FY06	FY05	FY06	FY05
Land	\$3,789,274	\$3,151,254	\$268,810	\$ 268,810	\$4,058,084	\$3,420,064
Water rights			18,798,981	8,164,658	18,798,981	
Construction in progress	730,876	962,487	3,281,172	183,244	4,012,048	1,145,731
Buildings	882,648	777,114	4,661	6,980	887,309	784,094
Improvements other than buildings	3,938,635	1,079,018	35,500,087	31,141,165	39,438,722	32,220,183
Machinery & Equipment	409,161	396,998	67,387	106,926	476,548	503,924
Infrastructure	14,858,154	9,516,130			14,858,154	9,516,130
Other capital assets			1,257,888	1,245,127	1,257,888	1,245,127
<b>TOTAL</b>	<b>\$24,608,748</b>	<b>\$15,883,001</b>	<b>\$59,178,986</b>	<b>\$41,116,910</b>	<b>\$83,787,734</b>	<b>\$56,999,911</b>

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

*Long-term debt.* At the end of the current fiscal year, the City of Fernley had total bonded debt outstanding of \$1,560,282 and lease-purchase debt of \$5 million. All of the debt is backed by the full faith and credit of the government.

	Governmental activities		Business-type activities		Totals	
	7/1/06	7/1/05	7/1/06	7/1/05	7/1/06	7/1/05/05
General obligation/revenue bonds			\$1,560,282	\$1,823,027	\$1,560,282	\$1,823,027
Lease/Purchase Debt	\$5,000,000				5,000,000	
Unamortized bond premium			37,181	49,576	37,181	49,576
Compensated absences	77,944	62,629	37,789	37,174	115,118	99,803
<b>TOTAL</b>	<b>\$5,077,944</b>	<b>\$62,629</b>	<b>\$1,635,252</b>	<b>\$1,909,777</b>	<b>\$6,712,581</b>	<b>\$1,972,406</b>

The City of Fernley's total debt increased by \$3,740,790 during the current fiscal year. The key factor in this increase was issuance of \$5 million in debt for construction of the City Hall Expansion Project.

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 over \$90 million, which is significantly in excess of the City of Fernley's outstanding general obligation debt of \$1,560,282.

Additional information of the City of Fernley's long-term debt can be found in note 7 on pages 34 through 35 of this report.

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

Both water rates and sewer rates need to be increased because operating expenses, including depreciation, exceeded operating revenues. The City is in the process of analyzing necessary capital expenditures and operating expenditures to determine rates that will result in recovery of costs from the appropriate users.

- 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.

All of these factors were considered in preparing the City of Fernley budget for FY07.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$938,757. The FY07 General Fund budget assumes an \$18,000 increase in fund balance so none of the current fiscal year ending fund balance is used for FY07 costs. The excess of General Fund balance will be transferred to other funds (such as the Streets and Storm Drains Fund or Capital fund).

The rates for the enterprise funds will go up as soon as the rate study is completed and the process can go through public hearings. The exact amount of the water and sewer rate increase is not yet finalized.

#### **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/Administrative Services Director, 595 Silver Lace Blvd, Fernley NV 89408.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF FERNLEY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 11,059,782	\$ 18,545,282	\$ 29,605,064
Cash held for customer deposits	-	579,560	579,560
Interest receivable	60,515	110,774	171,289
Taxes receivable	5,342	-	5,342
Accounts receivable, net	422,326	375,268	797,594
Accounts receivable, other	209,412	90,765	300,177
Internal balances	(5,988)	5,988	-
Due from other governments	113,818	-	113,818
Inventories	-	146,537	146,537
Prepaid expenses	6,239	5,000	11,239
<b>Total Current Assets</b>	<b>11,871,446</b>	<b>19,859,174</b>	<b>31,730,620</b>
Noncurrent assets:			
Deferred charges	-	18,322	18,322
Capital assets:			
Land and construction in progress	4,520,150	22,348,963	26,869,113
Other capital assets, net of depreciation	20,088,598	36,830,023	56,918,621
<b>Total Capital Assets</b>	<b>24,608,748</b>	<b>59,178,986</b>	<b>83,787,734</b>
<b>Total Noncurrent Assets</b>	<b>24,608,748</b>	<b>59,197,308</b>	<b>83,806,056</b>
<b>Total Assets</b>	<b>36,480,194</b>	<b>79,056,482</b>	<b>115,536,676</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	745,390	717,965	1,463,355
Accrued interest	-	22,772	22,772
Refundable deposits	353,702	579,560	933,262
Due to developers	78,000	-	78,000
Due within one year	158,000	277,503	435,503
Unearned revenue	81,087	-	81,087
<b>Total Current Liabilities</b>	<b>1,416,179</b>	<b>1,597,800</b>	<b>3,013,979</b>
Noncurrent liabilities:			
Due in more than one year	4,919,944	1,357,749	6,277,693
<b>Total Liabilities</b>	<b>6,336,123</b>	<b>2,955,549</b>	<b>9,291,672</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,608,748	57,581,522	82,190,270
Restricted for customer deposits	-	579,560	579,560
Unrestricted	5,535,323	17,939,851	23,475,174
<b>Total Net Assets</b>	<b>\$ 30,144,071</b>	<b>\$ 76,100,933</b>	<b>\$ 106,245,004</b>

See accompanying notes.

CITY OF FERNLEY  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
<b>Governmental Activities:</b>							
General government	\$ 796,403	\$ 1,008,662	\$ -	\$ -	\$ 212,259	\$ -	\$ 212,259
Judicial	170,479	196,249	-	-	25,770	-	25,770
Public works	954,419	40,071	293,745	6,266,019	5,645,416	-	5,645,416
Culture and recreation	646,259	8,150	54,882	1,265,061	681,834	-	681,834
Community development	875,056	1,123,508	-	-	248,452	-	248,452
Health	263,919	2,341	-	-	(261,578)	-	(261,578)
Total Governmental Activities	<u>3,706,535</u>	<u>2,378,981</u>	<u>348,627</u>	<u>7,531,080</u>	<u>6,552,153</u>	<u>-</u>	<u>6,552,153</u>
<b>Business-type Activities:</b>							
Water	2,422,583	2,201,916	-	14,629,054	-	14,408,387	14,408,387
Sewer	1,530,898	1,686,101	-	3,664,340	-	3,819,543	3,819,543
Other	700	-	-	436,036	-	435,336	435,336
Total Business- type Activities	<u>3,954,181</u>	<u>3,888,017</u>	<u>-</u>	<u>18,729,430</u>	<u>-</u>	<u>18,663,266</u>	<u>18,663,266</u>
Total	<u>\$ 7,660,716</u>	<u>\$ 6,266,998</u>	<u>\$ 348,627</u>	<u>\$ 26,260,510</u>	<u>6,552,153</u>	<u>18,663,266</u>	<u>25,215,419</u>
<b>General Revenues:</b>							
Property taxes					591,082	-	591,082
Consolidated taxes					189,158	-	189,158
Fuel taxes					227,691	-	227,691
Gaming licenses					97,121	-	97,121
Unrestricted interest income					329,341	702,781	1,032,122
Miscellaneous revenue					389,619	59,441	449,060
Total General Revenues					<u>1,824,012</u>	<u>762,222</u>	<u>2,586,234</u>
Change in Net Assets					8,376,165	19,425,488	27,801,653
NET ASSETS, July 1					<u>21,767,906</u>	<u>56,675,445</u>	<u>78,443,351</u>
NET ASSETS, June 30					<u>\$ 30,144,071</u>	<u>\$ 76,100,933</u>	<u>\$ 106,245,004</u>

See accompanying notes.

CITY OF PERRINLEY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006

		RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash and investments	\$ 1,463,699	\$ 96,639	\$ 329,512	\$ 8,099,504	\$ 1,160,429	\$ 11,059,783
Interest receivable	9,314	490	1,380	44,354	4,977	60,515
Accounts receivable	208,048	-	190,000	-	1,556	399,604
Prepaid items	6,239	-	-	-	-	6,239
Due from other governments	32,041	40,949	36,995	-	4,233	113,888
<b>Total Assets</b>	<b>\$ 1,719,341</b>	<b>\$ 138,078</b>	<b>\$ 557,487</b>	<b>\$ 8,053,858</b>	<b>\$ 1,171,195</b>	<b>\$ 11,629,959</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 216,200	\$ 4,324	\$ 373,036	\$ 21,379	\$ 8,800	\$ 623,739
Due to other funds	5,988	-	-	-	-	5,988
Accrued liabilities	117,173	-	4,285	-	-	121,460
Deferred revenue	81,087	-	-	-	-	81,087
Due to developers	353,895	9,600	-	-	69,000	431,895
<b>Total Liabilities</b>	<b>774,345</b>	<b>13,324</b>	<b>377,321</b>	<b>21,379</b>	<b>77,800</b>	<b>1,264,169</b>
<b>Fund Balance:</b>						
Reserved for prepaid items	6,239	-	-	-	-	6,239
Unreserved - reported in:						
General Fund	938,757	-	-	-	-	938,757
Special revenue funds	-	124,754	180,166	-	1,093,395	1,398,315
Capital projects funds	-	-	-	8,032,479	-	8,032,479
<b>Total Fund Balance</b>	<b>944,996</b>	<b>124,754</b>	<b>180,166</b>	<b>8,032,479</b>	<b>1,093,395</b>	<b>10,375,790</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,719,341</b>	<b>\$ 138,078</b>	<b>\$ 557,487</b>	<b>\$ 8,053,858</b>	<b>\$ 1,171,195</b>	<b>\$ 11,629,959</b>

See accompanying notes.

CITY OF FERNLEY  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

**Total Fund Balances - Governmental Funds**

**\$ 10,375,790**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Capital assets		\$ 26,484,079
Less: Accumulated depreciation		<u>1,875,331</u>
		24,608,748

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

237,477

Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period:

Bonds payable		(5,000,000)
Compensated absences		<u>(77,944)</u>
		(5,077,944)

**Total Net Assets - Governmental Activities**

**\$ 30,144,071**

CITY OF FRESNO  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>						
Taxes	\$ 590,127	\$ 440,336	\$ -	\$ -	\$ 757,286	\$ 1,787,949
Licenses and permits	2,234,632	-	40,071	-	-	2,274,703
Indemnification	242,754	-	988,978	-	-	1,231,732
Fines and forfeits	192,646	-	-	-	35,778	228,424
Miscellaneous	289,389	5,072	219,665	195,809	84,457	794,332
Total Revenues	3,546,548	445,568	1,248,714	195,809	377,521	6,214,160
<b>EXPENDITURES</b>						
Current:						
General government	717,335	-	-	-	-	717,335
Medical	163,631	-	-	-	5,552	169,183
Public works	-	-	376,571	-	-	376,571
Culture and recreation	506,797	-	-	-	-	506,797
Community development	830,965	-	-	-	-	830,965
Health	256,738	-	-	-	-	256,738
Total Current	2,417,486	-	376,571	-	5,552	2,839,599
Debt service:						
Interest	94,789	-	-	-	-	94,789
Total Debt Service	94,789	-	-	-	-	94,789
Capital outlay:						
Public works	-	-	1,916,818	-	-	1,916,818
Culture and recreation	28,710	299,235	-	-	876,652	1,204,597
Community development	26,342	-	-	515,459	1,652	543,453
Health	19,247	-	-	-	-	19,247
Total Capital Outlay	74,299	299,235	1,916,818	515,459	878,304	3,664,115
Total Expenditures	2,526,574	299,235	2,293,389	515,459	883,836	6,618,493
Excess (Deficiency) of Revenues over Expenditures	919,974	146,333	(1,044,673)	(319,650)	(6,315)	(204,333)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers out	(\$590,000)	(2100,000)	-	-	-	(1,020,000)
Transfers to	-	-	-	850,000	200,000	1,050,000
General obligations bonds issued	-	-	-	5,000,000	-	5,000,000
Total Other Financing Sources (Uses)	(\$590,000)	(2,100,000)	-	5,850,000	200,000	3,000,000
Net Change to Fund Balance	69,974	(33,667)	(1,044,675)	5,530,350	193,685	4,695,667
FUND BALANCE, JULY 1	875,022	178,421	1,234,841	2,502,129	899,710	5,689,123
FUND BALANCE, JUNE 30	\$ 944,996	\$ 124,754	\$ 180,166	\$ 8,032,479	\$ 1,093,395	\$ 10,375,790

See accompanying notes.

CITY OF FERRISLEY  
**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, 2006

**Net Change if Fund Balances - Governmental Funds** **\$ 4,695,667**

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

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

Expenditures for capital assets	\$ 3,619,255	
Less: Current year depreciation	691,985	
	2,927,270	

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		5,798,477
Fine and forfeitures		(29,934)

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. (5,000,000)

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		(15,315)
--	--	----------

**Change in Net Assets - Governmental Activities** **\$ 8,376,165**

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, 2006  
(Page 1 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
<b>REVENUES</b>					
Taxes:					
Ad valorem	\$ 576,132	\$ 582,132	\$ 590,127	\$ 6,000	\$ 7,995
Licenses and permits:					
Business licenses	100,000	110,000	111,075	10,000	1,075
Franchise fees	675,000	836,000	863,449	161,000	27,449
Liquor licenses	25,000	25,000	24,831	-	(169)
City gaming licenses	65,000	80,000	97,121	15,000	17,121
Building permits and fees	1,600,000	1,250,000	1,042,513	(350,000)	(207,487)
Planning and zoning permits and fees	100,000	100,000	80,995	-	(19,005)
Other permits	1,500	10,500	11,648	9,000	1,148
	2,566,500	2,411,500	2,231,632	(155,000)	(179,868)
Intergovernmental revenues:					
Consolidated tax distribution	188,500	188,500	187,872	-	(628)
Fernley park agreement	54,800	54,800	54,882	-	82
	243,300	243,300	242,754	-	(546)
Fines and forfeits:					
Town code violations	1,000	-	-	(1,000)	-
Municipal court fines	120,000	120,000	166,847	-	46,847
Municipal court fees	13,500	18,500	25,799	5,000	7,299
	134,500	138,500	192,646	4,000	54,146
Miscellaneous:					
Interest	25,000	60,000	60,479	35,000	479
Building rental	20,000	20,000	20,000	-	-
Park development	10,000	7,500	8,150	(2,500)	650
Developer agreements	-	37,000	28,515	37,000	(8,485)
Special Assessment	10,000	105,000	119,105	95,000	14,105
Miscellaneous	10,000	20,000	53,140	10,000	33,140
	75,000	249,500	289,389	174,500	39,889
Total Revenues	3,595,432	3,624,932	3,546,548	29,500	(78,384)
<b>EXPENDITURES</b>					
General government:					
Administration:					
Salaries and wages	251,240	251,240	240,541	-	10,699
Employee benefits	108,200	108,200	86,145	-	22,055
Services and supplies	300,100	300,100	248,246	-	51,854
Total Administration	659,540	659,540	574,932	-	84,608

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, 2006  
(Page 2 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
Finance:					
Salaries and wages	\$ 86,200	\$ 86,200	\$ 72,312	\$ -	\$ 13,888
Employee benefits	43,300	35,890	30,230	7,500	5,570
Services and supplies	38,200	45,700	39,881	(7,500)	5,819
Total Finance	167,700	167,700	142,423	-	25,277
Total General Government	827,240	827,240	717,355	-	109,885
Judicial:					
Municipal court:					
Salaries and wages	75,603	78,603	75,052	(3,000)	3,551
Employee benefits	32,000	29,000	22,815	3,000	6,185
Services and supplies	77,000	77,000	65,764	-	11,236
Total Judicial	184,603	184,603	163,631	-	20,972
Outure and Recreation:					
Parks:					
Salaries and wages	228,300	231,300	238,474	(3,000)	(7,174)
Employee benefits	121,700	118,700	73,282	3,000	45,418
Services and supplies	186,800	186,800	197,041	-	(10,241)
Capital outlay	33,000	33,000	28,710	-	4,290
Total Culture and Recreation	569,800	569,800	537,507	-	32,293
Community development:					
Building and planning:					
Salaries and wages	603,600	603,600	486,072	-	117,528
Employee benefits	312,800	312,800	153,294	-	159,506
Services and supplies	206,350	175,850	171,599	30,500	4,251
Capital Outlay	34,000	26,350	26,342	7,650	8
Total Community Development	1,136,750	1,118,600	837,307	38,150	281,293
Health:					
Animal control:					
Salaries and wages	59,100	59,100	57,565	-	1,535
Employee benefits	32,000	21,300	16,887	10,700	4,413
Services and supplies	19,750	19,750	21,136	-	(1,386)
Capital outlay	25,000	25,000	-	-	25,000
Total Animal Control	135,850	125,150	95,588	10,700	29,562
Vector control:					
Salaries and wages	52,100	58,500	51,464	(6,400)	7,036
Employee benefits	22,200	17,400	17,783	4,800	(383)
Services and supplies	48,500	109,500	91,903	(61,000)	17,597
Capital outlay	10,000	22,000	19,247	(12,000)	2,753
Total Vector Control	132,800	207,400	180,397	(74,600)	27,003
Total Health	268,650	332,550	275,985	(63,900)	56,565

See accompanying notes.

CITY OF FERRILEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006  
(Page 3 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
Debt service:					
Interest	\$ -	113,500	\$ 94,789	\$ (113,500)	\$ 18,711
Total Debt Service	-	113,500	94,789	(113,500)	18,711
Total Expenditures	3,007,043	3,146,293	2,626,574	(25,750)	519,719
Excess of Revenues Over Expenditures	588,389	478,639	919,974	3,750	441,335
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer out:					
Contingency	-	10,000	-	(10,000)	(10,000)
Capital Projects Fund	(400,000)	(850,000)	(850,000)	(450,000)	-
	(400,000)	(840,000)	(850,000)	(460,000)	(10,000)
Net Change in Fund Balance	188,389	(361,361)	69,974	(456,250)	431,335
FUND BALANCE, July 1	205,461	875,022	875,022	669,561	-
FUND BALANCE, June 30	\$ 393,850	\$ 513,661	\$ 944,996	\$ 213,311	\$ 431,335

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, 2006**

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
<b>REVENUES</b>					
Taxes:					
Residential construction tax	\$ 432,000	\$ 232,000	\$ 440,536	\$ (200,000)	\$ 208,536
Miscellaneous:					
Interest	1,000	4,600	5,032	3,600	432
Total Revenues	433,000	236,600	445,568	(196,400)	208,968
<b>EXPENDITURES</b>					
Outure and recreation:					
Capital outlay	40,000	15,000	299,235	25,000	(284,235)
Total Expenditures	40,000	15,000	299,235	25,000	(284,235)
Excess (Deficiency) of Revenues Over Expenditures	393,000	221,600	146,333	(171,400)	(75,267)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out:					
Residential construction tax district #2	(400,000)	(400,000)	(200,000)	-	200,000
Net Change in Fund Balance	(7,000)	(178,400)	(53,667)	(171,400)	124,733
FUND BALANCE, July 1	7,091	178,421	178,421	171,330	-
FUND BALANCE, June 30	\$ 91	\$ 21	\$ 124,754	\$ (70)	\$ 124,733

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, 2006

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
<b>REVENUES</b>					
Licenses and permits:					
Public works fees	\$ 41,000	\$ 34,000	\$ 40,071	\$ (7,000)	\$ 6,071
Intergovernmental revenues:					
Road Department ad valorem	293,506	293,506	293,745	-	239
Motor vehicle fuel tax	253,608	253,608	227,691	-	(25,917)
Regional transportation commission	1,790,000	1,790,000	467,542	-	(1,322,458)
	<u>2,337,114</u>	<u>2,337,114</u>	<u>988,978</u>	<u>-</u>	<u>(1,348,136)</u>
Miscellaneous:					
Interest	10,000	31,500	29,665	21,500	(1,835)
Other	-	250,000	190,000	250,000	(60,000)
	<u>10,000</u>	<u>281,500</u>	<u>219,665</u>	<u>271,500</u>	<u>(61,835)</u>
Total Miscellaneous Revenues	<u>2,388,114</u>	<u>2,652,614</u>	<u>1,248,714</u>	<u>264,500</u>	<u>(1,403,900)</u>
Total Revenues					
<b>EXPENDITURES</b>					
Public works:					
Salaries and wages	94,276	114,276	92,561	(20,000)	21,715
Employee benefits	46,200	46,200	38,794	-	7,406
Services and supplies	570,800	493,300	245,216	77,500	248,084
Capital outlay	1,790,000	2,140,000	1,916,818	(350,000)	223,182
	<u>2,501,276</u>	<u>2,793,776</u>	<u>2,293,389</u>	<u>(292,500)</u>	<u>500,387</u>
Total Expenditures					
Excess (Deficiency) of Revenues Over Expenditures	(113,162)	(141,162)	(1,044,675)	(28,000)	(903,513)
Net Change in Fund Balance	(113,162)	(141,162)	(1,044,675)	(28,000)	(903,513)
FUND BALANCE, July 1	882,186	1,224,841	1,224,841	342,655	-
FUND BALANCE, June 30	<u>\$ 769,024</u>	<u>\$ 1,083,679</u>	<u>\$ 180,166</u>	<u>\$ 314,655</u>	<u>\$ (903,513)</u>

See accompanying notes.

**CITY OF FERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTAL ENTERPRISE FUNDS
	WATER UTILITY FUND	SEWER UTILITY FUND	OTHER ENTERPRISE FUND	-	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 8,776,760	\$ 8,705,826	\$ 1,062,696	\$ 18,545,282	
Cash - refundable deposits	282,277	297,283	-	579,560	
Interest receivable	51,432	53,315	6,027	110,774	
Accounts receivable, net	226,349	148,919	-	375,268	
Accounts receivable, other	75,313	15,452	-	90,765	
Due from other funds	5,733	255	-	5,988	
Inventories	140,876	5,661	-	146,537	
Prepaid expenses	5,000	-	-	5,000	
<b>Total Current Assets</b>	<b>9,563,740</b>	<b>9,226,711</b>	<b>1,068,723</b>	<b>19,859,174</b>	
Noncurrent assets:					
Deferred charges	18,322	-	-	18,322	
Capital assets:					
Not being depreciated	20,167,013	2,181,950	-	22,348,963	
Depreciable assets	25,777,447	20,781,520	319,036	46,878,003	
	45,944,460	22,963,470	319,036	69,226,966	
Less: Accumulated depreciation	5,544,485	4,502,915	580	10,047,980	
<b>Total Capital Assets</b>	<b>40,399,975</b>	<b>18,460,555</b>	<b>318,456</b>	<b>59,178,986</b>	
<b>Total Noncurrent Assets</b>	<b>40,418,297</b>	<b>18,460,555</b>	<b>318,456</b>	<b>59,197,308</b>	
<b>Total Assets</b>	<b>49,982,037</b>	<b>27,687,266</b>	<b>1,387,179</b>	<b>79,056,482</b>	
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	114,607	572,709	120	687,436	
Accrued liabilities	17,111	13,418	-	30,529	
Refundable deposits	282,277	297,283	-	579,560	
Accrued interest	4,967	17,805	-	22,772	
Debt due within one year	155,000	122,503	-	277,503	
<b>Total Current Liabilities</b>	<b>573,962</b>	<b>1,023,718</b>	<b>120</b>	<b>1,597,800</b>	
Noncurrent liabilities:					
Compensated absences payable	18,894	18,894	-	37,788	
Notes payable, due after one year	-	767,779	-	767,779	
Bonds payable, due after one year	552,182	-	-	552,182	
<b>Total Noncurrent Liabilities</b>	<b>571,076</b>	<b>786,673</b>	<b>-</b>	<b>1,357,749</b>	
<b>Total Liabilities</b>	<b>1,145,038</b>	<b>1,810,391</b>	<b>120</b>	<b>2,955,549</b>	
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	39,692,793	17,570,273	318,456	57,581,522	
Restricted for customer deposits	282,277	297,283	-	579,560	
Unrestricted	8,861,929	8,009,319	1,068,603	17,939,851	
<b>Total Net Assets</b>	<b>\$ 48,836,999</b>	<b>\$ 25,876,875</b>	<b>\$ 1,387,059</b>	<b>\$ 76,100,933</b>	

See accompanying notes.

**CITY OF HERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - WATER UTILITY FUND	SEWER UTILITY FUND	OTHER ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
<b>OPERATING REVENUES</b>				
User fees	\$ 2,201,916	\$ 1,686,101	\$ -	\$ 3,888,017
<b>OPERATING EXPENSES</b>				
Salaries and wages	372,706	348,773	-	721,479
Employee benefits	140,358	134,660	-	275,018
Services and supplies	1,144,496	506,921	120	1,651,537
Depreciation	739,799	503,744	580	1,244,123
Total Operating Expenses	2,397,359	1,494,098	700	3,892,157
Operating Income (Loss)	(195,443)	192,003	(700)	(4,140)
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest earned on investments	345,511	337,837	19,433	702,781
In lieu of water rights fees	329,970	-	-	329,970
Sale of capital assets	-	12,500	-	12,500
Miscellaneous	46,942	-	-	46,942
Interest expense	(25,224)	(36,800)	-	(62,024)
Total Nonoperating Revenue (Expense)	697,199	313,537	19,433	1,030,169
Income (Loss) Before Capital Contributions	501,756	505,540	18,733	1,026,029
<b>CAPITAL CONTRIBUTIONS</b>				
Customer connection fees	1,014,573	1,120,919	117,000	2,252,492
Developer agreements	149,452	24,660	-	174,112
Developer contributed infrastructure	2,633,534	2,518,761	319,036	5,471,331
Developer contributed water rights	10,501,525	-	-	10,501,525
Total Capital Contributions	14,299,084	3,664,340	436,036	18,399,460
<b>TRANSFERS IN (OUT)</b>				
Transfers in	-	-	800,000	800,000
Transfers out	(800,000)	-	-	(800,000)
Total Transfer In (Out)	(800,000)	-	800,000	-
Change in Net Assets	14,000,840	4,169,880	1,254,769	19,425,489
NET ASSETS, July 1	34,836,159	21,706,995	132,290	56,675,444
NET ASSETS, June 30	<u>\$ 48,836,999</u>	<u>\$ 25,876,875</u>	<u>\$ 1,387,059</u>	<u>\$ 76,100,933</u>

See accompanying notes.

**CITY OF HERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTAL
	WATER UTILITY FUND	SEWER UTILITY FUND	OTHER ENTERPRISE FUND	ENTERPRISE FUNDS	ENTERPRISE FUNDS
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 2,325,752	\$ 1,683,535	\$ -	\$ -	\$ 4,009,287
Cash paid for employee services	(370,977)	(347,242)	-	-	(718,219)
Cash paid to vendors for services and supplies	(1,407,417)	(146,220)	-	-	(1,553,637)
Net Cash Provided by Operating Activities	547,358	1,190,073	-	-	1,737,431
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfer (to) from other funds	(800,000)	-	800,000	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Principal payments on debt	(145,000)	(117,745)	-	-	(262,745)
Interest paid on debt	(26,432)	(39,156)	-	-	(65,588)
Deferred charges	(6,087)	-	-	-	(6,087)
In lieu of water rights fees	329,970	-	-	-	329,970
Acquisition of capital assets	(1,475,577)	(1,857,982)	-	-	(3,333,559)
Developer agreements	149,452	24,660	-	-	174,112
Connection fees	1,014,573	1,120,919	117,000	-	2,252,492
Miscellaneous	46,941	12,500	-	-	59,441
Net Cash Provided (Used) by Capital and Related Financing Activities	(112,160)	(856,804)	117,000	-	(851,964)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest received on investments	315,950	304,633	13,703	-	634,286
Net Increase (Decrease) in Cash and Cash Equivalents	(48,852)	637,902	930,703	-	1,519,753
<b>CASH AND CASH EQUIVALENTS, July 1</b>	<b>9,107,889</b>	<b>8,365,207</b>	<b>131,993</b>	<b>1,062,696</b>	<b>17,605,089</b>
<b>CASH AND CASH EQUIVALENTS, June 30</b>	<b>\$ 9,059,037</b>	<b>\$ 9,003,109</b>	<b>\$ 1,062,696</b>	<b>\$ 1,062,696</b>	<b>\$ 19,124,842</b>
<b>REPRESENTED BY:</b>					
Cash and cash equivalents	\$ 8,776,760	\$ 8,705,826	\$ 1,062,696	\$ -	\$ 18,545,282
Cash - refundable deposits	282,277	297,283	-	-	579,560
	<u>\$ 9,059,037</u>	<u>\$ 9,003,109</u>	<u>\$ 1,062,696</u>	<u>\$ 1,062,696</u>	<u>\$ 19,124,842</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (195,443)	\$ 192,003	\$ (700)	\$ (700)	\$ (3,440)
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Depreciation	739,799	503,744	580	-	1,243,543
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable, net	121,945	(3,210)	-	-	118,735
Accounts receivable, other	(1,874)	-	-	-	(1,874)
Due from other funds	3,765	644	-	-	4,409
Inventories	(35,734)	9,286	-	-	(26,448)
Increase (decrease) in:					
Accounts payable	(117,764)	472,073	120	-	354,309
Accrued liabilities	1,729	1,531	-	-	3,260
Compensated absences payable	250	364	-	-	614
Refundable deposits	30,685	13,638	-	-	44,323
Total Adjustments	742,801	998,070	700	-	1,740,871
Net Cash Provided by Operating Activities	<u>\$ 547,358</u>	<u>\$ 1,190,073</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,737,431</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Contribution of capital assets from developers	<u>\$ 13,125,407</u>	<u>\$ 2,518,761</u>	<u>\$ 319,036</u>	<u>\$ -</u>	<u>\$ 15,944,168</u>

See accompanying notes.

**CITY OF FERNLEY  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2006**

	<b>AGENCY FUND</b>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 9,014</u>
<b>LIABILITIES</b>	
Bail bond deposits held for others	<u>\$ 9,014</u>

See accompanying notes.

CITY OF FERMLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

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. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity 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*.

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

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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.

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.

In accordance with GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund

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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.

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 Project 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.

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.

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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
- 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

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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.

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.

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***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.

***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.

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

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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.

***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.

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***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.
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

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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:

Actual expenditures in the Residential Construction Tax District #1 Special Revenue Fund, Residential Construction Tax District #2 Special Revenue Fund and Private Sector Community Support Special Revenue Fund exceeded budget appropriations which are potential violations of NRS 354.626.

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NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2006 is as follows:

Cash Balances Held by:	
Governmental Funds	\$11,059,782
Fiduciary Funds	9,014
Proprietary Funds	18,545,282
Unrestricted	579,560*
Restricted	-
<b>Total Cash and Investments</b>	<b>\$ 30,193,638</b>

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

Balances Classified by:	
On hand	\$ 400
Wells Fargo Bank:	
Checking	1,511,070
NVEST	10,109,229
Local Government Investment Pool	18,572,939
<b>Total Cash and Investments</b>	<b>\$ 30,193,638</b>

As of June 30, 2006, the City of Fernley had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasuries	\$ 877,253	\$ -	\$ 877,253	\$ -	\$ -
U.S. Agencies	5,637,770	2,408,900	2,373,938	-	854,932
Corporate Bonds	3,494,787	-	3,494,787	-	-
Money Market Fund	99,419	99,419	-	-	-
State of Nevada					
Local Government					
Investment Pool	18,572,939	18,572,939*	-	-	-
<b>Total</b>	<b>\$28,682,168</b>	<b>\$21,081,258</b>	<b>\$6,745,978</b>	<b>\$ -</b>	<b>\$854,932</b>

\* represents average weighted maturity

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

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

*Interest Rate Risk* Interest rate risk is the risk of possible reduction in the value of a 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, 2006, the City's investments in U.S. Agencies were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. Of the City's investments in corporate bonds, \$1,705,399 was rated AAA/Aaa, \$1,009,506 was rated AA/Aa, and \$779,882 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. The City's bank deposits are covered by FDIC insurance and collateralized by the Office of the State Treasurer/ Nevada Collateral Pool.

At June 30, 2006 the following investments exceeded 5% of the City's total:

Federal National Mortgage Association	7%
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CITY OF FERNLEY, NEVADA  
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NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions or Transfers In	Deletions or Transfers Out	Completed Construction	Balance June 30, 2006
<b>Governmental Activities:</b>					
Capital assets, not being depreciated					
Land	\$ 3,151,254	638,020	\$ -	\$ -	3,789,274
Construction in progress	962,487	2,567,228	-	(2,798,839)	730,876
Total capital assets, not being depreciated	4,113,741	3,205,248	-	(2,798,839)	4,520,150
Capital assets, being depreciated					
Buildings	1,239,233	155,911	-	-	1,395,144
Improvements other than buildings	1,214,327	2,920,993	-	-	4,135,320
Machinery and Equipment	573,827	135,942	-	-	709,769
Infrastructure	9,925,219	5,798,477	-	-	15,723,696
Total capital assets, being depreciated	12,952,606	9,011,323	-	-	21,963,929
Less accumulated depreciation for:					
Buildings	(462,119)	(50,377)	-	-	(512,496)
Improvements other than buildings	(135,309)	(61,376)	-	-	(196,685)
Machinery and Equipment	(176,829)	(123,779)	-	-	(300,608)
Infrastructure	(409,089)	(456,453)	-	-	(865,542)
Total accumulated depreciation	(1,183,346)	(691,985)	-	-	(1,875,331)
Total capital assets, being depreciated, net	11,769,260	8,319,338	-	-	20,088,598
Governmental activities capital assets, net	\$ 15,883,001	\$ 11,524,586	\$ -	\$ (2,798,839)	\$ 24,608,748

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	Balance July 1, 2005	Additions or Transfers In	Deletions or Transfers Out	Completed Construction	Balance June 30, 2006
<b>Business-Type Activities:</b>					
Capital assets, not being depreciated					
Land	\$ 268,810	\$ -	\$ -	\$ -	\$ 268,810
Water rights	8,164,658	10,634,323	-	-	18,798,981
Construction in progress	183,244	3,134,555	(36,627)	-	3,281,172
<b>Total capital assets, not being depreciated</b>	<b>8,616,712</b>	<b>13,768,878</b>	<b>(36,627)</b>	<b>-</b>	<b>22,348,963</b>
Capital assets, being depreciated					
Buildings	17,530	-	-	-	17,530
Improvements other than buildings	38,923,570	5,467,395	-	-	44,390,965
Machinery and Equipment	813,080	15,200	(14,336)	-	813,944
Other capital assets	1,564,211	91,353	-	-	1,655,564
<b>Total capital assets, being depreciated</b>	<b>41,318,391</b>	<b>5,573,948</b>	<b>(14,336)</b>	<b>-</b>	<b>46,878,003</b>
Less accumulated depreciation for:					
Buildings	(10,550)	(2,319)	-	-	(12,869)
Improvements other than buildings	(7,782,405)	(1,108,473)	-	-	(8,890,878)
Machinery and Equipment	(706,154)	(54,739)	14,336	-	(746,557)
Other capital assets	(319,084)	(78,592)	-	-	(397,676)
<b>Total accumulated depreciation</b>	<b>(8,818,193)</b>	<b>(1,244,123)</b>	<b>14,336</b>	<b>-</b>	<b>(10,047,980)</b>
<b>Total capital assets, being depreciated, net</b>	<b>32,500,198</b>	<b>4,329,822</b>	<b>-</b>	<b>-</b>	<b>36,830,023</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 41,116,910</b>	<b>\$ 18,098,700</b>	<b>\$ (36,627)</b>	<b>\$ -</b>	<b>\$ 59,178,986</b>

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

<b>Governmental Activities:</b>	
General government	\$ 37,343
Judicial	1,347
Public works	464,226
Culture and recreation	114,613
Health	7,008
Community development	67,448
Total depreciation expense – governmental activities	<u>\$ 691,985</u>
<b>Business-type Activities:</b>	
Water	\$ 739,799
Sewer	503,746
Non Potable	580
Total depreciation expense – business-type activities	<u>\$ 1,244,123</u>

**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 employers, 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.

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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		Total Contribution
	ER	ER/EE	
2005-06	19.75%	10.50%	\$194,978
2004-05	20.25%	10.50%	\$271,684
2003-04	20.25%	10.50%	\$237,940

NOTE 6 – Interfund receivables, payables, and transfers:

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:			
<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
Water Fund		General Fund	\$ 5,733
Sewer Fund		General Fund	255
			<u>\$ 5,988</u>

Interfund transfers:

	Transfer In:		
<u>Transfer Out:</u>	Capital Projects Fund	Other Enterprise Fund	<u>Total</u>
General Fund	\$ 850,000	\$ -	\$ 850,000
Residential Const. Tax District #1 Fund	200,000	-	200,000
Water Fund	-	800,000	800,000
Total	<u>\$1,050,000</u>	<u>\$ 800,000</u>	<u>\$ 1,850,000</u>

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

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NOTE 7 – LONG TERM DEBT:

A. The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2006.

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

	Issue Date	Interest Rate	Maturity Date	Authorized and Issued	Outstanding July 1, 2005	Additions	(Deletions)	Outstanding June 30, 2006	Due in 2006-2007
<b>Governmental Activities:</b>									
Compensated absences payable	-	-	-	-	\$ 62,629	\$ 15,315	\$ -	\$ 77,944	\$ -
City Hall Expansion Bonds	12/29/05	4.49%	12/01/2025	\$5,000,000	-	5,000,000	-	5,000,000	158,000
<b>Total governmental activities</b>					<b>62,629</b>	<b>5,015,315</b>		<b>5,077,944</b>	<b>158,000</b>
<b>Business-type Activities:</b>									
State Water Pollution Control Revolving Fund	10/28/92	4.00%	6/30/2012	\$2,000,000	1,008,027	-	(117,745)	890,282	122,502
2003 Refunding Bonds	11/25/03	3% - 5%	5/01/2010	\$950,000	815,000	-	(145,000)	670,000	155,000
					<b>1,823,027</b>	<b>-</b>	<b>(262,745)</b>	<b>1,560,282</b>	<b>277,502</b>
Unamortized Bond Premium					49,576	-	(12,395)	37,181	6,287
Compensated Absences payable					37,174	615	-	37,789	-
<b>Total business-type activities</b>					<b>1,909,777</b>	<b>615</b>	<b>(275,140)</b>	<b>1,635,252</b>	<b>-</b>
<b>Total Long Term Debt</b>					<b>\$ 1,972,406</b>	<b>\$5,015,930</b>	<b>\$ (275,140)</b>	<b>6,713,196</b>	<b>\$441,789</b>

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

Fiscal Year	Debt Supported by General Obligation		Debt Supported by Sewer Fund Revenues		Debt Support by Waters Fund Revenue		Total Requirements to Maturity	
	Principal	Interest	Principal	Interest	Principal*	Interest*	Principal	Interest
2007	\$158,000	\$220,953	\$122,502	\$34,398	\$155,000	\$25,925	\$435,502	\$281,276
2008	165,000	213,702	127,451	29,449	160,000	18,050	452,451	261,201
2009	173,000	206,113	132,600	24,300	170,000	9,800	475,600	240,213
2010	181,000	198,166	137,957	18,943	185,000	2,775	503,957	219,884
2011	189,000	189,860	143,531	13,370	-	-	332,531	203,230
2012-								
2016	1,083,000	810,783	226,241	9,109	-	-	1,309,241	819,892
2017-								
2021	1,355,000	538,329	-	-	-	-	1,355,000	538,329
2022-								
2025	1,696,000	197,199	-	-	-	-	1,696,000	197,199
<b>Total</b>	<b>\$5,000,000</b>	<b>\$2,575,105</b>	<b>\$890,282</b>	<b>\$129,569</b>	<b>\$670,000</b>	<b>\$56,550</b>	<b>\$6,124,780</b>	<b>\$2,479,948</b>

\* Exclusive of unamortized premium and issuance costs.

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

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

its general insurance coverage. The Pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$200,000/\$350,000 per insured event. The Pool obtains independent coverage for insured events in excess of these limits.

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 up to \$350,000/\$700,000 per insured event. The PACT obtains independent coverage for events in excess of these 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.

The City has entered into a construction contract for \$6,719,910 to build an expansion of the City Hall. At June 30, 2006, \$765,773 has been billed by the contractor related to the original contract. The project is expected to be completed by July 2007.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

CITY OF FERRELLY  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACTILES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TOTAL
<b>ASSETS</b>						
Cash and Investments	\$ 36,786	\$ 68,772	\$ 572,389	\$ 521,262	\$ 11,085	\$ 1,160,429
Accounts receivable	693	863	4,233	-	-	1,556
Due from other governments	-	-	2,948	1,366	23	4,233
Interest receivable	207	383	-	-	-	4,977
<b>Total Assets</b>	<u>\$ 37,686</u>	<u>\$ 70,018</u>	<u>\$ 579,570</u>	<u>\$ 522,762</u>	<u>\$ 11,159</u>	<u>\$ 1,174,195</u>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 61	\$ -	\$ 8,362	\$ -	\$ 377	\$ 8,800
Due to Developers	-	-	69,000	-	-	69,000
<b>Total Liabilities</b>	<u>61</u>	<u>-</u>	<u>77,362</u>	<u>-</u>	<u>377</u>	<u>77,800</u>
<b>Fund Balance:</b>						
Designated for subsequent year's expenditures	37,625	-	457,208	-	-	489,833
Undesignated	-	70,018	-	522,762	10,782	603,562
<b>Total Fund Balance</b>	<u>37,625</u>	<u>70,018</u>	<u>457,208</u>	<u>522,762</u>	<u>10,782</u>	<u>1,093,395</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 37,686</u>	<u>\$ 70,018</u>	<u>\$ 579,570</u>	<u>\$ 522,762</u>	<u>\$ 11,159</u>	<u>\$ 1,174,195</u>

**CITY OF BERKELEY**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACILITIES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TOTAL
<b>REVENUES</b>						
Taxes:						
Residential construction tax	\$ -	\$ -	\$ 757,286	\$ -	\$ -	\$ 757,286
Fines and forfeits	15,113	20,665	-	-	-	35,778
Municipal administrative fees						
Miscellaneous:						
Interest earnings	1,148	2,095	17,891	17,062	163	38,359
Other	-	-	25,000	-	21,098	46,098
Total Revenues	<u>16,261</u>	<u>22,760</u>	<u>800,177</u>	<u>17,062</u>	<u>21,261</u>	<u>877,521</u>
<b>EXPENDITURES</b>						
Services and supplies:						
Medical	5,532	-	-	-	-	5,532
Capital outlay:						
Culture and recreation	-	-	866,173	1,652	10,479	876,552
Community development	-	-	-	1,652	-	1,652
Total Capital Outlay	-	-	866,173	1,652	10,479	878,304
Total Expenditures	<u>5,532</u>	<u>-</u>	<u>866,173</u>	<u>1,652</u>	<u>10,479</u>	<u>883,836</u>
Excess (Deficiency) of Revenues over Expenditures	10,729	22,760	(65,996)	15,410	10,782	(6,315)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in (out)	-	-	200,000	-	-	200,000
Net Change in Fund Balance	10,729	22,760	134,004	35,410	10,782	193,685
FUND BALANCE, JULY 1	26,896	47,258	318,204	507,352	-	899,710
FUND BALANCE, JUNE 30	<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>

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, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Fines and forfeits:			
Municipal administrative fees	\$ 15,000	\$ 15,113	\$ 113
Miscellaneous:			
Interest earnings	<u>1,100</u>	<u>1,148</u>	<u>48</u>
Total Revenues	16,100	16,261	161
<b>EXPENDITURES</b>			
Judicial			
Services and supplies	<u>7,500</u>	<u>5,332</u>	<u>1,968</u>
Net Change in Fund Balance	8,600	10,729	2,129
FUND BALANCE, July 1	<u>26,896</u>	<u>26,896</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 35,496</u>	<u>\$ 37,625</u>	<u>\$ 2,129</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, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Fines and forfeits:			
Municipal administrative fees	\$ 21,000	\$ 20,665	\$ (335)
Miscellaneous:			
Interest earnings	<u>2,100</u>	<u>2,095</u>	<u>(5)</u>
Total Revenues	23,100	22,760	(340)
FUND BALANCE, July 1	<u>47,258</u>	<u>47,258</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 70,358</u>	<u>\$ 70,018</u>	<u>\$ (340)</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, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Taxes:			
Residential construction tax	\$ 400,000	\$ 757,286	\$ 357,286
Intergovernmental:			
Grant	60,000	-	(60,000)
Miscellaneous:			
Interest earnings	18,000	17,891	(109)
Other	-	25,000	25,000
Total Revenues	<u>478,000</u>	<u>800,177</u>	<u>322,177</u>
<b>EXPENDITURES</b>			
Outure and recreation:			
Capital outlay	526,000	866,173	(340,173)
Excess (Deficiency) of Revenue Over Expenditures	(48,000)	(65,996)	(17,996)
<b>OTHER FINANCING SOURCES</b>			
Transfers in (Out)	400,000	200,000	(200,000)
Net Change in Fund Balance	352,000	134,004	(217,996)
<b>FUND BALANCE, July 1</b>	318,204	318,204	-
<b>FUND BALANCE, June 30</b>	<u>\$ 670,204</u>	<u>\$ 452,208</u>	<u>\$ (217,996)</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, 2006

	BUDGET	ACTUAL	VARIANCE
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 19,500	\$ 17,062	\$ (2,438)
<b>EXPENDITURES</b>			
Community Development:			
Capital outlay	210,000	1,652	208,348
Excess (Deficiency) of Revenues Over Expenditures	(190,500)	15,410	205,910
<b>FUND BALANCE, July 1</b>	507,352	507,352	-
<b>FUND BALANCE, June 30</b>	\$ 507,352	\$ 507,352	\$ -

CITY OF FERRISLY  
 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, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 250	\$ 163	\$ (87)
Other	15,000	21,098	6,098
Total Revenues	15,250	21,261	6,011
<b>EXPENDITURES</b>			
Culture and Recreation:			
Capital outlay	5,000	10,479	(5,479)
Excess (Deficiency) of Revenues Over Expenditures	10,250	10,782	532
<b>OTHER FINANCING SOURCES</b>			
Transfers in:			
General Fund	-	-	-
Net Change in Fund Balance	10,250	10,782	532
<b>FUND BALANCE, July 1</b>	-	-	-
<b>FUND BALANCE, June 30</b>	<u>\$ 10,250</u>	<u>\$ 10,782</u>	<u>\$ 532</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, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 210,000	\$ 195,809	\$ (14,191)
<b>EXPENDITURES</b>			
Community development:			
Capital outlay	<u>679,000</u>	<u>515,459</u>	<u>163,541</u>
Excess (Deficiency) of Revenues Over Expenditures	(469,000)	(319,650)	149,350
<b>OTHER FINANCING SOURCES</b>			
Transfers in:			
General Fund	850,000	850,000	-
General Obligations bond issue	<u>5,000,000</u>	<u>5,000,000</u>	<u>-</u>
Total Other Financing Sources	5,850,000	5,850,000	-
Net Change in Fund Balance	2,502,129	2,502,129	-
FUND BALANCE, July 1			
	<u>2,502,129</u>	<u>2,502,129</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 7,883,129</u>	<u>\$ 8,032,479</u>	<u>\$ 149,350</u>

**CITY OF FERRISLEY  
WATER UTILITY FUND  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

	BUDGET	ACTUAL	VARIANCE
<b>OPERATING REVENUES</b>			
User fees	\$ 2,425,000	\$ 2,201,916	\$ (223,084)
<b>OPERATING EXPENSES</b>			
Salaries and wages	381,000	372,706	8,294
Employee benefits	148,600	140,358	8,242
Services and supplies	1,250,000	1,144,496	105,504
Depreciation	680,000	739,799	(59,799)
Total Operating Expenses	2,459,600	2,397,359	62,241
Operating Loss	(34,600)	(195,443)	(160,843)
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	360,000	345,511	(14,489)
In lieu of water rights fees	300,000	329,970	29,970
Miscellaneous	39,000	46,942	7,942
Interest expense	(27,138)	(25,224)	1,914
Total Nonoperating Revenue (Expense)	671,862	697,199	25,337
Income (Loss) Before Capital Contributions	637,262	501,756	(135,506)
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	1,257,750	1,014,573	(243,177)
Developer agreements	150,000	149,452	(548)
Developer contributed infrastructure	-	2,633,534	2,633,534
Developer contributed water rights	-	10,501,525	10,501,525
Total Capital Contributions	1,407,750	14,299,084	12,891,334
<b>TRANSFER IN (OUT)</b>			
Transfer out	(800,000)	(800,000)	-
Change in Net Assets	1,245,012	14,000,840	12,755,828
NET ASSETS, July 1	34,836,159	34,836,159	-
NET ASSETS, June 30	<u>\$ 36,081,171</u>	<u>\$ 48,836,999</u>	<u>\$ 12,755,828</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, 2006**

	BUDGET	ACTUAL	VARIANCE
<b>OPERATING REVENUES</b>			
User fees	\$ 1,525,500	\$ 1,686,101	\$ 160,601
<b>OPERATING EXPENSES</b>			
Salaries and wages	352,100	348,773	3,327
Employee benefits	186,200	134,660	51,540
Services and supplies	612,400	506,921	105,479
Depreciation	580,000	503,744	76,256
Total Operating Expenses	1,730,900	1,494,098	236,802
Operating Income (Loss)	(205,400)	192,003	397,403
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	350,000	337,837	(12,163)
Sale of capital assets	12,500	12,500	-
Interest expense	(39,155)	(36,800)	2,355
Total Nonoperating Revenue (Expense)	323,345	313,537	(9,808)
Income (Loss) Before Capital Contributions	117,945	505,540	387,595
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	1,386,000	1,120,919	(265,081)
Developer agreements	54,000	24,660	(29,340)
Developer contributed infrastructure	-	2,518,761	2,518,761
Total Capital Contributions	1,440,000	3,664,340	2,224,340
Change in Net Assets	1,557,945	4,169,880	2,611,935
NET ASSETS, July 1	21,706,995	21,706,995	-
NET ASSETS, June 30	\$ 23,264,940	\$ 25,876,875	\$ 2,611,935

**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, 2006**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<b>OPERATING REVENUES</b>			
Miscellaneous operating revenues	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>			
Services and supplies	-	120	120
Depreciation	-	580	580
Total Operating Expenses	-	700	700
Operating Income (Loss)	-	(700)	(700)
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	20,000	19,433	(567)
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	370,000	117,000	(253,000)
Developer contributed infrastructure	-	319,036	319,036
Total Capital Contributions	370,000	436,036	66,036
<b>TRANSFER IN (OUT)</b>			
Transfer in	800,000	800,000	-
Change in Net Assets	1,190,000	1,254,769	64,769
NET ASSETS, July 1	132,290	132,290	-
NET ASSETS, June 30	<u>\$1,322,290</u>	<u>\$ 1,387,059</u>	<u>\$ 64,769</u>

CITY OF FERNLEY  
 AGENCY FUND - MUNICIPAL TRUST FUND  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 JUNE 30, 2006

	BALANCE JULY 1, 2005	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2006
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,908	\$ 54,150	\$ 54,044	\$ 9,014
<b>LIABILITIES</b>				
Bail bond deposits held for others	\$ 8,908	\$ 54,150	\$ 54,044	\$ 9,014

## **STATISTICAL SECTION**

TABLE 1

**CITY OF FERNLEY, NEVADA**  
**NET ASSETS BY COMPONENT**  
**LAST THREE FISCAL YEARS**

	FISCAL YEAR ENDED JUNE 30,		
	2004	2005	2006
<b>GOVERNMENTAL ACTIVITIES</b>			
Invested in capital assets, net of related debt	\$ 11,913,896	\$ 15,883,001	\$ 24,608,748
Restricted	3,927,329	5,884,904	5,535,323
Unrestricted	<u>15,841,225</u>	<u>21,767,905</u>	<u>30,144,071</u>
Total Governmental Activities Net Assets	<u>\$ 15,841,225</u>	<u>\$ 21,767,905</u>	<u>\$ 30,144,071</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
Invested in capital assets, net of related debt	\$ 32,471,737	\$ 39,238,863	\$ 57,581,522
Restricted	-	535,237	579,560
Unrestricted	12,780,664	16,901,342	17,939,851
Total Business-type Activities Net Assets	<u>\$ 45,252,401</u>	<u>\$ 56,675,442</u>	<u>\$ 76,100,933</u>
<b>PRIMARY GOVERNMENT</b>			
Invested in capital assets, net of related debt	\$ 44,385,633	\$ 55,121,864	\$ 82,190,270
Restricted	-	535,237	579,560
Unrestricted	16,707,993	22,786,246	23,475,174
Total Primary Government Net Assets	<u>\$ 61,093,626</u>	<u>\$ 78,443,347</u>	<u>\$ 106,245,004</u>

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

TABLE 2

**CITY OF FERNLEY, NEVADA**  
**CHANGE IN NET ASSETS**  
**LAST THREE FISCAL YEARS**

	FISCAL YEAR ENDED JUNE 30,		
	2004	2005	2006
<b>EXPENSES</b>			
<b>Governmental Activities:</b>			
General government	\$ 587,873	\$ 595,912	\$ 796,403
Judicial	156,796	173,804	170,479
Public works	463,188	642,480	954,419
Culture and recreation	362,983	458,828	646,259
Community development	434,627	861,565	875,056
Health	50,560	102,768	263,919
Total Governmental Activities Expenses	<u>2,056,027</u>	<u>2,835,347</u>	<u>3,706,535</u>
<b>Business-type Activities:</b>			
Water	2,035,646	2,134,429	2,422,583
Sewer	1,347,388	1,509,433	1,530,898
Other	-	-	700
Total Business-type Activities Expenses	<u>3,383,034</u>	<u>3,643,862</u>	<u>3,954,181</u>
Total Primary Government Expenses	<u>\$ 5,439,061</u>	<u>\$ 6,479,209</u>	<u>\$ 7,660,716</u>
<b>PROGRAM REVENUES</b>			
<b>Governmental Activities:</b>			
Charges for Services:			
General government	\$ 731,510	\$ 887,827	\$ 1,008,662
Judicial	170,835	423,178	196,249
Public works	10,901	31,278	40,071
Culture and recreation	16,950	13,400	8,150
Community development	1,422,438	1,804,978	1,123,506
Health	1,766	1,611	2,341
Operating Grants and Contributions	276,701	268,632	348,627
Capital Grants and Contributions	8,112,137	4,232,398	7,531,080
Total Governmental Activities Program Revenues	<u>10,743,238</u>	<u>7,663,302</u>	<u>10,258,688</u>
<b>Business-type Activities:</b>			
Charges for Services:			
Water	1,794,430	1,975,451	2,201,916
Sewer	1,187,212	1,441,455	1,686,101
Other	-	131,300	-
Operating Grants and Contributions	10,829,870	11,157,733	18,729,430
Capital Grants and Contributions	13,811,512	14,705,939	22,617,447
Total Business-type Activities Program Revenues	<u>24,554,750</u>	<u>22,369,241</u>	<u>32,676,135</u>
Total Primary Government Revenue	<u>\$ 13,115,689</u>	<u>\$ 15,890,033</u>	<u>\$ 25,215,419</u>
<b>NET (EXPENSE)REVENUE</b>			
Governmental Activities	\$ 8,687,211	\$ 4,827,956	\$ 6,552,153
Business-type Activities	10,428,478	11,062,077	18,663,266
Total Primary Government Net (Expense)Revenue	<u>\$ 19,115,689</u>	<u>\$ 15,890,033</u>	<u>\$ 25,215,419</u>

## CITY OF FERLLEY, NEVADA

## CHANGE IN NET ASSETS

## LAST THREE FISCAL YEARS

## CONTINUED

GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
<b>Governmental Activities:</b>			
Taxes:			
Property	\$ 427,738	\$ 436,207	\$ 591,082
Consolidated	137,610	163,429	189,158
Fuel	216,736	233,448	227,691
Gaming licenses	75,015	71,271	97,121
Unrestricted interest income	22,441	97,729	329,341
Miscellaneous revenue	35,660	36,640	389,619
Total Governmental Activities	<u>915,200</u>	<u>1,098,724</u>	<u>1,824,012</u>
<b>Business-type Activities:</b>			
Unrestricted interest income	86,972	295,730	702,781
Miscellaneous revenue	37,142	65,234	59,441
Total Business-type Activities	<u>124,114</u>	<u>360,964</u>	<u>762,222</u>
Total Primary Government General Revenues	<u>\$ 1,039,314</u>	<u>\$ 1,459,688</u>	<u>\$ 2,586,234</u>
<b>CHANGE IN NET ASSETS</b>			
Governmental activities	\$ 9,802,411	\$ 5,926,680	\$ 8,376,165
Business-type activities	<u>10,552,592</u>	<u>11,423,041</u>	<u>19,425,488</u>
Total Primary Government Change in Net Assets	<u>\$ 20,355,003</u>	<u>\$ 17,349,721</u>	<u>\$ 27,801,653</u>

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

TABLE 3

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

Fiscal Year	Assessed Value	Estimated Actual Value	Ratio of
			Total Assessed To Total Estimated Actual Value
	Total		
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

Source: Lyon County Assessor's Office

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

TABLE 4

## CITY OF FERNLEY, NEVADA

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS  
(PER \$100 OF ASSESSED VALUE)

## LAST FIVE 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

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, 2006

Taxpayer	Product/Service	Taxable Estimated Appraised Value (1)	Taxable Assessed Value	Approximate Percentage of Taxable Assessed Valuation
Amazon.com	Electronic Shopping	\$ 48,099,271	\$ 16,834,745	4.457%
Nevada Cement Company	Cement Manufacturer	21,329,486	7,465,320	1.976%
BMO Leasing US Inc (Quebecor)	Printing	16,816,643	5,885,825	1.558%
MSC Industrial Supply Co.	Machinery Merchant Wholesale	11,501,023	4,025,358	1.066%
Honeywell International Inc.	Electronic Manufacturer	10,766,029	3,768,110	0.998%
TREX Company	Wood Product Manufacturer	9,075,514	3,176,430	0.841%
Fortifiber Corporation	Product Manufacturer	6,328,549	2,214,992	0.586%
A.R.E. Inc	Motor Vehicle Body Manufacturer	6,287,811	2,200,734	0.583%
John Manville International Inc.	Siding/Roofing Manufacturer	5,409,997	1,893,499	0.501%
Paramount-Nevada Asphalt Co. LLC	Asphalt	4,879,134	1,707,697	0.452%
Totals		<u>\$ 140,493,457</u>	<u>\$ 49,172,710</u>	<u>13.016%</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

TABLE 6

**CITY OF FERNLEY, NEVADA**  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
**LAST FIVE FISCAL YEARS\***

Fiscal Year	General Obligation Bonds	Less: Amounts Available In Debt Service Fund	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%	253.81

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 and Economic Statistics.

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

TABLE 7

## CITY OF FERNLEY, NEVADA

## COMPUTATION OF GENERAL OBLIGATION DIRECT AND OVERLAPPING DEBT

June 30, 2006

	Total General Obligation Debt	Presently Self-Supporting General Obligation Debt	Net Debt Outstanding	% Applicable	Applicable Net Debt
<b>Direct:</b>					
City of Fernley	\$ 6,560,282	\$ 1,560,282	\$ 5,000,000	100.00%	<u>\$ 5,000,000</u>
<b>Overlapping:</b>					
State of Nevada	2,390,841,281	1,233,830,000	1,157,011,281	0.44%	5,090,850
Lyon County	16,387,639	16,332,100	55,539	35.88%	19,927
Lyon County School District	52,740,000	9,528,563	43,211,437	35.88%	<u>15,504,264</u>
Total Overlapping debt					<u>20,615,041</u>
Total Direct and Overlapping Debt					<u><u>\$ 25,615,041</u></u>

Source: Lyon County School District

**CITY OF FERNLEY, NEVADA**

**COMPUTATION OF LEGAL DEBT MARGIN**

June 30, 2006

Estimated Assessed Value	\$ 377,743,200
Debt Limit - 20 Percent of Total Assessed Value	75,548,640
Total Amount of Debt Applicable to Debt Limit	<u>5,000,000</u>
Legal Debt Margin	<u><u>\$ 70,548,640</u></u>

Note: Legal debt margin as set forth in NRS 266.600

TABLE 9

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

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 FIVE FISCAL YEARS\*

Fiscal Year	Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate
2002	9,529	\$31,411	3.30	5.60%
2003	10,440	\$31,411	3.01	5.40%
2004	11,718	\$31,411	2.68	5.20%
2005	13,775	\$31,411	2.28	5.00%
2006	19,700	\$31,411	1.59	4.70%

**Sources:**

- (1) Nevada Demographer's Office
- (2) Nevada Employment Security Department-Lyon County Data

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

TABLE 11

## CITY OF FERNLEY, NEVADA

## MAJOR EMPLOYERS

June 30, 2006

Name	Product/Service	Employees
Amazon.com	Electronic Shopping	700-799
BMO Leasing US Inc (Quebecor)	Printing	200-299
MSC Industrial Supply Co.	Machinery Merchant Wholesale	100-199
TREX Company	Wood Product Manufacturing	100-199
A.R.E. Inc	Motor Vehicle Body Manufacturer	100-199
Nevada Cement Company	Cement Manufacturer	100-199
Silverado Casino	Casino	90-99
Manpower Temporary Services	Temporary Help Service	90-99
Scolari's Warehouse Markets, Inc.	Supermarket	90-99
Fernley Truck Inn	Hotel & Casino	90-99

Source: Nevada Department of Employment, Training and Rehabilitation

TABLE 12

**CITY OF FERRELEY, NEVADA**

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

**LAST FIVE FISCAL YEARS\***

FUNCTION/PROGRAM	FISCAL YEAR ENDED JUNE 30,				
	2002	2003	2004	2005	2006
General government	11.9	14.3	14.7	15.5	12.1
Judicial	1.7	1.7	1.9	1.9	2.0
Public works	1.2	1.2	1.3	1.3	2.0
Culture and recreation	3.5	4.5	4.5	7.5	7.5
Community development	4.5	7.0	7.0	12.0	15.5
Health	-	-	-	2.0	3.9
Water	5.4	5.4	5.6	5.9	8.6
Sewer	5.4	5.4	5.6	5.9	9.1
<b>Total</b>	<b>33.6</b>	<b>39.5</b>	<b>40.6</b>	<b>51.9</b>	<b>60.7</b>

Source: City of Ferreley, Nevada FY 2005/2006 Annual Budget

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

**CITY OF FERINLEY, NEVADA**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**LAST FOUR FISCAL YEARS\***

Function/Program	FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
<b>Judicial:</b>				
Municipal Court Cases Filed:				
Drug	55	33	34	68
Driving Under Influence	82	71	75	91
Domestic Violence	37	48	65	45
Traffic	1,979	2,132	2,410	2,530
Non-Traffic	160	309	314	326
Other	5	0	1	0
<b>Public Safety:</b>				
Calls for Service:				
Criminal	2,292	2,760	3,072	3,382
Non-Criminal	948	826	924	1,028
Domestic Violence	312	432	684	678
Follow-up	1,044	1,488	1,404	1,630
Traffic Stops	1,080	672	876	1,026
Civil Papers	2,028	1,596	2,028	2,232
Animal	132	192	168	102
Death/Coroner	36	36	36	42
Public Service	1,536	1,440	1,044	1,250
Assist other Agencies	612	600	684	732
Alarms	216	252	276	346
Property Damage Accident	72	120	132	92
Injury Accident	12	12	24	24
Private Property Accident	60	48	48	48
Administrative	2,016	2,316	2,196	2,304
Total Calls for Service	12,372	12,792	13,572	15,076
Total Reports Written	1,788	1,740	1,704	1,756
<b>Arrests:</b>				
Felony	84	72	60	90
Gross Misdemeanor	12	12	24	16
Misdemeanor	192	168	120	112
Driving Under the Influence	48	48	36	48
Domestic Violence	48	48	72	52
Mental Health	12	12	12	8
Total Arrests	396	360	312	326
<b>Citations:</b>				
Traffic	444	240	228	274
Non-Traffic	240	132	168	162
Total Citation	684	372	408	436
<b>Water Utility</b>				
Customer Count	3,966	4,980	6,083	6,783
New Connections	657	1,014	1,103	700
<b>Sewer Utility</b>				
Customer Count	3,950	4,957	6,049	6,739
New Connections	649	1,007	1,092	690
<b>Building</b>				
Number of Inspection Performed	868	1,492	1,445	897
	7,042	15,929	19,108	13,302
<b>Planning</b>				
Number of applications processed	144	195	211	220

Sources: City of Ferinley

\*Information presented for fiscal years as available

## CITY OF FERNLEY, NEVADA

## CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM

## LAST FIVE FISCAL YEARS\*

Function/Program	FISCAL YEAR ENDED JUNE 30,				
	2002	2003	2004	2005	2006
Streets					
Public Road Mileage	89.5	92.03	95.45	104.12	106.64
Parks and Recreation:					
Park and Open Space	56.9	68	68.3	85.3	150
Developed Parks	5	7	7	8	11
Tennis Courts	1	1	1	1	1
Rodeo Arena	1	1	1	1	2
Playing Fields	6	6	7	8	10
Pavilions	1	1	1	2	2
Skate Park	1	1	1	1	1
Water Utility:					
Water lines (miles)	73.5	79.4	85.7	92.6	105
Fire Hydrants	700	775	850	925	1000
Sewer Utility:					
Sanitary Sewer lines (miles)	63.0	68.0	73.5	79.4	90.0
Sanitary Sewer Manhole Count	615	864	1113	1362	1610

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

**AUDITOR'S COMMENTS**

# AUDITOR'S COMMENTS

June 30, 2006

## **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.

## **Prior Year Recommendations**

There were no specific recommendations made in the audit report for the fiscal year ended June 30, 2005.

## **Current Year Recommendations**

We did not find any financial weaknesses of a magnitude to justify inclusion within our audit report. However, our audit activity did identify recommendations to improve procedures and accountability that have been include in our current management letter.

**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, 2005 \$96,718

Adjustment to Base:  
Base year:  
1. Percentage increase in population of the local  
government 18.7%

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 3.4%

Adjusted Base at June 30, 2006	116,158
Actual Revenue	111,075
Actual Amount over (under) Allowable Amount	<u>\$(5,083)</u>

Fee calculated on a Percentage of Gross Revenue:  
Adjusted base at June 30, 2005 \$765,184  
Percentage change in CPI 1.034  
Adjust base at June 30, 2006 791,201  
Actual Revenue 863,449  
Actual Amount over (under) Allowable Amount \$(72,248)