

Comprehensive Annual Financial Report

City of Fernley, Nevada

For the Fiscal Year Ended
June 30, 2010

Prepared by:
Finance Department

Melville Drown
Finance Director
City Treasurer

CITY OF FERNLEY, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010

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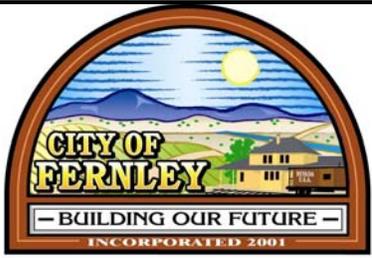
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INTRODUCTORY SECTION



City of Fernley
Finance
Department

Utility Billing
Accounting
Budgeting
Treasury

January 3, 2011

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, 2010 is hereby submitted. State law requires that local governments provide for an annual audit by independent certified public accountants of its financial statements in accordance with auditing standards generally accepted in the United States of America.

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

The City of Fernley's financial statements have been audited by Kafoury, Armstrong & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Fernley for the fiscal year ended June 30, 2010 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, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

This is the third consecutive year the City has required the single audit. Because the City of Fernley expended more than \$500,000 in federal financial assistance during the fiscal year ended June 30, 2010, the City of Fernley was required to have the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. .

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

Profile of the Government

The City of Fernley, incorporated in 2001, is located in western Nevada. The City of Fernley currently occupies a land area of 164 square miles and serves a population of approximately 18,929 according to the Nevada State demographer 2010 population estimates. 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 establishing policy, 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 by Ward to serve four year staggered terms. The Mayor is elected citywide to serve a four-year term.

The City of Fernley provides a wide range of services, including construction and maintenance of streets and infrastructure; water and sewer services; recreational activities and events; vector and animal control; community development services and general administrative services. The City of Fernley contracts with the Lyon County Sheriff for police protection services. The City contracts with Lyon County for animal shelter

services. Fire protection services are provided through the legally separate North Lyon County Fire Protection District. The Fernley Swimming Pool District owns and operates a swimming pool in Fernley. The District is formed under NRS 318 to provide recreation/pool services. Lyon County and the Lyon County School District also provide regional 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.

The City of Fernley enjoyed a favorable economic environment and has been the fastest growing city (in percentage terms) in Nevada. Connections to the water and sewer system and population have more than doubled in the previous six years. However, the City of Fernley now finds itself experiencing the same economic slowdown as the rest of the State of Nevada. Currently, Lyon County leads the State in unemployment (17.2%) and one in 50 homes have received some sort of a foreclosure filing in the City of Fernley (<http://www.realtytrac.com/trendcenter/nv/lyon+county-trend.html>). As a result, the economy in the City of Fernley is being challenged on a scale that is higher than other rural communities in Nevada. The fiscal policy of the State of Nevada has been structured to provide revenue from property taxes and sales tax. Revenue to local government has come primarily from the above mentioned sources and from significant fees from residential and commercial development. Taxes and fees have declined significantly in the City of Fernley. The "City" is presently developing business strategies that will help attract both residential and commercial developers to the City of Fernley.

Manufacturing and transportation represents approximately 50% of business in the City of Fernley (Angelou Economics, 2006; City of Fernley Business License). Several companies have located facilities in Fernley, benefiting the community and leading the

way into the future. There are several fortune 500 companies that have established facilities in Fernley including, Amazon.com, Trex Inc., Worldcolor Printing, MSC Industrial Supply, Agru America, UPS Worldwide Logistics (Honeywell), Johns Manville, Sherwin Williams, and Feldmeir Corporation, Wal Mart and Lowe's. Recent development includes the relocation of the Regional Southwest Gas facility from Fallon, Nevada, the opening of the Fernley Nugget Casino and Black Bear Restaurant, Wal Greens Drug Store and some smaller commercial projects along the Main Street Corridor.

During FY10, the City of Fernley had a tax rate of \$0.351 per \$100 of assessed valuation. In the last 18 months, the City of Fernley's elected Mayor resigned and a new Mayor has been appointed, two council wards have held recall elections. One election resulted in a sitting councilmember being recalled and a new councilmember being seated. The second recall election was unsuccessful. The City of Fernley appointed a new City Manager, Treasurer/Finance Director, and City Attorney.

Nothing has occurred during the fiscal year ending June 30, 2010 that would indicate that any of the City's financial policies had any negative effect on the City of Fernley and its ability to conduct business.

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

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

The City of Fernley annually updates the Capital Improvement Plan required by state statutes and continues to prepare the necessary facilities plans for ultimate development of a more comprehensive Capital Improvement Plan. The City also established a Capital Improvements Advisory Committee to more thoroughly review facility plans and examine funding alternatives for both construction and operation and maintenance of needed facilities. Completed projects in the most recent fiscal year include improvements to Green Valley Park, In Town Park and Out of Town Park, increased the capabilities of the Sewer Treatment Plant and completed the construction of the Water Treatment Plant.

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 1.45%.

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 Finance Department. Our auditors, Kafoury, Armstrong & Co. provided the expert support and guidance that made the preparation of this report possible. I would also like to express my thanks to the City Manager, the department heads and employees of the City of Fernley, and the citizens of Fernley whose continued cooperation, support, and assistance have contributed greatly to the financial stability of the City of Fernley.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Fernley for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the fifth consecutive year that the City of Fernley has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of

City of Fernley
Finance Department

Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The management of the City of Fernley would like to acknowledge the efforts of Kathleen Orsley, Laura Reynolds, Letha Sheehan-Gordon and Kafoury, Armstrong & Co. for their effort and dedication in producing this document.

Respectfully submitted,



Gregory Evangelatos
City Manager

Respectfully submitted,



Melville Drown
City Treasurer
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fernley
Nevada

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

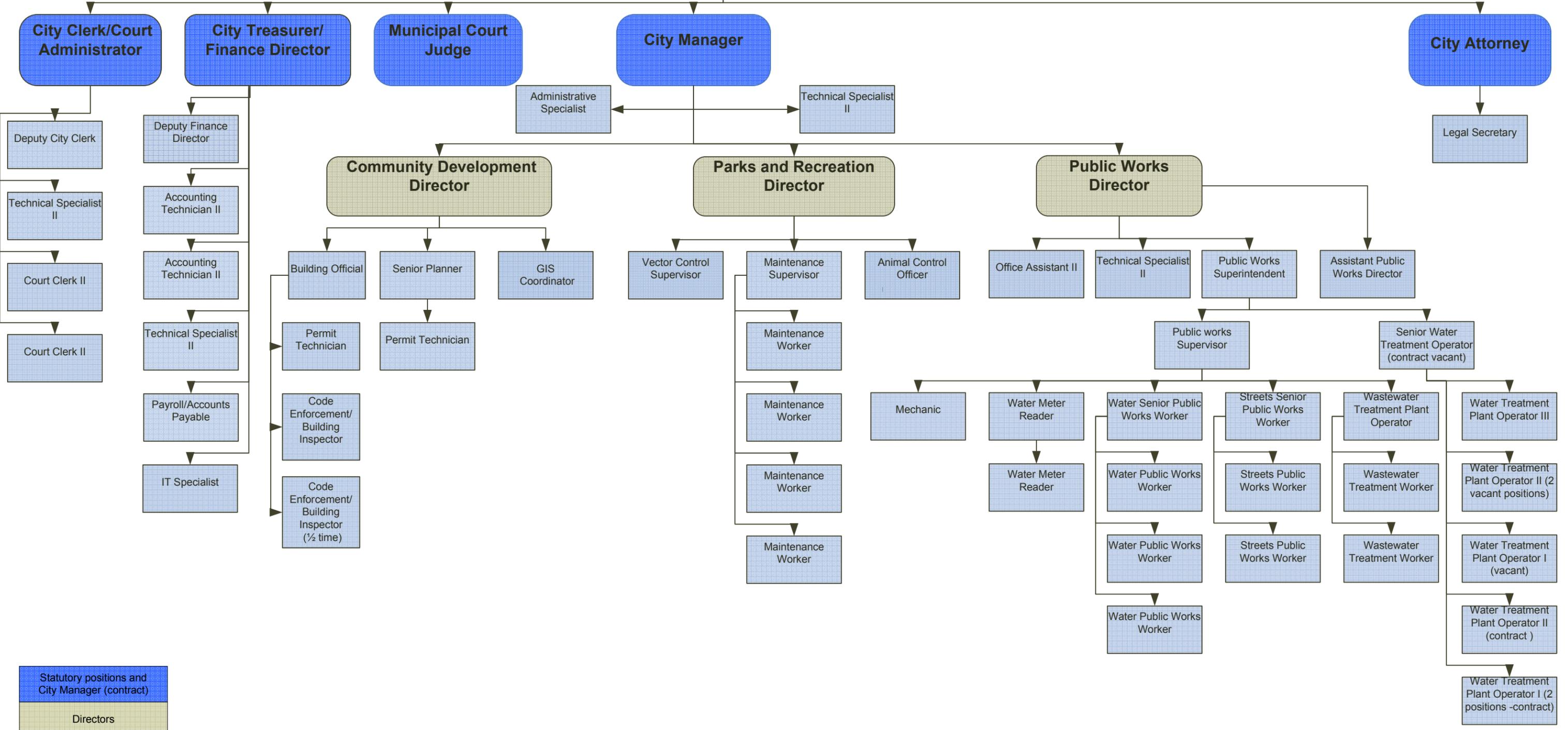
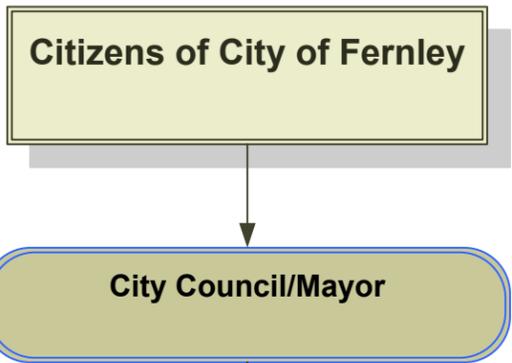
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Organization Chart -May 2009



Statutory positions and City Manager (contract)
Directors
City Staff

City Council

Mayor	LeRoy Goodman
Council Member Ward 1	Kelly Malloy
Council Member Ward 2	Don Parsons
Council Member Ward 3	Robert Chase
Council Member Ward 4	Curt Chaffin
Council Member Ward 5	Cal Eilrich

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

Staff

City Manager	Greg Evangelatos
City Attorney	Brandi Jensen
Chief of Police	Allen Veil
Municipal Court Judge	Daniel Bauer
Building Official	Vacant
City Clerk	Lena Shumway
Community Development Director	Fred Turnier
Finance Director/City Treasurer	Melville Drown
Parks and Recreation Director	Keith Penner
Public Works Director	Vacant

FINANCIAL SECTION



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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
of the 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Residential Construction Tax District #1 Special Revenue Fund and the Streets and Storm Drains Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 3, 2011 on our consideration of the City of Fernley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3A through 3M and the schedule of funding progress-other postemployment benefit plans on page 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Kafoury, Armstrong & Co.

Fallon, Nevada
January 3, 2011

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, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- The assets of the City of Fernley exceeded its liabilities at the close of the most recent fiscal year by \$147,856,493 (*net assets*). Of this amount, \$ 17,367,399 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$4,269,222. The decrease is attributable primarily to the reduction in cash and investments used to complete construction of the water treatment plant and for the payment of the associated debt service.
- As of the close of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$3,050,022, an increase of \$427,854 in comparison with the prior year. The increase is primarily the result of a budget savings in the Streets and Storm Drain fund of \$280,000 for street projects that were carried forward to FY 10-11, \$61,000 from the Transient Lodging Tax which was put into effect on 11/04/09 as a result of legislation, Ordinance 2009-018, and \$28,000 from the Capital Improvement Fund, an ad valorem tax established by State Statute for capital projects within the City. With the exception of the reserved fund balance of \$363,602 the funds 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 \$482,078 or 14 % of general fund expenditures. This ending fund balance is in line with the targeted ending fund balance of 8% to 17% of general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is 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 two proprietary funds as *enterprise funds* to account for its potable 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 and sewer 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 43 of this report

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 45 through 60 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 \$147,856,493 at the close of the most recent fiscal year.

A large portion of the City of Fernley's net assets (88%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); net of any related outstanding debt used to acquire those assets. The City of Fernley uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fernley's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Fernley's Net Assets

	Governmental Activities		Business-type Activities		Totals	
	FY10	FY09	FY10	FY09	FY10	FY09
Current & other assets	\$3,906,619	\$3,465,285	\$17,300,501	\$31,366,903	\$21,207,120	\$34,832,188
Capital assets	43,003,602	44,156,258	172,179,080	167,459,162	215,182,682	211,615,420
Total Assets	46,910,221	47,621,543	190,048,816	199,416,403	236,959,037	247,037,946
Long-term liabilities	4,274,438	4,402,477	79,035,761	80,701,818	83,310,199	85,104,295
Other liabilities	1,036,970	898,828	4,755,375	8,909,108	5,792,345	9,807,936
Total liabilities	5,311,408	5,301,305	83,791,136	89,610,926	89,102,544	94,912,231
Net assets:						
Invested in capital assets, net of related debt	38,680,602	39,652,258	91,444,890	95,281,505	130,125,492	134,933,763
Restricted	363,602	391,600	-	-	363,602	391,600
Unrestricted	2,554,609	2,276,380	14,812,790	14,523,972	17,367,399	16,800,352
Total net assets	\$41,598,813	\$42,320,238	106,257,680	\$109,805,477	\$147,856,493	\$152,125,715

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* (\$17,367,399) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets decreased \$4,269,222 during the current fiscal year. The decrease is primarily due to a \$13,000,000 (\$10,000,000 from bond proceeds) reduction in cash and investments used to complete the water treatment plant and related infrastructure

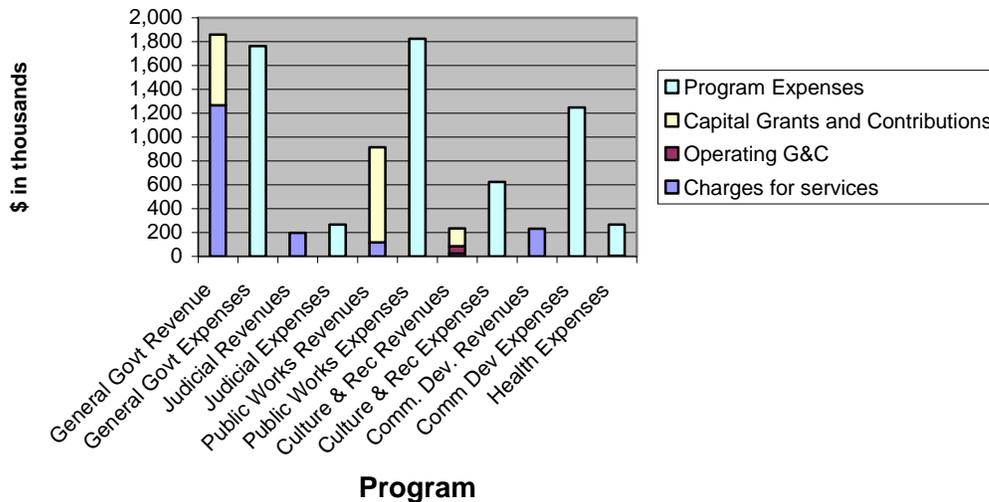
offset by an \$3,500,000 increase in capital assets, a \$4,000,000 reduction in commitments to contractors and a \$2,000,000 reduction of outstanding debt due to the scheduled payment of debt service.

Governmental activities. Governmental activities decreased the City of Fernley's net assets by \$721,425. The key element of this decrease is in capital assets due to the normal depreciation of assets. Property tax revenue increased 14% between FY09 and FY10, but unrestricted interest income declined 35% due once again to lower cash balances and lower interest rates.

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

	Governmental Activities		Business-Type Activities		Total	
	FY10	FY09	FY10	FY09	FY10	FY09
Revenues:						
Program revenues:						
Charges for services	\$1,817,215	\$1,732,998	\$6,658,068	\$5,663,909	\$8,475,283	\$7,396,907
Operating grants and contributions	61,500	60,383	441,742	562,372	503,242	622,755
Capital grants and contributions	1,538,400	5,613,270	908,392	7,146,143	2,446,792	12,759,413
General revenues:						
Property taxes	1,410,347	1,381,621	-	-	1,410,347	1,381,621
Shared revenues	561,429	604,295	-	-	561,429	604,295
Other revenues	73,085	97,264	506,220	1,046,710	579,305	1,143,974
Total revenues	5,461,976	9,489,831	8,514,422	14,419,134	13,976,398	23,908,965
Expenses:						
General government	1,762,449	1,626,115	-	-	1,762,449	1,626,115
Judicial	265,515	243,889	-	-	265,515	243,889
Public works	1,824,412	1,778,649	-	-	1,824,412	1,778,649
Culture & recreation	622,998	685,706	-	-	622,998	685,706
Community develop.	1,247,018	811,701	-	-	1,247,018	811,701
Health	262,865	252,320	-	-	262,865	252,320
Water	-	-	9,420,709	4,127,466	9,420,709	4,127,466
Sewer	-	-	2,641,510	2,581,981	2,641,510	2,581,981
Interest and Fiscal	198,144	206,092	-	-	198,144	206,092
Total expenses	6,183,401	5,604,472	12,062,219	6,709,447	18,245,620	12,313,919
Increase in net assets	-721,425	3,885,359	-3,547,797	7,709,687	-4,269,222	11,595,046
Net assets, July 1	42,320,238	38,434,879	109,805,477	102,095,790	152,125,715	140,530,669
Net assets, June 30	\$41,598,813	\$42,320,238	106,257,680	\$109,805,477	\$147,856,493	\$152,125,715

FY10 Program Revenues and Expenses- Governmental Activities



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

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

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

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

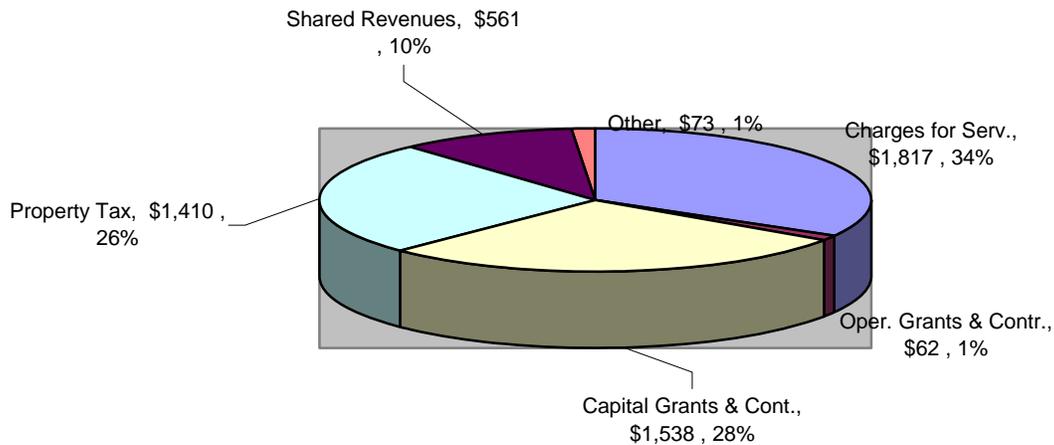
The major source of program revenues for community development activities is building permits and fees. Planning fees are also included in program revenues. The program

expenses associated with these revenues include the operations of the Community Development Department. It is important to note that other, non-routine Community Development expenditures are grouped in this category. This fiscal year a one-time reserve for miscellaneous accounts receivable was recorded in the Community Development Department in the amount of \$105,543. 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.

FY10 Revenues by Source - Governmental Activities (in thousands of \$)



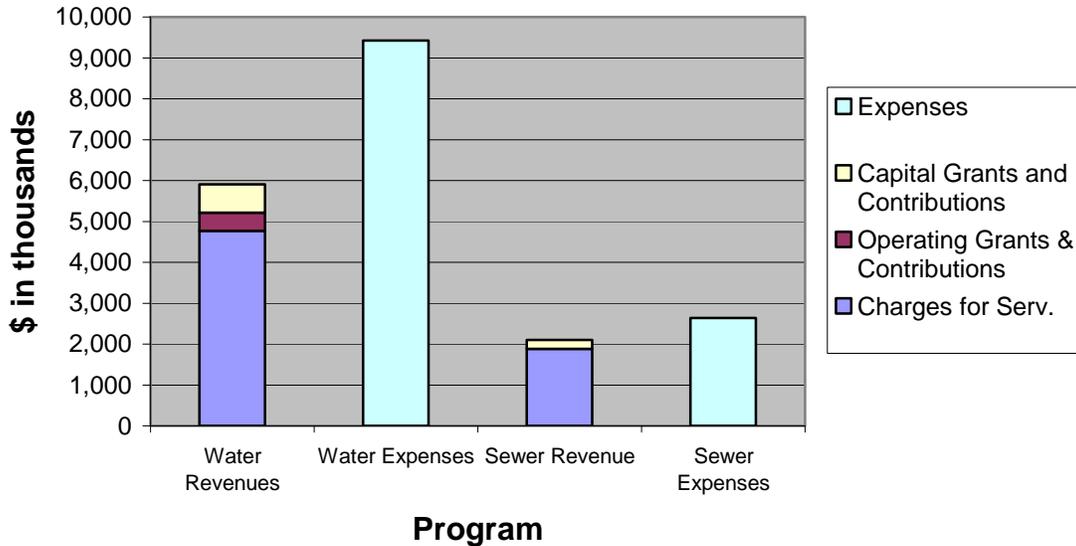
The Charges for Services category includes primarily fees, fines, and licenses. The Capital Grants and Contributions primarily includes grants and donated (dedicated) infrastructure (streets and storm drains). The Shared Revenue category includes primarily consolidated tax, fuel tax and gaming licenses. The Other category includes interest income and other miscellaneous sources of revenue. Capital projects and donated (dedicated) infrastructure represent the largest part of the increase.

Business-type activities. Business-type activities decreased the City of Fernley’s net assets by \$3,547,797. The key element of this decrease is the recording of interest expense in the amount of \$3,024,954, which was capitalized prior to the completion of the water treatment plant in FY 09-10.

- Charges for services for business-type activities increased by \$941,271 or 25% due to a rate increase which took effect 7/01/09.

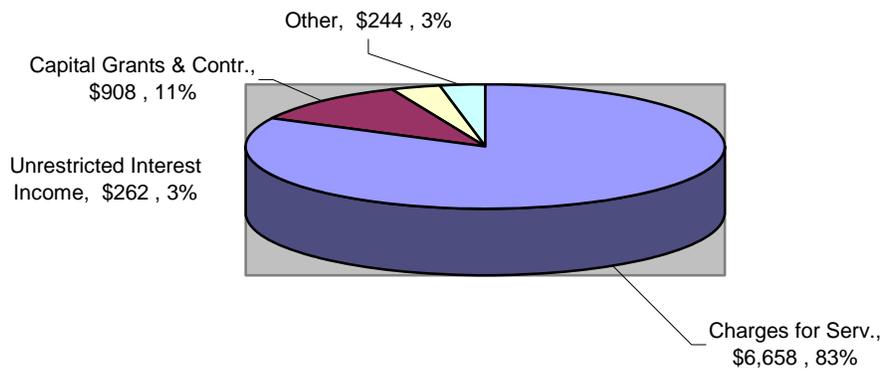
- Capital contributions decreased by \$5,118,226 or 88%, as a result of the dramatic decline in new construction.
- Investment earnings continued to decrease due to lower interest rates and lower levels of cash available for investment.

FY10 Program Revenues and Expenses Business-type Activities



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

FY10 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 \$3,050,022, an increase of \$427,854 in comparison with the prior year. \$363,602 is reserved for capital projects and prepaid items leaving the remaining *unreserved, undesignated fund balance* 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 \$482,078, while total fund balance increased to \$814,316. 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 14% of total general fund expenditures, while total fund balance also represents about 24% of that same amount.

The balance of the City of Fernley's general fund increased by \$125,448 during the current fiscal year. Key factors in this increase are as follows:

- The City has maintained the lower level of staffing achieved through staff reductions of 14 FTE's in early 2009.
- A successful citywide effort to reduce spending for non-essential goods and services remains the City's focus.

The Residential Construction Tax District #1 Fund is used to account for the receipt and use of a special tax that is dedicated to specific purposes of construction of parks in accordance with the Park Plan. At the end of the current fiscal year, unreserved, undesignated fund balance of the fund was \$15,265. Revenues in this fund are significantly lower than originally projected due to the slow down in the residential housing market. No projects are planned for this fund during FY11.

The Streets and Storm Drains Fund is used to account for gas taxes that must be used for street maintenance and capital expenditures as well as other revenues that may be used for projects associated with street and storm drains. At the end of the current fiscal year, unreserved, undesignated fund balance of the fund was \$791,178. Unreserved,

undesignated fund balance represents 1.25% of total fund expenditures. The growth in fund balance is due to the deferring of projects to FY 10-11. The Public Works Department has undergone a major reorganization replacing the Public Works Director with a City Engineer. The City Engineer has the task of reviewing and prioritizing the projects that were deferred to the next fiscal year.

The Capital Projects Fund is used to accrue funds under a “pay as you go” program to provide funding for future projects involving replacement of equipment and buildings or new facilities and equipment. At the end of the current fiscal year fund balance of the Capital Fund was \$1,056,856. Projects planned for FY10 include upgrades of software, replacement of computers as needed and a citywide radio system establishing a point to point connection between all city facilities. The radio system will replace many of cell phones currently in use by city staff.

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 \$6,920,566; those for the Sewer Fund amounted to \$7,892,224 resulting in total unrestricted net assets of \$14,812,790. The total change in net assets for the Water Fund was an decrease of (\$3,116,912) and decrease in the Sewer Fund of (\$430,885). Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Fernley’s business-type activities.

General Fund Budgetary Highlights

The General fund recorded a \$127,451 increase in revenues between the original and final amended budget, but finished the year with a budget shortfall of \$202,817, with the largest shortfall of \$133,685 in ad valorem taxes.

There was an \$135,435 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- Appropriations for the General Government were increased for legal expense to allow the City to contract for City Attorney services for the period of September, 2009 to March, 2010, the period that the City Attorney position was vacant.
- Appropriations for the General Government were increased for professional services to contract with a lobbyist in Washington, DC working to identify and lobby for federal grants for the City.

Capital Asset and Debt Administration

Capital assets. The City of Fernley’s investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to \$215,182,682 (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 City of Fernley's investment in capital assets for the current fiscal year decreased 1% (a 2% decrease for governmental activities and a 3% increase for business-type activities).

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

- A reduction in the donation of capital assets from developers
- The water treatment plant was completed and put into service
- The conveyance system associated with the water treatment plant were completed and put into service
- Sewer lift station improvements
- A reduction in the number of street improvements

City of Fernley Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Totals	
	FY10	FY09	FY10	FY09	FY10	FY09
Land	\$3,909,626	\$3,909,626	\$1,195,948	\$ 1,195,948	\$5,105,574	\$5,105,574
Water rights			36,938,224	36,814,699	36,938,224	36,814,699
Construction in progress	203,926	361,206	4,331,806	73,705,225	4,535,732	74,066,431
Buildings	7,018,267	7,362,231	663	1,662	7,018,930	7,363,893
Improvements other than buildings	6,897,184	6,855,047	128,282,816	54,081,331	135,180,000	60,936,378
Machinery & Equipment	257,538	338,214	480,699	629,915	738,237	968,129
Infrastructure	24,717,061	25,329,934	-	-	24,717,061	25,329,934
Other capital assets			948,924	1,030,382	948,924	1,030,382
TOTAL	\$43,003,602	\$44,156,256	\$172,179,080	\$167,459,162	\$215,182,682	\$211,615,420

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 \$80,649,772 and lease-purchase debt of \$4,323,000. All of the debt is backed by the full faith and credit of the government.

	Governmental activities		Business-type activities		Totals	
	7/1/10	7/1/09	7/1/10	7/1/09	7/1/10	7/1/09
General obligation/revenue bonds			\$80,649,772	\$82,472,729	\$80,649,772	\$82,472,729
Lease/Purchase Debt	\$4,323,000	\$4,504,000			\$4,323,000	\$4,504,000
Unamortized bond premium			\$38,995	\$54,824	\$38,995	\$54,824
Compensated absences	\$111,795	\$104,477	\$54,020	\$52,101	\$165,815	\$156,578
TOTAL	\$4,434,795	\$4,608,477	\$80,742,787	\$82,579,654	\$85,177,582	\$87,188,131

The City of Fernley's total debt decreased by \$1,311,866 during the current fiscal year due to the payment of budgeted debt service amounts.

State statutes limit the amount of general obligation debt a city may issue to 30% of its total assessed valuation. The current debt limitation for the City of Fernley is approximately \$543 million, which is significantly in excess of the City of Fernley's outstanding general obligation debt of \$85,177,582.

Additional information of the City of Fernley's long-term debt can be found in note 7 on pages 37 through 38 of this report.

Economic Factors and Next Year's Budget and Rates

Both water rates and sewer rates were increased for the third consecutive year effective July 1, 2009 to pay for operating expenses, capital expansion and debt service.

- Residential development has slowed to a standstill, but limited commercial development has continued.
- The new state of the art water treatment plant was completed and placed in service. The operation costs will have a significant impact on future operating costs for the water fund.
- The city is aggressively seeking, and has been the recipient of grant funding to enhance the community, to fund capital projects and to defray the expense of maintaining operations of the new water treatment plant.
- GASB 45 which provides guidance for the reporting of post employment benefits other than pension plans, was implemented in 2009. The fiscal impact to the City was \$100,026.

All of these factors were considered in preparing the City of Fernley budget for FY10.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$482,078. The FY10 General Fund budget assumed a beginning unreserved, undesignated fund balance of \$813,807. The cost saving measures put into place during

FY09 and continuing throughout FY10 enabled the city to reflect an improvement in the general fund balance.

The rates for the enterprise funds went up again effective July 1, 2009 to provide the necessary funds to operate the water and sewer utility funds. Additional increases have been suspended at this time to allow for further study. It has been established that the increases that have been implemented have not resulted in the anticipated increase in revenue due to decreased usage.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF FERNLEY, NEVADA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Current assets:			
Cash and investments	\$ 2,986,384	\$ 15,682,398	\$ 18,668,782
Restricted cash and investments			
Refundable deposits	-	627,190	627,190
Interest receivable	8,058	45,036	53,094
Taxes receivable	90,350	-	90,350
Accounts receivable, net	303,562	781,085	1,084,647
Accounts receivable, other	25,063	31,194	56,257
Due from other governments	503,471	-	503,471
Internal balances	(14,760)	14,760	-
Inventories	-	118,838	118,838
Prepaid expenses	4,491	-	4,491
Total Current Assets	<u>3,906,619</u>	<u>17,300,501</u>	<u>21,207,120</u>
Noncurrent assets:			
Deferred charges	-	569,235	569,235
Capital assets:			
Land and construction in progress	4,113,552	42,465,977	46,579,529
Other capital assets, net of depreciation	38,890,050	129,713,103	168,603,153
Total Capital Assets	<u>43,003,602</u>	<u>172,179,080</u>	<u>215,182,682</u>
Total Noncurrent Assets	<u>43,003,602</u>	<u>172,748,315</u>	<u>215,751,917</u>
Total Assets	<u>46,910,221</u>	<u>190,048,816</u>	<u>236,959,037</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	531,562	2,374,776	2,906,338
Payable from restricted assets:			
Refundable deposits	-	627,190	627,190
Due to developers	272,024	-	272,024
Due to other governments	19,384	-	19,384
Due within one year	214,000	1,753,409	1,967,409
Total Current Liabilities	<u>1,036,970</u>	<u>4,755,375</u>	<u>5,792,345</u>
Noncurrent liabilities:			
Other postemployment benefit liabilities	53,643	46,383	100,026
Due in more than one year	4,220,795	78,989,378	83,210,173
Total Noncurrent Liabilities	<u>4,274,438</u>	<u>79,035,761</u>	<u>83,310,199</u>
Total Liabilities	<u>5,311,408</u>	<u>83,791,136</u>	<u>89,102,544</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,680,602	91,444,890	130,125,492
Restricted for capital projects	363,602	-	363,602
Unrestricted	2,554,609	14,812,790	17,367,399
Total Net Assets	<u>\$ 41,598,813</u>	<u>\$ 106,257,680</u>	<u>\$ 147,856,493</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
Governmental Activities:							
General government	\$ 1,762,449	\$ 1,267,670	\$ -	\$ 590,755	\$ 95,976	\$ -	\$ 95,976
Judicial	265,515	196,886	-	-	(68,629)	-	(68,629)
Public works	1,824,412	116,619	-	796,863	(910,930)	-	(910,930)
Culture and recreation	622,998	25	60,000	150,782	(412,191)	-	(412,191)
Community development	1,247,018	232,719	-	-	(1,014,299)	-	(1,014,299)
Health	262,865	3,296	1,500	-	(258,069)	-	(258,069)
Debt Service:							
Interest and fiscal charges	198,144	-	-	-	(198,144)	-	(198,144)
Total Governmental Activities	<u>6,183,401</u>	<u>1,817,215</u>	<u>61,500</u>	<u>1,538,400</u>	<u>(2,766,286)</u>	<u>-</u>	<u>(2,766,286)</u>
Business-type Activities:							
Water	9,420,709	4,774,366	441,742	694,173	-	(3,510,428)	(3,510,428)
Sewer	2,641,510	1,883,702	-	214,219	-	(543,589)	(543,589)
Total Business- type Activities	<u>12,062,219</u>	<u>6,658,068</u>	<u>441,742</u>	<u>908,392</u>	<u>-</u>	<u>(4,054,017)</u>	<u>(4,054,017)</u>
Total	<u>\$ 18,245,620</u>	<u>\$ 8,475,283</u>	<u>\$ 503,242</u>	<u>\$ 2,446,792</u>	<u>(2,766,286)</u>	<u>(4,054,017)</u>	<u>(6,820,303)</u>
General Revenues:							
Property taxes					1,410,347	-	1,410,347
Consolidated taxes					170,186	-	170,186
Fuel taxes					294,645	-	294,645
Unrestricted gaming licenses					96,598	-	96,598
Unrestricted interest income					26,847	261,988	288,835
Miscellaneous revenue					46,238	244,232	290,470
Total General Revenues					<u>2,044,861</u>	<u>506,220</u>	<u>2,551,081</u>
Change in Net Assets					(721,425)	(3,547,797)	(4,269,222)
NET ASSETS, July 1					<u>42,320,238</u>	<u>109,805,477</u>	<u>152,125,715</u>
NET ASSETS, June 30					<u>\$ 41,598,813</u>	<u>\$ 106,257,680</u>	<u>\$ 147,856,493</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	GENERAL FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and investments	\$ 861,874	\$ 15,223	\$ 737,390	\$ 613,809	\$ 758,088	\$ 2,986,384
Interest receivable	2,198	42	2,055	1,694	2,069	8,058
Taxes receivable	90,350	-	-	-	-	90,350
Accounts receivable	324,775	-	-	-	3,850	328,625
Due from other governments	43,296	-	58,467	-	401,708	503,471
Due from other funds	-	-	-	505,000	-	505,000
Prepaid items	4,491	-	-	-	-	4,491
Total Assets	<u>\$ 1,326,984</u>	<u>\$ 15,265</u>	<u>\$ 797,912</u>	<u>\$ 1,120,503</u>	<u>\$ 1,165,715</u>	<u>\$ 4,426,379</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable and accrued liabilities	\$ 304,434	\$ -	\$ 6,734	\$ 63,647	\$ 156,747	\$ 531,562
Due to developers	142,899	-	-	-	129,125	272,024
Due to other governments	16,948	-	-	-	2,436	19,384
Due to other funds	14,760	-	-	-	505,000	519,760
Deferred revenue	33,627	-	-	-	-	33,627
Total Liabilities	<u>512,668</u>	<u>-</u>	<u>6,734</u>	<u>63,647</u>	<u>793,308</u>	<u>1,376,357</u>
Fund Balance:						
Reserved for:						
Prepaid items	4,491	-	-	-	-	4,491
Capital projects	327,747	-	-	-	-	327,747
Convention center	-	-	-	-	31,364	31,364
Unreserved - reported in:						
General Fund	482,078	-	-	-	-	482,078
Special revenue funds	-	15,265	791,178	-	312,482	1,118,925
Capital projects funds	-	-	-	1,056,856	28,561	1,085,417
Total Fund Balance	<u>814,316</u>	<u>15,265</u>	<u>791,178</u>	<u>1,056,856</u>	<u>372,407</u>	<u>3,050,022</u>
Total Liabilities and Fund Balance	<u>\$ 1,326,984</u>	<u>\$ 15,265</u>	<u>\$ 797,912</u>	<u>\$ 1,120,503</u>	<u>\$ 1,165,715</u>	<u>\$ 4,426,379</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds		\$ 3,050,022
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:</p>		
Capital assets	51,242,170	
Less: Accumulated depreciation	8,238,568	43,003,602
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
		33,627
<p>Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period:</p>		
Other postemployment benefits liability	(53,643)	
Bonds payable	(4,323,000)	
Compensated absences	(111,795)	(4,488,438)
Total Net Assets - Governmental Activities		\$ <u>41,598,813</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GENERAL FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	STREETS AND STORM DRAINS FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 1,501,315	\$ 5,827	\$ -	\$ -	\$ 92,142	\$ 1,599,284
Licenses and permits	1,600,283	-	43,098	-	-	1,643,381
Intergovernmental	230,186	-	1,008,927	-	629,419	1,868,532
Fines and forfeits	183,808	-	-	-	38,758	222,566
Miscellaneous	55,461	125	3,625	7,269	22,285	88,765
Total Revenues	3,571,053	5,952	1,055,650	7,269	782,604	5,422,528
EXPENDITURES						
Current:						
General government	1,402,434	-	-	-	-	1,402,434
Judicial	253,101	-	-	-	4,882	257,983
Public works	-	-	448,224	-	-	448,224
Culture and recreation	468,468	-	-	-	14,403	482,871
Community development	708,163	-	-	-	623,960	1,332,123
Health	242,279	-	-	-	-	242,279
Total Current	3,074,445	-	448,224	-	643,245	4,165,914
Debt service:						
Principal	181,000	-	-	-	-	181,000
Interest	198,144	-	-	-	-	198,144
Total Debt Service	379,144	-	-	-	-	379,144
Capital outlay:						
Public works	-	-	224,997	-	-	224,997
Culture and recreation	-	-	-	-	136,818	136,818
Community development	-	-	-	95,785	-	95,785
Total Capital Outlay	-	-	224,997	95,785	136,818	457,600
Total Expenditures	3,453,589	-	673,221	95,785	780,063	5,002,658
Excess (Deficiency) of Revenues over (under) Expenditures	117,464	5,952	382,429	(88,516)	2,541	419,870
OTHER FINANCING SOURCES (USES)						
Proceeds from disposal of capital assets	7,984	-	-	-	-	7,984
Net Change in Fund Balance	125,448	5,952	382,429	(88,516)	2,541	427,854
FUND BALANCE, JULY 1	688,868	9,313	408,749	1,145,372	369,866	2,622,168
FUND BALANCE, JUNE 30	\$ 814,316	\$ 15,265	\$ 791,178	\$ 1,056,856	\$ 372,407	\$ 3,050,022

See accompanying notes.

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Governmental Funds **\$ 427,854**

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	565,525	
Less: Current year depreciation	<u>(1,872,288)</u>	(1,306,763)

In the statement of activities, the gain or loss on the disposal of capital assets is reported. In the governmental funds, the gain or loss is not reported. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold less the balance in accumulated depreciation. (1,995)

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	156,102
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Because some property taxes will not be collected in time to pay for obligations in the current period, they are not considered available revenues in the governmental funds and are instead reported as deferred revenues. These revenues are accounted for as revenue in the statement of activities. (116,665)

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. 181,000

The liability for other postemployment benefits is not recorded in the governmental funds, but is reported in the statement of net assets. This is a current year charge in the liability, reported as an expense in the statement of activities.

Change in other postemployment benefit liability	(53,640)
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Generally expenditures recognized in the fund financial statements are limited to only those that use current financial resources but expenses are recognized in the statement of activities when incurred:

Change in long-term compensated absences payable	<u>(7,318)</u>
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Change in Net Assets - Governmental Activities **\$ (721,425)**

See accompanying notes.

CITY OF FERNLEY, NEVADA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
(Page 1 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
REVENUES					
Taxes:					
Ad valorem	\$ 1,583,470	\$ 1,635,000	\$ 1,501,315	\$ 51,530	\$ (133,685)
Licenses and permits:					
Business licenses	200,000	200,000	183,952	-	(16,048)
Franchise fees	920,000	1,100,000	1,049,779	180,000	(50,221)
Liquor licenses	30,000	25,000	21,850	(5,000)	(3,150)
City gaming licenses	90,000	100,000	96,598	10,000	(3,402)
Building permits and fees	125,000	194,000	202,804	69,000	8,804
Planning and zoning permits and fees	10,000	29,000	29,915	19,000	915
Other permits	12,500	13,800	15,385	1,300	1,585
	<u>1,387,500</u>	<u>1,661,800</u>	<u>1,600,283</u>	<u>274,300</u>	<u>(61,517)</u>
Intergovernmental revenues:					
Consolidated tax distribution	182,649	185,000	170,186	2,351	(14,814)
Fernley park agreement	60,000	60,000	60,000	-	-
	<u>242,649</u>	<u>245,000</u>	<u>230,186</u>	<u>2,351</u>	<u>(14,814)</u>
Fines and forfeits:					
Municipal court fines	135,000	160,000	166,747	25,000	6,747
Municipal court fees	19,800	17,100	17,061	(2,700)	(39)
	<u>154,800</u>	<u>177,100</u>	<u>183,808</u>	<u>22,300</u>	<u>6,708</u>
Miscellaneous:					
Interest	10,500	7,500	7,698	(3,000)	198
Park development	-	-	25	-	25
Miscellaneous	267,500	47,470	47,738	(220,030)	268
	<u>278,000</u>	<u>54,970</u>	<u>55,461</u>	<u>(223,030)</u>	<u>491</u>
Total Revenues	<u>3,646,419</u>	<u>3,773,870</u>	<u>3,571,053</u>	<u>127,451</u>	<u>(202,817)</u>
EXPENDITURES					
General government:					
Finance:					
Salaries and wages	91,500	79,850	78,342	11,650	1,508
Employee benefits	35,300	36,675	37,159	(1,375)	(484)
Services and supplies	133,600	91,245	117,838	42,355	(26,593)
Total Finance	<u>260,400</u>	<u>207,770</u>	<u>233,339</u>	<u>52,630</u>	<u>(25,569)</u>
Information Technology					
Salaries and wages	41,400	45,300	44,447	(3,900)	853
Employee benefits	17,100	16,550	16,395	550	155
Services and supplies	18,500	12,900	13,241	5,600	(341)
Total Information Technology	<u>77,000</u>	<u>74,750</u>	<u>74,083</u>	<u>2,250</u>	<u>667</u>

**CITY OF FERNLEY, NEVADA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
(Page 2 of 3)**

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL	FINAL
	TO FINAL	TO ACTUAL			
Office of the City Clerk:					
Salaries and wages	\$ 106,900	\$ 119,000	\$ 116,864	\$ (12,100)	\$ 2,136
Employee benefits	47,650	44,000	44,123	3,650	(123)
Services and supplies	25,600	24,900	22,048	700	2,852
Total City Clerk	<u>180,150</u>	<u>187,900</u>	<u>183,035</u>	<u>(7,750)</u>	<u>4,865</u>
Office of the City Manager:					
Salaries and wages	173,000	170,200	169,169	2,800	1,031
Employee benefits	63,300	60,675	60,290	2,625	385
Services and supplies	82,050	200,896	190,871	(118,846)	10,025
Total City Manager	<u>318,350</u>	<u>431,771</u>	<u>420,330</u>	<u>(113,421)</u>	<u>11,441</u>
Office of the City Attorney:					
Salaries and wages	57,000	56,950	56,522	50	428
Employee benefits	24,460	14,270	13,872	10,190	398
Services and supplies	33,100	76,850	63,598	(43,750)	13,252
Total City Attorney	<u>114,560</u>	<u>148,070</u>	<u>133,992</u>	<u>(33,510)</u>	<u>14,078</u>
Mayor/City Council:					
Salaries and wages	59,400	62,200	62,125	(2,800)	75
Employee benefits	13,200	13,150	12,933	50	217
Services and supplies	60,375	51,950	49,834	8,425	2,116
Total Mayor/City Council	<u>132,975</u>	<u>127,300</u>	<u>124,892</u>	<u>5,675</u>	<u>2,408</u>
Facilities (City Hall) & General					
Salaries and wages	50,100	46,350	45,922	3,750	428
Employee benefits	21,700	18,210	17,801	3,490	409
Services and supplies	175,000	173,499	169,040	1,501	4,459
Total City Hall	<u>246,800</u>	<u>238,059</u>	<u>232,763</u>	<u>8,741</u>	<u>5,296</u>
Total General Government	<u>1,330,235</u>	<u>1,415,620</u>	<u>1,402,434</u>	<u>(85,385)</u>	<u>13,186</u>
Judicial:					
Municipal court:					
Salaries and wages	143,800	144,550	142,094	(750)	2,456
Employee benefits	64,400	57,500	57,158	6,900	342
Services and supplies	43,600	58,400	53,849	(14,800)	4,551
Total Judicial	<u>251,800</u>	<u>260,450</u>	<u>253,101</u>	<u>(8,650)</u>	<u>7,349</u>
Culture and Recreation:					
Parks:					
Salaries and wages	187,300	205,800	202,268	(18,500)	3,532
Employee benefits	81,300	68,215	67,841	13,085	374
Services and supplies	235,600	199,675	198,359	35,925	1,316
Total Culture and Recreation	<u>504,200</u>	<u>473,690</u>	<u>468,468</u>	<u>30,510</u>	<u>5,222</u>

CITY OF FERNLEY, NEVADA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
(Page 3 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
Community development:					
Building:					
Salaries and wages	\$ 177,200	\$ 183,800	\$ 180,370	\$ (6,600)	\$ 3,430
Employee benefits	79,400	51,200	50,617	28,200	583
Services and supplies	28,120	97,575	81,410	(69,455)	16,165
Total Building	284,720	332,575	312,397	(47,855)	20,178
Planning:					
Salaries and wages	193,600	204,650	202,850	(11,050)	1,800
Employee benefits	93,600	62,000	61,190	31,600	810
Services and supplies	36,410	32,550	131,726	3,860	(99,176)
Total Planning	323,610	299,200	395,766	24,410	(96,566)
Total Community Development	608,330	631,775	708,163	(23,445)	(76,388)
Health:					
Animal control:					
Salaries and wages	47,000	55,500	53,912	(8,500)	1,588
Employee benefits	13,600	13,900	13,807	(300)	93
Services and supplies	20,250	11,300	10,422	8,950	878
Total Animal Control	80,850	80,700	78,141	150	2,559
Vector control:					
Salaries and wages	53,300	32,950	32,003	20,350	947
Employee benefits	22,300	9,025	8,944	13,275	81
Services and supplies	86,910	169,150	123,191	(82,240)	45,959
Total Vector Control	162,510	211,125	164,138	(48,615)	46,987
Total Health	243,360	291,825	242,279	(48,465)	49,546
Debt service:					
Principal	181,000	181,000	181,000	-	-
Interest	198,166	198,166	198,144	-	22
Total Debt Service	379,166	379,166	379,144	-	22
Total Expenditures	3,317,091	3,452,526	3,453,589	(135,435)	1,063
Excess of Revenues Over Expenditures	329,328	321,344	117,464	(7,984)	(203,880)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Asset	-	7,984	7,984	7,984	-
Net Change in Fund Balance	329,328	329,328	125,448	-	(203,880)
FUND BALANCE, July 1	813,807	813,807	688,868	-	(124,939)
FUND BALANCE, June 30	<u>\$ 1,143,135</u>	<u>\$ 1,143,135</u>	<u>\$ 814,316</u>	<u>\$ -</u>	<u>\$ (328,819)</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
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, 2010**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
REVENUES					
Taxes:					
Residential construction tax	\$ 5,000	\$ 5,000	\$ 5,827	\$ -	\$ 827
Miscellaneous:					
Interest	200	200	125	-	(75)
Net Change in Fund Balance	5,200	5,200	5,952	-	752
FUND BALANCE, July 1	-	9,313	9,313	9,313	-
FUND BALANCE, June 30	<u>\$ 5,200</u>	<u>\$ 14,513</u>	<u>\$ 15,265</u>	<u>\$ 9,313</u>	<u>\$ 752</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
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, 2010**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
REVENUES					
Licenses and permits:					
Public works fees	\$ 21,000	\$ 42,000	\$ 43,098	\$ 21,000	\$ 1,098
Intergovernmental revenues:					
Federal grants	-	-	73,520	-	73,520
Motor vehicle fuel tax	305,094	315,000	345,865	9,906	30,865
Regional transportation commission	937,000	641,000	640,762	(296,000)	(238)
	<u>1,242,094</u>	<u>956,000</u>	<u>1,060,147</u>	<u>(286,094)</u>	<u>104,147</u>
Miscellaneous:					
Interest	1,000	2,600	3,625	1,600	1,025
Total Revenues	<u>1,264,094</u>	<u>1,000,600</u>	<u>1,106,870</u>	<u>(263,494)</u>	<u>106,270</u>
EXPENDITURES					
Public works:					
Salaries and wages	117,500	116,800	119,848	700	(3,048)
Employee benefits	52,450	52,250	51,317	200	933
Services and supplies	188,000	80,500	277,059	107,500	(196,559)
Capital outlay	824,150	701,300	224,997	122,850	476,303
Total Expenditures	<u>1,182,100</u>	<u>950,850</u>	<u>673,221</u>	<u>231,250</u>	<u>277,629</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	81,994	49,750	433,649	(32,244)	383,899
FUND BALANCE, July 1	<u>221,402</u>	<u>408,749</u>	<u>408,749</u>	<u>187,347</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 303,396</u>	<u>\$ 458,499</u>	<u>\$ 842,398</u>	<u>\$ 155,103</u>	<u>\$ 383,899</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER UTILITY FUND	SEWER UTILITY FUND	TOTAL ENTERPRISE FUNDS
ASSETS			
Current assets:			
Cash and investments	\$ 7,160,876	\$ 8,521,522	\$ 15,682,398
Restricted cash and investments:			
Refundable deposits	320,065	307,125	627,190
Interest receivable	20,666	24,370	45,036
Accounts receivable, net	605,604	175,481	781,085
Accounts receivable, other	15,742	15,452	31,194
Due from other funds	14,760	-	14,760
Inventories	112,387	6,451	118,838
Total Current Assets	<u>8,250,100</u>	<u>9,050,401</u>	<u>17,300,501</u>
Noncurrent assets:			
Deferred charges	<u>513,620</u>	<u>55,615</u>	<u>569,235</u>
Capital assets:			
Not being depreciated	39,813,187	2,652,790	42,465,977
Depreciable assets	<u>113,017,103</u>	<u>35,687,317</u>	<u>148,704,420</u>
	152,830,290	38,340,107	191,170,397
Less: Accumulated depreciation	<u>11,417,332</u>	<u>7,573,985</u>	<u>18,991,317</u>
Total Capital Assets	<u>141,412,958</u>	<u>30,766,122</u>	<u>172,179,080</u>
Total Noncurrent Assets	<u>141,926,578</u>	<u>30,821,737</u>	<u>172,748,315</u>
Total Assets	<u>150,176,678</u>	<u>39,872,138</u>	<u>190,048,816</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,468,109	906,667	2,374,776
Payable from restricted assets:			
Refundable deposits	320,065	307,125	627,190
Debt due within one year	<u>1,440,146</u>	<u>313,263</u>	<u>1,753,409</u>
Total Current Liabilities	<u>3,228,320</u>	<u>1,527,055</u>	<u>4,755,375</u>
Noncurrent liabilities:			
Other postemployment benefits	28,930	17,453	46,383
Bonds payable, due after one year	<u>71,124,893</u>	<u>7,864,485</u>	<u>78,989,378</u>
Total Noncurrent Liabilities	<u>71,153,823</u>	<u>7,881,938</u>	<u>79,035,761</u>
Total Liabilities	<u>74,382,143</u>	<u>9,408,993</u>	<u>83,791,136</u>
NET ASSETS			
Invested in capital assets, net of related debt	68,873,969	22,570,921	91,444,890
Unrestricted	<u>6,920,566</u>	<u>7,892,224</u>	<u>14,812,790</u>
Total Net Assets	<u>\$ 75,794,535</u>	<u>\$ 30,463,145</u>	<u>\$ 106,257,680</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER UTILITY FUND	SEWER UTILITY FUND	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES			
User fees	\$ 4,774,366	\$ 1,883,702	\$ 6,658,068
Operating grants	441,742	-	441,742
Total Operating Revenues	<u>5,216,108</u>	<u>1,883,702</u>	<u>7,099,810</u>
OPERATING EXPENSES			
Salaries and wages	812,587	490,207	1,302,794
Employee benefits	355,830	224,204	580,034
Services and supplies	2,243,439	710,070	2,953,509
Utilities	525	-	525
Depreciation	2,983,375	978,883	3,962,258
Total Operating Expenses	<u>6,395,756</u>	<u>2,403,364</u>	<u>8,799,120</u>
Operating Income (Loss)	<u>(1,179,648)</u>	<u>(519,662)</u>	<u>(1,699,310)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	149,324	112,664	261,988
In lieu of water rights fees	13,725	-	13,725
Miscellaneous	230,467	40	230,507
Interest expense	(3,024,953)	(238,146)	(3,263,099)
Total Nonoperating Revenue (Expense)	<u>(2,631,437)</u>	<u>(125,442)</u>	<u>(2,756,879)</u>
Income (Loss) Before Capital Contributions	<u>(3,811,085)</u>	<u>(645,104)</u>	<u>(4,456,189)</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	306,780	151,325	458,105
Developer agreements	4,327	-	4,327
Developer contributed infrastructure	259,541	62,894	322,435
Developer contributed water rights	123,525	-	123,525
Total Capital Contributions	<u>694,173</u>	<u>214,219</u>	<u>908,392</u>
Change in Net Assets	(3,116,912)	(430,885)	(3,547,797)
NET ASSETS, July 1	<u>78,911,447</u>	<u>30,894,030</u>	<u>109,805,477</u>
NET ASSETS, June 30	<u>\$ 75,794,535</u>	<u>\$ 30,463,145</u>	<u>\$ 106,257,680</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER UTILITY FUND	SEWER UTILITY FUND	TOTAL ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 4,927,882	\$ 1,872,649	\$ 6,800,531
Cash received from the government	692,299	-	692,299
Cash paid for employees services	(1,148,477)	(695,998)	(1,844,475)
Cash paid to vendors for services and supplies	(6,684,710)	(192,371)	(6,877,081)
Net Cash Provided (Used) by Operating Activities	(2,213,006)	984,280	(1,228,726)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payments on debt	(1,541,320)	(281,637)	(1,822,957)
Interest paid on debt	(3,381,959)	(378,195)	(3,760,154)
Deferred charges	19,738	1,365	21,103
In lieu of water rights fees	13,725	-	13,725
Acquisition of capital assets	(5,112,521)	(2,731,225)	(7,843,746)
Developer agreements	4,327	-	4,327
Connection fees	306,780	151,325	458,105
Net Cash Provided (Used) by Capital and Related Financing Activities	(9,691,230)	(3,238,367)	(12,929,597)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	152,555	104,658	257,213
Net Increase (Decrease) in Cash and Cash Equivalents	(11,751,681)	(2,149,429)	(13,901,110)
CASH AND CASH EQUIVALENTS, July 1	19,232,622	10,978,076	30,210,698
CASH AND CASH EQUIVALENTS, June 30	\$ 7,480,941	\$ 8,828,647	\$ 16,309,588
REPRESENTED BY:			
Cash and cash equivalents	\$ 7,160,876	\$ 8,521,522	\$ 15,682,398
Cash - refundable deposits	320,065	307,125	627,190
	\$ 7,480,941	\$ 8,828,647	\$ 16,309,588
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (1,179,648)	\$ (519,662)	\$ (1,699,310)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,983,375	978,883	3,962,258
Miscellaneous revenues	230,467	40	230,507
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable, net	(179,784)	(11,096)	(190,880)
Accounts receivable, other	105,543	-	105,543
Due from other funds	(2,710)	-	(2,710)
Due from other governments	250,557	-	250,557
Inventories	8,366	185	8,551
Prepaid expenses	5,000	-	5,000
Increase (decrease) in:			
Accounts payable	(4,442,067)	515,218	(3,926,849)
Accrued liabilities	(9,950)	-	(9,950)
Compensated absences payable	960	960	1,920
Refundable deposits	(12,045)	2,299	(9,746)
Other postemployment benefit liability	28,930	17,453	46,383
Total Adjustments	(1,033,358)	1,503,942	470,584
Net Cash Provided (Used) by Operating Activities	\$ (2,213,006)	\$ 984,280	\$ (1,228,726)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES			
Contribution of capital assets from developers	\$ 383,066	\$ 62,894	\$ 445,960

See accompanying notes.

CITY OF FERNLEY, NEVADA
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2010

	<u>AGENCY FUND</u>
ASSETS	
Cash and cash equivalents	\$ 16,450
	<u> </u>
LIABILITIES	
Bail bond deposits held for others	15,739
Other liabilities	711
	<u> </u>
Total Liabilities	<u>\$ 16,450</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 financial statements follows.

A. Reporting Entity:

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

B. Government-wide and Fund Financial Statements:

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

D. Assets, Liabilities and Net Assets or Equity:

Cash and Investments:

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Cash Equivalents:

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

Receivables and Payables:

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

Inventories and Prepaids:

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

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

Restricted Assets:

City policy requires that certain resources be set aside for various purposes in the City's water and sewer utility funds. These amounts are reported as restricted assets. When both restricted and unrestricted assets are available for the same purpose, restricted assets are used first.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Capital Assets:

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

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

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

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Long-Term Liabilities:

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

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

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Equity Classification:

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

The following amounts are reserved/restricted for future capital projects:

Developer/ Development	Balance at June 30, 2010	Project Description
Upland Ranches	\$ 22,258	Farm District Rd Bike Lane
Upland Ranches – Phase 7	29,311	Farm District Rd Turn Lane
Sundance	4,140	Farm District Rd Bike Lane
Country Ranch Estates	936	Farm District Rd Bike Lane
Aspen Meadows	5,100	Farm District Rd Bike Lane
Mt View Estates	10,282	Farm District Rd Bike Lane
Silverland Estates, Ph 1	19,387	Farm District Rd Bike Lane
Truckee River Ranch, Ph 1 & 2	40,673	Farm District Rd Bike Lane
Skyridge II	7,866	Farm District Rd Bike Lane
Sierra Vista	14,670	95A Turn Lane
Shady Grove	5,925	95A Turn Lane
Fernley Chiropractic	7,260	95A Curb, Gutter & Sidewalk
Renslow Commercial Bldg	14,200	95A Curb, Gutter & Sidewalk
Nevada State Bank	9,328	95A Curb, Gutter & Sidewalk
Quick Stop Markets	3,850	95A Curb, Gutter & Sidewalk
North Seneca Falls	27,180	Hardie Ln Improvements
SVWW II, LLC	105,381	Shadow Ln Improvements
Convention Center	31,364	Convention Center
Total	\$ <u>363,402</u>	

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A. Budgetary Information:

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

B. Excess of Expenditures/Expenses Over Appropriations:

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

- Actual expenditures exceeded appropriations in the Community Development function of the General Fund by \$76,389.

This is an apparent violation of NRS 354.626.

C. Other Compliance Matters:

- The City did not complete a physical inventory over capital assets within the last two years.

The above appears to be a potential violation of NAC 354.750.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2010, is as follows:

Cash and Investment Balances Held by:	
Governmental Funds	\$ 2,986,384
Fiduciary Funds	16,450
Proprietary Funds	
Unrestricted	15,682,398
Restricted	627,190*
Total Cash and Investments	\$ 19,312,422

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

Balances Classified by:	
Cash:	
On hand	\$ 750
Wells Fargo Bank:	
Checking	264,717
EFT Transaction Account	11,635
Investments:	
NVEST	11,972,729
Local Government Investment Pool	7,062,591
Total Cash and Investments	\$ 19,312,422

As of June 30, 2010, the City of Fernley had the following investments and maturities:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
NVEST:					
U.S. Treasuries	\$ 961,687	\$ 735,114	\$ 226,573	\$ -	\$ -
U.S. Agencies	5,746,280	5,590,514	155,766	-	-
Mortgage-Backed	2,283,959	256,526	395,428	760,056	871,949
Corporate Bonds	2,391,235	39,500	2,051,174	300,561	-
Money Market Fund	589,568	589,568	-	-	-
State of Nevada					
Local Government Investment Pool	7,062,591	7,062,591*	-	-	-
Total	\$19,035,320	\$14,273,813	\$2,828,941	\$1,060,617	\$871,949

* average weighted maturity of 80 days.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010, the City's investments in Mortgage-Backed securities were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. Of the City's investments in corporate bonds, \$2,351,735 was rated AAA/Aaa, and \$39,500 has a withdrawn rating. 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 beyond those specified in statute.

As of June 30, 2010, more than 5% of the City's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Nissan Auto Lease Trust. These investments are 17%, 9%, 9% and 5%, respectively, of the total investments.

As of June 30, 2010, the City was holding \$200,000 par value security of Lehman Brothers Holdings. Although rated as "A", Lehman Brothers filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code on September 18, 2008. At fiscal year end, the value of the investment was written down to \$39,500; which was the market value as determined by the City's investment custodian.

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2010
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 3,909,626	\$ -	\$ -	\$ 3,909,626
Construction in progress	361,206	565,525	(722,805)	203,926
Total capital assets, not being depreciated	4,270,832	565,525	(722,805)	4,113,552
Capital assets, being depreciated				
Buildings	8,599,098	-	-	8,599,098
Improvements other than buildings	8,200,580	665,329	-	8,865,909
Machinery and Equipment	1,156,806	57,477	(10,900)	1,203,383
Infrastructure	28,304,127	156,101	-	28,460,228
Total capital assets, being depreciated	46,260,611	878,907	(10,900)	47,128,618
Less accumulated depreciation for:				
Buildings	(1,236,867)	(343,964)	-	(1,580,831)
Improvements other than buildings	(1,345,533)	(623,192)	-	(1,968,725)
Machinery and Equipment	(818,592)	(136,158)	8,905	(945,845)
Infrastructure	(2,974,193)	(768,974)	-	(3,743,167)
Total accumulated depreciation	(6,375,185)	(1,872,288)	8,905	(8,238,568)
Total capital assets, being depreciated, net	39,885,426	(993,381)	(1,995)	38,890,050
Governmental activities capital assets, net	\$ 44,156,258	\$ (427,856)	\$ (724,800)	\$ 43,003,602

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

	Balance July 1, 2009	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2010
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 1,195,948	\$ -	\$ -	\$ 1,195,948
Water rights	36,814,699	123,525	-	36,938,224
Construction in progress	73,705,225	8,238,455	(77,611,874)	4,331,806
Total capital assets, not being depreciated	<u>111,715,872</u>	<u>8,361,980</u>	<u>(77,611,874)</u>	<u>42,465,978</u>
Capital assets, being depreciated				
Buildings	17,530	-	-	17,530
Improvements other than buildings	67,401,953	77,889,842	-	145,291,795
Machinery and Equipment	1,708,102	42,228	(26,864)	1,723,466
Other capital assets	1,671,630	-	-	1,671,630
Total capital assets, being depreciated	<u>70,799,215</u>	<u>77,932,070</u>	<u>-</u>	<u>148,704,421</u>
Less accumulated depreciation for:				
Buildings	(15,868)	(999)	-	(16,867)
Improvements other than buildings	(13,320,622)	(3,688,357)	-	(17,008,979)
Machinery and Equipment	(1,078,187)	(191,444)	26,864	(1,242,767)
Other capital assets	(641,248)	(81,458)	-	(722,706)
Total accumulated depreciation	<u>(15,055,925)</u>	<u>(3,962,258)</u>	<u>-</u>	<u>(18,991,319)</u>
Total capital assets, being depreciated, net	<u>55,743,290</u>	<u>73,969,812</u>	<u>-</u>	<u>129,713,102</u>
Business-type activities capital assets, net	<u>\$ 167,459,162</u>	<u>\$ 82,331,792</u>	<u>\$ (77,611,874)</u>	<u>\$ 172,179,080</u>

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Governmental Activities:

General government	\$ 343,353
Public works	1,371,929
Culture and recreation	131,534
Health	16,855
Community development	8,617
Total depreciation expense – governmental activities	\$ 1,872,288

Business-type Activities:

Water	\$ 2,983,375
Sewer	978,883
Total depreciation expense – business-type activities	\$ 3,962,258

NOTE 5 – DEFINED BENEFIT PENSION PLAN:

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

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.

CITY OF FERNLEY, NEVADA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

The City's contribution rates and amounts contributed (equal to the required contributions for the year) for the last three years are as follows:

Fiscal Year	Contribution Rate ER	Contribution Rate ER/EE	Total Contribution
2009-2010	21.50%	11.25%	\$448,636
2008-2009	20.50%	10.50%	\$468,921
2007-2008	20.50%	10.50%	\$509,714

NOTE 6 – INTERFUND TRANSFERS:

The composition of interfund balances as of June 30, 2010, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Utility Fund	General Fund	\$ 14,760
Capital Projects Fund	Grants Fund	505,000
	Total	\$ <u>519,760</u>

NOTE 7 – LONG-TERM DEBT:

- A. The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2010.
- B. The following schedule summarizes the changes in long-term debt:

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

	Issue Date	Interest Rate	Maturity Date	Authorized and Issued	Outstanding July 1, 2009	Additions	(Deletions)	Outstanding June 30, 2010	Due in 2010-2010
Governmental Activities:									
Compensated absences payable	-	-	-	\$ -	\$ 104,477	\$ 35,259	\$ (27,941)	\$ 111,795	\$ 25,000
City Hall Expansion Bonds	12/29/05	4.49%	12/01/2025	\$ 5,000,000	4,504,000	-	(181,000)	4,323,000	189,000
Total governmental activities					<u>4,608,477</u>	<u>35,259</u>	<u>(208,941)</u>	<u>4,434,795</u>	<u>214,000</u>
Business-type Activities:									
State Water Pollution Control Revolving Fund	10/28/92	4.00%	6/30/2012	\$ 2,000,000	507,729	-	(137,957)	369,772	143,531
2003 Refunding Bonds	11/25/03	3% - 5%	5/01/2010	\$ 950,000	185,000	-	(185,000)	-	-
2007 Water/Sewer Bonds	3/28/07	4% - 5%	2/01/2037	\$50,000,000	49,180,000	-	(860,000)	48,320,000	895,000
2008 Water/Sewer Bonds	4/01/08	3.25% - 5%	2/01/2038	\$32,600,000	32,600,000	-	(640,000)	31,960,000	660,000
					<u>82,472,729</u>	<u>-</u>	<u>(1,822,957)</u>	<u>80,649,772</u>	<u>1,698,531</u>
Unamortized Bond Discount/(Premium)					54,824	-	(15,829)	38,995	14,878
Compensated absences payable					52,101	78,479	(76,560)	54,020	40,000
Total business-type activities					<u>82,579,654</u>	<u>78,479</u>	<u>(1,915,346)</u>	<u>80,742,787</u>	<u>1,753,409</u>
Total Long-Term Debt					<u>\$ 87,188,131</u>	<u>\$ 113,738</u>	<u>\$ (2,124,287)</u>	<u>\$ 85,177,582</u>	<u>\$ 1,967,409</u>

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

	Debt Supported by General Obligation		Debt Supported by Sewer Fund Revenues		Debt Supported by Water Fund Revenues		Total Requirements to Maturity	
Fiscal Year	Principal	Interest	Principal*	Interest*	Principal*	Interest*	Principal	Interest
2011	189,000	189,860	292,595	365,759	1,405,936	3,308,617	1,887,531	3,864,236
2012	198,000	181,172	304,493	354,377	1,459,836	3,256,950	1,962,329	3,792,499
2013	207,000	172,079	238,010	342,526	1,513,902	3,203,231	1,958,912	3,717,836
2014	216,000	162,583	168,131	334,810	1,576,869	3,145,884	1,961,000	3,643,277
2015	226,000	152,660	175,548	328,359	1,644,452	3,086,110	2,046,000	3,567,129
2016- 2020	1,295,000	597,821	1,004,884	1,513,704	9,375,116	14,241,165	11,675,000	16,352,690
2021- 2025	1,622,000	271,690	1,261,902	1,251,071	11,718,098	11,825,304	14,602,000	13,348,065
2026- 2030	370,000	8,306	1,596,426	939,211	14,783,574	8,908,070	16,750,000	9,855,587
2031- 2035	-	-	2,007,457	527,868	18,572,543	5,052,457	20,580,000	5,580,325
2036- 2038	-	-	1,086,446	85,568	10,463,554	862,144	11,550,000	947,712
Total	\$ 4,323,000	\$ 1,736,171	\$ 8,135,892	\$ 6,043,253	\$ 72,513,880	\$ 56,889,932	\$ 84,972,772	\$ 64,669,356

* Exclusive of unamortized premium and issuance costs.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Long-term liabilities are reflected in the government-wide Statement of Net Assets. The liabilities will be liquidated primarily by the General Fund for governmental activities and the Water and Sewer Funds for business-type activities.

NOTE 8 – POSTEMPLOYMENT RETIREMENT HEALTH INSURANCE BENEFIT:

Plan Descriptions: The City administers a single-employer defined benefit healthcare plan, City of Fernley Employee Health Benefits Plan (COFEHBP). Additionally, the City contributes to an agent multiple-employer defined benefit postemployment healthcare plan, Public Employees' Benefits Plan (PEBP). Each plan provides medical, vision, dental, and life insurance benefits to eligible retired City employees and beneficiaries.

Benefit provisions for the COFEHBP are established pursuant to NRS 287.023 and amended through negotiations between the City and the respective associations. NRS 288.150 assigns the authority to establish benefit provisions to the Board of Commissioners. The plan provides healthcare insurance for eligible retirees and their beneficiaries through the City's group health insurance plan, which covers both active and retired members. Under NRS 287.023, eligible retirees are able to participate in the plan with blended rates, thereby benefitting from an implicit subsidy. Retirees are required to pay 100% of their premiums under the plan. As of June 30, 2010, no retirees were using this plan. The COFEHBP does not issue a publicly available financial report.

Benefit provisions for the PEBP are administered by the State of Nevada. NRS 287.043 assigns the authority to establish and amend benefit provisions to the PEBP nine-member board of trustees. City employees who met the eligibility requirements effective September 1, 2008 for retirement within the Nevada Public Employee Retirement System had the option upon retirement to enroll in coverage under the PEBP. NRS 287.023 sunsetted the option to join PEBP for City employees who retired from the City after November 29, 2008. Local governments are required to pay the same portion of the cost of coverage for their retirees joining PEBP that the State of Nevada pays for state retirees participating in the plan. As of June 30, 2010, 7 City retirees were utilizing this benefit.

Funding Policy: For COFEHBP, contribution requirements of the plan members and the City are established and may be amended through negotiations between the City and the associations. Retirees pay 100% of the pay-as-you-go premiums based on a blended rate that blends active participants and retirees. The City's contribution requirements for retirees relate to the implicit subsidy that results from using the blended rates and is determined in actuarial studies contracted for by the City. The implicit subsidy as determined by the actuary is \$-0-. The City did not prefund any future benefits.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

For the PEBP, NRS 287.046 establishes the subsidies to be contributed toward the premium costs of the eligible retired City employees. The contribution requirements of plan members and the City may be amended by the PEBP board. Premium rates determined by PEBP are the same for all participating members. The unsubsidized nonstate retiree plan premiums in effect for fiscal year 2010 ranged from \$323 to \$736, depending on the type of plan chosen. Plan members receiving benefits have their monthly contribution deducted from their pension checks based on the health plan chosen by the retiree, as reduced by the amount of the subsidy; therefore, their contributions are not available. For the plan year ended June 30, 2010, City retirees qualified for a subsidy of \$79 at five years of service and \$436 at twenty years of service, with incremental increases for years of service in between. As a participating employer, the City is billed for the subsidy on a monthly basis and is legally required to provide for it. For fiscal year 2010, the City contributed \$18,613 to the plan, equal to required contributions. The City did not prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation: The City’s annual other postemployment benefit (OPEB) cost (expense) for the plans is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations, by plan, for fiscal year 2009-10 were as follows:

	<u>Fiscal Year End</u>	<u>Annual OPEB Cost (Entry Age Normal Cost Method)</u>	<u>Employer Contributions</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>Net OPEB Obligation</u>
COFEHBP	June 30, 2010	\$ 94,813	\$ -	0%	\$ 94,813
PEBP	June 30, 2010	<u>23,826</u>	<u>18,613</u>	78%	<u>5,213</u>
		<u>\$ 118,639</u>	<u>\$ 18,613</u>		<u>\$ 100,026</u>

Note that fiscal year 2010 is the first year of prospective implementation of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*; therefore, prior year information is unavailable.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

The net OPEB obligation (NOPEBO) as of June 30, 2010, was calculated as follows:

	<u>COFEHBP</u>	<u>PEBP</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$ 94,813	\$ 23,826	\$ 118,639
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual Required Contribution	94,813	23,826	118,639
Contributions made	-	18,613	18,613
Increase in net OPEB obligation	94,813	5,213	100,026
Net OPEB obligation – beginning of the year	-	-	-
Net OPEB obligation – end of year	<u>\$ 94,813</u>	<u>\$ 5,213</u>	<u>\$ 100,026</u>

Funded Status and Funding Progress: The funded status of the plans as of June 30, 2010 were as follows:

	<u>COFEHBP</u>	<u>PEBP</u>	<u>Total</u>
Accrued actuarial liability (a)	\$ 301,357	\$ 420,276	\$ 721,633
Actuarial value of plan assets (b)	-	-	-
Unfunded Actuarial Accrued Liability (a) – (b)	<u>\$ 301,357</u>	<u>\$ 420,276</u>	<u>\$ 721,633</u>
Funded Ratio (b) / (a)	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 2,494,167</u>	<u>N/A</u>	
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll ((a) –(b)) / (c)	<u>12%</u>	<u>N/A</u>	

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Multiyear information will be provided as it becomes available.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. Actuarial calculations reflect long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets.

Significant methods and assumptions used in the June 30, 2010 actuarial valuation were as follows:

	COFEHBP	PEBP
Actuarial valuation date	June 30, 2010	June 30, 2010
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll
Amortization period (open)	30 years	30 years
Asset valuation method	Market Value	Market Value
Actuarial Assumptions:		
Investment rate of return	4%	4%
Projected overall salary increase	4%	4%
Medical Healthcare inflation rate*	9%-5%	-
PEBP Subsidy inflation rate	-	-

* Actual medical premiums used in 2010,
9% decreasing each year by 1%
until 5% is reached in 2014.

NOTE 9 – RISK MANAGEMENT:

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

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

The City pays an annual premium and specific deductibles, as necessary, to the Pool for

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

its general insurance coverage. The Pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$10,000,000 per event and a \$13,000,000 general aggregate per member

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

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

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

NOTE 10 – 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.

At June 30, 2010, the City had three construction contracts in progress. Management has estimated that of the \$3,309,303 in contracts awarded, approximately \$242,804 will be billed for work completed over the next fiscal year.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF FERNLEY, NEVADA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFIT PLANS

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ([b - a]/c)
COFEHBP	June 30, 2010	\$ -	\$ 301,357	\$ 301,357	0%	\$ 2,494,167	12%
PEBP	June 30, 2010	-	420,276	420,276	0%	N/A	N/A

Multi-year data will be provided as it becomes available.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**CITY OF FERNLEY, NEVADA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	NONMAJOR SPECIAL REVENUE FUNDS	NONMAJOR CAPITAL PROJECTS FUND	TOTAL
ASSETS			
Cash and investments	\$ 729,606	\$ 28,482	\$ 758,088
Interest receivable	1,990	79	2,069
Accounts receivable	3,850	-	3,850
Due from other governments	401,708	-	401,708
Total Assets	\$ 1,137,154	\$ 28,561	\$ 1,165,715
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 156,747	\$ -	\$ 156,747
Due to developers	129,125	-	129,125
Due to other Governments	2,436	-	2,436
Due to other funds	505,000	-	505,000
Total Liabilities	793,308	-	793,308
Fund Balance:			
Reserved:			
Reserved for convention center	31,364	-	31,364
Unreserved:			
Undesignated	312,482	28,561	341,043
Total Fund Balance	343,846	28,561	372,407
Total Liabilities and Fund Balance	\$ 1,137,154	\$ 28,561	\$ 1,165,715

**CITY OF FERNLEY, NEVADA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010**

	NONMAJOR SPECIAL REVENUE FUNDS	NONMAJOR CAPITAL PROJECTS FUND	TOTAL
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes:			
Residential construction tax	\$ 1,000	\$ -	\$ 1,000
Transient lodging tax	62,685	-	62,685
Ad Valorem	-	28,457	28,457
Intergovernmental:			
Grant	629,419	-	629,419
Fines and forfeits:			
Municipal administrative fees	38,758	-	38,758
Miscellaneous:			
Interest earnings	8,031	104	8,135
Other	14,150	-	14,150
	<u>754,043</u>	<u>28,561</u>	<u>782,604</u>
Total Revenues			
EXPENDITURES			
Services and supplies:			
Judicial	4,882	-	4,882
Culture and recreation	14,403	-	14,403
Community development	623,960	-	623,960
	<u>643,245</u>	<u>-</u>	<u>643,245</u>
Total Services and supplies			
Capital outlay:			
Culture and recreation	136,818	-	136,818
	<u>780,063</u>	<u>-</u>	<u>780,063</u>
Total Expenditures			
Net Change in Fund Balance	(26,020)	28,561	2,541
FUND BALANCE, JULY 1	<u>369,866</u>	<u>-</u>	<u>369,866</u>
FUND BALANCE, JUNE 30	<u>\$ 343,846</u>	<u>\$ 28,561</u>	<u>\$ 372,407</u>

CITY OF FERNLEY, NEVADA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACILITIES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TRANSIENT LODGING TAX FUND	TOTAL
ASSETS							
Cash and investments	\$ 28,917	\$ 50,781	\$ 137,261	\$ 454,347	\$ 13,477	44,823	\$ 729,606
Interest receivable	80	140	369	1,240	37	124	1,990
Accounts receivable	1,638	2,212	-	-	-	-	3,850
Due from other governments	-	-	76,755	302,699	-	22,254	401,708
Total Assets	<u>\$ 30,635</u>	<u>\$ 53,133</u>	<u>\$ 214,385</u>	<u>\$ 758,286</u>	<u>\$ 13,514</u>	<u>\$ 67,201</u>	<u>\$ 1,137,154</u>
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ 30	\$ 154,680	\$ -	\$ 2,037	\$ 156,747
Due to developers	-	-	129,125	-	-	-	129,125
Due to other Governments	-	-	-	-	-	2,436	2,436
Due to other funds	-	-	-	505,000	-	-	505,000
Total Liabilities	<u>-</u>	<u>-</u>	<u>129,155</u>	<u>659,680</u>	<u>-</u>	<u>4,473</u>	<u>793,308</u>
Fund Balance:							
Reserved:							
Reserved for convention center	-	-	-	-	-	31,364	31,364
Unreserved:							
Undesignated	<u>30,635</u>	<u>53,133</u>	<u>85,230</u>	<u>98,606</u>	<u>13,514</u>	<u>31,364</u>	<u>312,482</u>
Total Fund Balance	<u>30,635</u>	<u>53,133</u>	<u>85,230</u>	<u>98,606</u>	<u>13,514</u>	<u>62,728</u>	<u>343,846</u>
Total Liabilities and Fund Balance	<u>\$ 30,635</u>	<u>\$ 53,133</u>	<u>\$ 214,385</u>	<u>\$ 758,286</u>	<u>\$ 13,514</u>	<u>\$ 67,201</u>	<u>\$ 1,137,154</u>

CITY OF FERNLEY, NEVADA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	MUNICIPAL COURT ADMINISTRATIVE FEES FUND	MUNICIPAL COURT FACILITIES FEES FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND	GRANTS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	TRANSIENT LODGING TAX FUND	TOTAL
REVENUES							
Taxes:							
Residential construction tax	\$ -	\$ -	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000
Transient lodging tax	-	-	-	-	-	62,685	62,685
Intergovernmental:							
Grant	-	-	38,664	590,755	-	-	629,419
Fines and forfeits:							
Municipal administrative fees	16,318	22,440	-	-	-	-	38,758
Miscellaneous:							
Interest earnings	226	394	2,391	4,819	158	43	8,031
Other	-	-	-	-	14,150	-	14,150
Total Revenues	<u>16,544</u>	<u>22,834</u>	<u>42,055</u>	<u>595,574</u>	<u>14,308</u>	<u>62,728</u>	<u>754,043</u>
EXPENDITURES							
Services and supplies:							
Judicial	4,882	-	-	-	-	-	4,882
Culture and recreation	-	-	253	-	14,150	-	14,403
Community development	-	-	-	623,960	-	-	623,960
Total Services and supplies	<u>4,882</u>	<u>-</u>	<u>253</u>	<u>623,960</u>	<u>14,150</u>	<u>-</u>	<u>643,245</u>
Capital outlay:							
Culture and recreation	-	-	136,818	-	-	-	136,818
Total Expenditures	<u>4,882</u>	<u>-</u>	<u>137,071</u>	<u>623,960</u>	<u>14,150</u>	<u>-</u>	<u>780,063</u>
Net Change in Fund Balance	11,662	22,834	(95,016)	(28,386)	158	62,728	(26,020)
FUND BALANCE, JULY 1	<u>18,973</u>	<u>30,299</u>	<u>180,246</u>	<u>126,992</u>	<u>13,356</u>	<u>-</u>	<u>369,866</u>
FUND BALANCE, JUNE 30	<u>\$ 30,635</u>	<u>\$ 53,133</u>	<u>\$ 85,230</u>	<u>\$ 98,606</u>	<u>\$ 13,514</u>	<u>\$ 62,728</u>	<u>\$ 343,846</u>

**CITY OF FERNLEY, NEVADA
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, 2010**

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Fines and forfeits:			
Municipal administrative fees	\$ 15,000	\$ 16,318	\$ 1,318
Miscellaneous:			
Interest earnings	200	226	26
Total Revenues	15,200	16,544	1,344
EXPENDITURES			
Judicial			
Services and supplies	5,350	4,882	468
Excess (Deficiency) of Revenue Over Expenditures	9,850	11,662	1,812
FUND BALANCE, July 1	18,772	18,973	201
FUND BALANCE, June 30	\$ 28,622	\$ 30,635	\$ 2,013

**CITY OF FERNLEY, NEVADA
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, 2010**

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Fines and forfeits:			
Municipal administrative fees	\$ 22,000	\$ 22,440	\$ 440
Miscellaneous:			
Interest earnings	350	394	44
Total Revenues	22,350	22,834	484
FUND BALANCE, July 1	30,299	30,299	-
FUND BALANCE, June 30	\$ 52,649	\$ 53,133	\$ 484

CITY OF FERNLEY, NEVADA
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, 2010

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes:			
Residential construction tax	\$ 1,000	\$ 1,000	\$ -
Intergovernmental:			
Grant	-	38,664	38,664
Miscellaneous:			
Interest earnings	2,200	2,391	191
Total Revenues	3,200	42,055	38,855
EXPENDITURES			
Culture and recreation:			
Capital outlay	143,000	136,818	6,182
Excess (Deficiency) of Revenue Over Expenditures	(139,800)	(95,016)	44,784
FUND BALANCE, July 1	226,101	180,246	(45,855)
FUND BALANCE, June 30	\$ 86,301	\$ 85,230	\$ (1,071)

**CITY OF FERNLEY, NEVADA
GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental Grant	\$ 558,000	\$ 590,755	\$ 32,755
Miscellaneous: Interest earnings	4,200	4,819	619
Total Revenues	562,200	595,574	33,374
EXPENDITURES			
Community Development: Services and supplies	750,416	623,960	126,456
Excess (Deficiency) of Revenues Over Expenditures	(188,216)	(28,386)	159,830
FUND BALANCE, July 1	206,150	126,992	(79,158)
FUND BALANCE, June 30	\$ 17,934	\$ 98,606	\$ 80,672

**CITY OF FERNLEY, NEVADA
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, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest earnings	\$ -	\$ 157	\$ 157
Other	<u>15,150</u>	<u>14,150</u>	<u>(1,000)</u>
Total Revenues	15,150	14,307	(843)
EXPENDITURES			
Culture and Recreation:			
Services and supplies	<u>14,150</u>	<u>14,150</u>	<u>-</u>
Net Change in Fund Balance	1,000	157	(843)
FUND BALANCE, July 1	<u>974</u>	<u>13,357</u>	<u>12,383</u>
FUND BALANCE, June 30	<u>\$ 1,974</u>	<u>\$ 13,514</u>	<u>\$ 11,540</u>

**CITY OF FERNLEY, NEVADA
TRANSIENT LODGING TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Taxes:			
Transient lodging tax	\$ 44,000	\$ 62,685	\$ 18,685
Miscellaneous:			
Interest earnings	-	43	43
Net Change in Fund Balance	44,000	62,728	18,728
FUND BALANCE, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 44,000</u>	<u>\$ 62,728</u>	<u>\$ 18,728</u>

**CITY OF FERNLEY, NEVADA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest earnings	\$ 10,000	\$ 7,269	\$ (2,731)
EXPENDITURES			
Community development:			
Capital outlay	<u>152,500</u>	<u>95,785</u>	<u>56,715</u>
Net Change in Fund Balance	(142,500)	(88,516)	(59,446)
FUND BALANCE, July 1	<u>890,458</u>	<u>1,145,372</u>	<u>254,914</u>
FUND BALANCE, June 30	<u><u>\$ 747,958</u></u>	<u><u>\$ 1,056,856</u></u>	<u><u>\$ 195,468</u></u>

**CITY OF FERNLEY, NEVADA
CAPITAL IMPROVEMENT FUND
BALANCE SHEET
JUNE 30, 2010**

ASSETS

Cash and investments	28,482
Interest receivable	<u>79</u>
	<u>\$ 28,561</u>

FUND BALANCE

Unreserved	<u>\$ 28,561</u>
Reserved for capital improvements	

CITY OF FERNLEY, NEVADA
CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes:			
Ad Valorem	\$ 34,000	\$ 28,457	\$ (5,543)
Miscellaneous:			
Interest earnings	-	104	104
Net Change in Fund Balance	34,000	28,561	(5,439)
FUND BALANCE, July 1	-	-	-
FUND BALANCE, June 30	\$ 34,000	\$ 28,561	\$ (5,439)

**CITY OF FERNLEY, NEVADA
WATER UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
User fees	\$ 4,596,000	\$ 4,774,366	\$ 178,366
Operating Grant	441,742	441,742	-
Total Operating Revenues	<u>5,037,742</u>	<u>5,216,108</u>	<u>178,366</u>
OPERATING EXPENSES			
Salaries and wages	850,000	812,587	37,413
Employee benefits	221,900	355,830	(133,930)
Services and supplies	4,126,911	2,243,964	1,882,947
Depreciation	2,970,000	2,983,375	(13,375)
Total Operating Expenses	<u>8,168,811</u>	<u>6,395,756</u>	<u>1,773,055</u>
Operating Income (Loss)	<u>(3,131,069)</u>	<u>(1,179,648)</u>	<u>1,951,421</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	170,000	149,324	(20,676)
In lieu of water rights fees	4,500	13,725	9,225
Miscellaneous	269,000	230,467	(38,533)
Interest expense	(2,846,253)	(3,024,953)	(178,700)
Total Nonoperating Revenue (Expense)	<u>(2,402,753)</u>	<u>(2,631,437)</u>	<u>(228,684)</u>
Income (Loss) Before Capital Contributions	<u>(5,533,822)</u>	<u>(3,811,085)</u>	<u>1,722,737</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	293,000	306,780	13,780
Developer agreements	2,000	4,327	2,327
Developer contributed infrastructure	1,000,000	259,541	(740,459)
Developer contributed water rights	250,000	123,525	(126,475)
Total Capital Contributions	<u>1,545,000</u>	<u>694,173</u>	<u>(850,827)</u>
Change in Net Assets	(3,988,822)	(3,116,912)	871,910
NET ASSETS, July 1	<u>78,791,719</u>	<u>78,911,447</u>	<u>119,728</u>
NET ASSETS, June 30	<u>\$ 74,802,897</u>	<u>\$ 75,794,535</u>	<u>\$ 991,638</u>

**CITY OF FERNLEY, NEVADA
SEWER UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
User fees	\$ 1,850,200	\$ 1,883,702	\$ 33,502
OPERATING EXPENSES			
Salaries and wages	500,000	490,207	9,793
Employee benefits	200,000	224,204	(24,204)
Services and supplies	1,375,700	710,070	665,630
Depreciation	975,000	978,883	(3,883)
Total Operating Expenses	<u>3,050,700</u>	<u>2,403,364</u>	<u>647,336</u>
Operating Income (Loss)	<u>(1,200,500)</u>	<u>(519,662)</u>	<u>680,838</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	20,000	112,664	92,664
Miscellaneous	2,000	40	(1,960)
Interest expense	<u>(372,967)</u>	<u>(238,146)</u>	<u>134,821</u>
Total Nonoperating Revenue (Expense)	<u>(350,967)</u>	<u>(125,442)</u>	<u>225,525</u>
Income (Loss) Before Capital Contributions	<u>(1,551,467)</u>	<u>(645,104)</u>	<u>906,363</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	150,000	151,325	1,325
Developer contributed infrastructure	<u>250,000</u>	<u>62,894</u>	<u>(187,106)</u>
Total Capital Contributions	<u>400,000</u>	<u>214,219</u>	<u>(185,781)</u>
Change in Net Assets	<u>(1,151,467)</u>	<u>(430,885)</u>	<u>720,582</u>
NET ASSETS, July 1	<u>32,641,826</u>	<u>30,894,030</u>	<u>(1,747,796)</u>
NET ASSETS, June 30	<u>\$ 31,490,359</u>	<u>\$ 30,463,145</u>	<u>\$ (1,027,214)</u>

CITY OF FERNLEY, NEVADA
AGENCY FUND - MUNICIPAL TRUST FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>BALANCE</u> <u>JULY 1, 2009</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2010</u>
ASSETS				
Cash and investments	\$ 12,055	\$ 4,966	\$ 571	\$ 16,450
LIABILITIES				
Bail bond deposits held for others	\$ 10,773	\$ 4,966	\$ -	\$ 15,739
Other liabilities	1,282	-	571	711
Total Liabilities	<u>\$ 12,055</u>	<u>\$ 4,966</u>	<u>\$ 571</u>	<u>\$ 16,450</u>

STATISTICAL SECTION

CITY OF FERNLEY, NEVADA STATISTICAL SECTION

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

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

Sources: *Unless otherwise noted, the information in these schedules is derived from comprehensive annual financial reports for the relevant year. The city implemented GASB 34 in fiscal year 2004, and schedules presenting government-wide information include information beginning in that year.*

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

	FISCAL YEAR ENDED JUNE 30,						
	2004	2005	2006	2007	2008	2009	2010
GOVERNMENTAL ACTIVITIES							
Invested in capital assets, net of related debt	\$ 11,913,896	\$ 15,883,001	\$ 24,608,748	\$ 30,721,447	\$ 35,677,010	\$ 39,652,258	\$ 38,680,602
Restricted	-	-	-	-	362,289	391,600	363,602
Unrestricted	3,927,329	5,884,904	5,535,323	4,549,063	2,395,580	2,276,380	2,554,609
Total Governmental Activities Net Assets	<u>\$ 15,841,225</u>	<u>\$ 21,767,905</u>	<u>\$ 30,144,071</u>	<u>\$ 35,270,510</u>	<u>\$ 38,434,879</u>	<u>\$ 42,320,238</u>	<u>\$ 41,598,813</u>
BUSINESS-TYPE ACTIVITIES							
Invested in capital assets, net of related debt	\$ 32,471,737	\$ 39,238,863	\$ 57,581,522	\$ 35,352,177	\$ 77,070,390	\$ 95,281,505	\$ 91,444,890
Restricted	-	535,237	579,560	-	-	-	-
Unrestricted	12,780,664	16,901,342	17,939,851	60,502,722	25,025,399	14,523,972	14,812,790
Total Business-type Activities Net Assets	<u>\$ 45,252,401</u>	<u>\$ 56,675,442</u>	<u>\$ 76,100,933</u>	<u>\$ 95,854,899</u>	<u>\$ 102,095,789</u>	<u>\$ 109,805,477</u>	<u>\$ 106,257,680</u>
PRIMARY GOVERNMENT							
Invested in capital assets, net of related debt	\$ 44,385,633	\$ 55,121,864	\$ 82,190,270	\$ 66,073,624	\$ 112,747,400	\$ 134,933,763	\$ 130,125,492
Restricted	-	535,237	579,560	-	362,289	391,600	363,602
Unrestricted	16,707,993	22,786,246	23,475,174	65,051,785	27,420,979	16,800,352	17,367,399
Total Primary Government Net Assets	<u>\$ 61,093,626</u>	<u>\$ 78,443,347</u>	<u>\$ 106,245,004</u>	<u>\$ 131,125,409</u>	<u>\$ 140,530,668</u>	<u>\$ 152,125,715</u>	<u>\$ 147,856,493</u>

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

CITY OF FERNLEY, NEVADA

CHANGE IN NET ASSETS

LAST SEVEN FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,						
	2004	2005	2006	2007	2008	2009	2010
EXPENSES							
Governmental Activities:							
General government	\$ 587,873	\$ 595,912	\$ 796,403	\$ 1,173,360	\$ 1,572,115	\$ 1,626,115	\$ 1,762,449
Judicial	156,796	173,804	170,479	194,353	252,189	243,889	265,515
Public works	463,188	642,480	729,919	1,326,718	783,565	1,778,649	1,824,412
Culture and recreation	362,983	458,828	646,259	838,674	689,281	685,706	622,998
Community development	434,627	861,555	875,056	848,010	1,977,586	811,701	1,247,018
Health	50,560	102,768	263,919	295,413	280,743	252,320	262,865
Debt Service:							
Interest and fiscal charges	-	-	224,500	221,032	214,326	206,092	198,144
Total Governmental Activities Expenses	<u>2,056,027</u>	<u>2,835,347</u>	<u>3,706,535</u>	<u>4,897,560</u>	<u>5,769,805</u>	<u>5,604,472</u>	<u>6,183,401</u>
Business-type Activities:							
Water	2,035,646	2,134,429	2,422,583	3,058,553	3,152,845	4,127,466	9,420,709
Sewer	1,347,388	1,509,433	1,530,898	1,812,583	2,012,862	2,581,981	2,641,510
Other	-	-	700	9,340	212,651	-	-
Total Business-type Activities Expenses	<u>3,383,034</u>	<u>3,643,862</u>	<u>3,954,181</u>	<u>4,880,476</u>	<u>5,378,358</u>	<u>6,709,447</u>	<u>12,062,219</u>
Total Primary Government Expenses	<u>\$ 5,439,061</u>	<u>\$ 6,479,209</u>	<u>\$ 7,660,716</u>	<u>\$ 9,778,036</u>	<u>\$ 11,148,163</u>	<u>\$ 12,313,919</u>	<u>\$ 18,245,620</u>
PROGRAM REVENUES							
Governmental Activities:							
Charges for Services:							
General government	\$ 731,510	\$ 887,827	\$ 1,008,662	\$ 1,137,510	\$ 1,030,613	\$ 1,243,230	\$ 1,267,670
Judicial	170,835	423,178	196,249	89,248	162,416	161,819	196,886
Public works	10,901	31,278	40,071	29,754	23,021	65,129	116,619
Culture and recreation	16,950	13,400	8,150	48,355	1,600	200	25
Community development	1,422,438	1,804,978	1,123,508	679,608	509,440	258,801	232,719
Health	1,766	1,611	2,341	4,318	4,650	3,819	3,296
Operating Grants and Contributions	276,701	268,632	348,627	60,000	60,000	60,383	61,500
Capital Grants and Contributions	8,112,137	4,232,398	7,531,080	6,052,749	4,869,410	5,613,270	1,538,400
Total Governmental Activities Program Revenues	<u>10,743,238</u>	<u>7,663,302</u>	<u>10,258,688</u>	<u>8,101,542</u>	<u>6,661,150</u>	<u>7,406,651</u>	<u>3,417,115</u>
Business-type Activities:							
Charges for Services:							
Water	1,794,430	1,975,451	2,201,916	2,306,193	3,273,625	3,833,095	4,774,366
Sewer	1,187,212	1,441,455	1,686,101	1,754,820	1,829,736	1,830,814	1,883,702
Other	-	131,300	-	-	1,055	-	-
Operating Grants and Contributions	-	-	-	-	424,671	562,372	441,742
Capital Grants and Contributions:	<u>10,829,870</u>	<u>11,157,733</u>	<u>18,729,430</u>	<u>19,015,856</u>	<u>4,579,348</u>	<u>7,146,143</u>	<u>908,392</u>
Total Business-type Activities Program Revenues	<u>13,811,512</u>	<u>14,705,939</u>	<u>22,617,447</u>	<u>23,076,869</u>	<u>10,108,435</u>	<u>13,372,424</u>	<u>8,008,202</u>
Total Primary Government Program Revenue	<u>\$ 24,554,750</u>	<u>\$ 22,369,241</u>	<u>\$ 32,876,135</u>	<u>\$ 31,178,411</u>	<u>\$ 16,769,585</u>	<u>\$ 20,779,075</u>	<u>\$ 11,425,317</u>
NET (EXPENSE)/REVENUE							
Governmental Activities	\$ 8,687,211	\$ 4,827,956	\$ 6,552,153	\$ 3,203,982	\$ 891,345	\$ 1,802,179	\$ (2,766,286)
Business-type Activities	10,428,478	11,062,077	18,663,266	18,196,393	4,730,077	6,662,977	(4,054,017)
Total Primary Government Net (Expense)/Revenue	<u>\$ 19,115,689</u>	<u>\$ 15,890,033</u>	<u>\$ 25,215,419</u>	<u>\$ 21,400,375</u>	<u>\$ 5,621,422</u>	<u>\$ 8,465,156</u>	<u>\$ (6,820,303)</u>

CITY OF FERNLEY, NEVADA

CHANGE IN NET ASSETS

LAST SEVEN FISCAL YEARS

CONTINUED

	FISCAL YEAR ENDED JUNE 30,						
	2004	2005	2006	2007	2008	2009	2010
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS							
Governmental Activities:							
Taxes:							
Property	\$ 427,738	\$ 496,207	\$ 591,082	\$ 925,297	\$ 1,074,726	\$ 1,381,621	\$ 1,410,347
Consolidated	137,610	163,429	189,158	188,128	197,040	202,188	170,186
Fuel	216,736	233,448	227,691	259,603	304,718	309,896	294,645
Unrestricted gaming licenses	75,015	71,271	97,121	98,753	96,021	92,211	96,598
Unrestricted interest income	22,441	97,729	329,341	361,301	175,866	41,085	26,847
Miscellaneous revenue	35,660	36,640	389,619	89,378	424,649	56,179	46,238
Total Governmental Activities	915,200	1,098,724	1,824,012	1,922,460	2,273,020	2,083,180	2,044,861
Business-type Activities:							
Unrestricted interest income	86,972	295,730	702,781	1,511,286	1,126,258	477,258	261,988
Miscellaneous revenue	37,142	65,234	59,441	46,287	384,555	569,452	244,232
Total Business-type Activities	124,114	360,964	762,222	1,557,573	1,510,813	1,046,710	506,220
Total Primary Government General Revenues	\$ 1,039,314	\$ 1,459,688	\$ 2,586,234	\$ 3,480,033	\$ 3,783,833	\$ 3,129,890	\$ 2,551,081
CHANGE IN NET ASSETS							
Governmental activities	\$ 9,602,411	\$ 5,926,680	\$ 8,376,165	\$ 5,126,439	\$ 3,164,365	\$ 3,885,359	\$ (721,425)
Business-type activities	10,552,592	11,423,041	19,425,488	19,753,966	6,240,890	7,709,687	(3,547,797)
Total Primary Government Change in Net Assets	\$ 20,155,003	\$ 17,349,721	\$ 27,801,653	\$ 24,880,405	\$ 9,405,255	\$ 11,595,046	\$ (4,269,222)

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

CITY OF FERNLEY, NEVADA
FUND BALANCES OF GOVERNMENTAL FUNDS

LAST NINE FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30.								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund									
Reserved	\$ 2,478	\$ 287,018	\$ 1,330	\$ 5,205	\$ 6,239	\$ 6,709	\$ 366,424	\$ 394,251	\$ 332,238
Unreserved	774,938	725,358	790,990	869,817	938,757	582,237	279,443	294,617	482,078
Total general fund	<u>\$ 777,416</u>	<u>\$ 1,012,376</u>	<u>\$ 792,320</u>	<u>\$ 875,022</u>	<u>\$ 944,996</u>	<u>\$ 588,946</u>	<u>\$ 645,867</u>	<u>\$ 688,868</u>	<u>\$ 814,316</u>
All other governmental funds									
Reserved - Transient Lodging Tax Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,364
Unreserved, reported in:									
Special revenue fund	17,234	309,399	1,688,126	2,302,972	1,398,315	1,568,588	971,544	787,928	1,118,925
Capital projects fund	-	728,195	1,499,182	2,502,129	8,032,479	2,397,510	1,160,893	1,145,372	1,085,417
Total all other governmental funds	<u>\$ 17,234</u>	<u>\$ 1,037,594</u>	<u>\$ 3,187,308</u>	<u>\$ 4,805,101</u>	<u>\$ 9,430,794</u>	<u>\$ 3,966,098</u>	<u>\$ 2,132,437</u>	<u>\$ 1,933,300</u>	<u>\$ 2,235,706</u>

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

CITY OF FERNLEY, NEVADA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES									
Taxes	\$ 359,112	\$ 585,458	\$ 1,190,598	\$ 1,316,826	\$ 1,787,949	\$ 988,056	\$ 1,077,545	\$ 1,316,879	\$ 1,599,284
Licenses and permits	936,421	1,724,743	2,241,629	2,796,965	2,271,703	1,949,947	1,663,745	1,663,184	1,643,381
Intergovernmental	494,110	772,510	1,415,460	1,354,521	1,231,732	2,333,333	2,117,309	1,631,060	1,868,532
Fines and forfeits	17,643	104,330	170,836	175,167	228,424	234,353	207,465	161,820	222,566
Miscellaneous	40,306	55,149	199,081	192,613	794,352	581,833	610,883	138,018	88,765
Total revenues	<u>1,847,592</u>	<u>3,242,190</u>	<u>5,217,604</u>	<u>5,836,092</u>	<u>6,314,160</u>	<u>6,087,522</u>	<u>5,676,947</u>	<u>4,910,961</u>	<u>5,422,528</u>
EXPENDITURES									
General government	480,143	475,065	528,906	595,297	717,355	1,025,295	1,238,982	1,290,272	1,402,434
Judicial	61,567	144,797	154,514	171,868	169,163	194,518	251,829	244,714	257,983
Public works	297,293	517,855	331,318	420,500	376,571	515,394	428,988	457,243	448,224
Culture and recreation	221,460	337,677	324,629	381,962	508,797	647,542	522,392	546,492	482,871
Community development	240,811	301,269	405,298	669,105	810,965	834,503	1,226,149	787,056	1,332,123
Health	10,036	40,828	48,395	96,876	256,738	275,905	262,526	232,843	242,279
Debt service:									
Principal	84,000	90,314	-	-	-	158,000	165,000	173,000	181,000
Interest	10,822	5,117	-	-	94,789	221,032	214,326	206,092	198,144
Capital outlay	-	73,948	1,499,163	1,799,989	3,684,115	8,097,529	3,143,509	1,129,385	457,600
Total expenditures	<u>1,406,132</u>	<u>1,986,870</u>	<u>3,292,223</u>	<u>4,135,597</u>	<u>6,618,493</u>	<u>11,969,718</u>	<u>7,453,701</u>	<u>5,067,097</u>	<u>5,002,658</u>
Excess (deficiency) of revenues over expenditures	<u>441,460</u>	<u>1,255,320</u>	<u>1,925,381</u>	<u>1,700,495</u>	<u>(304,333)</u>	<u>(5,882,196)</u>	<u>(1,776,754)</u>	<u>(156,136)</u>	<u>419,870</u>
OTHER FINANCING SOURCES (USES)									
Transfers out	-	(950,000)	(1,931,030)	(1,690,000)	(1,050,000)	(711,712)	(20,000)	(26,000)	-
Transfers in	-	950,000	1,931,030	1,690,000	1,050,000	711,712	20,000	26,000	-
General obligations bonds issued	-	-	-	-	5,000,000	-	-	-	-
Proceeds from disposal of capital assets	-	-	4,277	-	-	61,450	-	-	7,984
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>4,277</u>	<u>-</u>	<u>5,000,000</u>	<u>61,450</u>	<u>-</u>	<u>-</u>	<u>7,984</u>
Net change in fund balance	<u>\$ 441,460</u>	<u>\$ 1,255,320</u>	<u>\$ 1,929,658</u>	<u>\$ 1,700,495</u>	<u>\$ 4,695,667</u>	<u>\$ (5,820,746)</u>	<u>\$ (1,776,754)</u>	<u>\$ (156,136)</u>	<u>\$ 427,854</u>
Debt service as a percentage of noncapital expenditures	7.2%	5.3%	0.0%	0.0%	3.3%	10.9%	9.6%	10.7%	9.1%

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

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

Fiscal Year	Real and Personal Property		Ratio of Total Assessed To Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	
2002*	\$ 233,552,164	\$ 667,291,897	35.0
2003	246,640,476	704,687,074	35.0
2004	279,452,986	798,437,103	35.0
2005	303,180,006	866,228,589	35.0
2006	377,743,200	1,079,266,286	35.0
2007	511,154,623	1,460,441,780	35.0
2008	679,959,918	1,942,742,623	35.0
2009	755,529,070	2,158,654,486	35.0
2010	632,953,139	1,808,437,540	35.0

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

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

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

LAST NINE FISCAL YEARS*

Fiscal Year	City of Fernley	State of Nevada	School District	County	Special Districts	Total
2002*	0.1528	0.1500	1.3367	0.7577	0.3431	2.7403
2003	0.1528	0.1500	1.3367	0.7839	0.3544	2.7778
2004	0.1528	0.1700	1.3367	0.8350	0.3627	2.8572
2005	0.1528	0.1700	1.3367	0.8644	0.3726	2.8965
2006	0.1528	0.1700	1.3367	0.8644	0.3736	2.8975
2007	0.3481	0.1700	1.3367	0.8644	0.0274	2.7466
2008	0.3772	0.1700	1.3367	0.8644	0.3505	3.0988
2009	0.3782	0.1700	1.3367	0.8644	0.3515	3.1008
2010	0.3788	0.1700	1.3367	0.8644	0.3510	3.1009

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, 2010

Taxpayer	Product/Service	Taxable		Approximate Percentage of Taxable Assessed Valuation
		Estimated Appraised Value (1)	Taxable Assessed Value	
Sierra Pacific Power	Utility	\$ 149,919,514	\$ 52,471,830	2.902%
BMO Leasing US, Inc. (Quebecor)	Printing	43,448,291	15,206,902	0.841%
Southwest Gas Corp.	Utility	38,077,760	13,327,216	0.737%
TREX Company, Inc.	Wood Product Manufacturer	32,606,580	11,412,303	0.631%
1600 East Newlands Dr., LLC	Developer	26,144,071	9,150,425	0.506%
Sherwin-Williams Acceptance Corp	Paint Manufacturer	25,490,691	8,921,742	0.493%
Sonterra Development Co. Inc.	Developer	22,998,066	8,049,323	0.445%
Nevada Cement Company	Cement Manufacturer	22,455,257	7,859,340	0.435%
MSC Industrial Direct Co. Inc.	Industrial Distributor	20,259,696	7,090,894	0.392%
Amazon.com	Retail Distributor	20,123,754	7,043,314	0.389%
Totals		<u>\$ 401,523,682</u>	<u>\$ 140,533,289</u>	<u>7.770%</u>

Source: Lyon County Assessor's Office

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

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

CITY OF FERNLEY, NEVADA

WATER USER FEES

LAST NINE FISCAL YEARS*

	FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
WATER UTILITY									
Number of Customers	3,309	3,966	4,980	6,083	6,634	6,816	7,170	7,371	7,061
Annual Average Day Demand per customer	750	750	750	750	750	750	750	750	750
Gallons of water used (in thousands)	905,839	1,085,693	1,363,275	1,665,221	1,816,058	1,865,880	1,954,754	1,488,674	1,317,721
Direct rate per 1000 gallons	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 1.11	\$ 1.50	\$ 2.02

Source: City of Fernley

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

SCHEDULE 9

CITY OF FERNLEY, NEVADA
 PRINCIPLE WATER USERS

JUNE 30,

Employer	2010		2004*	
	User Fees	Rank	User Fees	Rank
Trex Manufacturing Company	\$ 80,396	1	\$ 42,141	1
World Color Fernley	76,196	2	-	-
Hollywood Investments	61,245	3	18,076	3
Fernley High School	47,891	4	11,081	7
Veteran's Cemetery	42,207	5	15,059	4
Blue Beacon Wash	30,450	6	7,413	8
City of Fernley Out of Town Park	28,087	7	-	-
Fernley Intermediate School	26,442	8	6,318	9
Trails End Mobile Park	25,974	9	12,016	5
Sherwin Williams	24,687	10	-	-
Green Valley Park	-	-	11,957	6
Quebecor World MS #2	-	-	31,703	2

Source: City of Fernley

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

CITY OF FERNLEY, NEVADA

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST NINE FISCAL YEARS*

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)			
	General Obligation Bonds		Water Bonds	Sewer Bonds						
2002	\$	90,314	\$	-	\$	90,314	0.04%	\$	9	
2003		-		-		-	0.00%		-	
2004		-		-		-	0.00%		-	
2005		-		-		-	0.00%		-	
2006		5,000,000		670,000		890,282		6,560,282	1.64%	401
2007		4,842,000		45,015,000		6,267,780		56,124,780	12.20%	2,977
2008		4,677,000		74,954,997		8,640,332		88,272,329	17.12%	4,507
2009		4,504,000		74,055,200		8,417,529		86,976,729	16.90%	4,436
2010		4,323,000		72,538,029		8,150,738		85,011,767	16.10%	4,491

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

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

(1) See the Schedule of Demographic Statistics on page 68 for personal income and population data.

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

Fiscal Year	General Obligation Bonds	Business Type Activities	Total	Percentage of Actual Property Value (1)	Per Capita (2)
2002	\$ 90,314	\$ 1,341,684	\$ 1,431,998	0.21%	\$ 150.28
2003	-	1,219,713	1,219,713	0.17%	116.83
2004	-	1,108,830	1,108,830	0.14%	94.63
2005	-	1,008,027	1,008,027	0.12%	73.18
2006	5,000,000	1,560,282	6,560,282	0.61%	401.07
2007	4,842,000	51,282,780	56,124,780	3.84%	2,977.44
2008	4,677,000	83,595,329	88,272,329	4.54%	4,507.14
2009	4,504,000	82,472,729	86,976,729	4.03%	4,435.55
2010	4,323,000	80,688,767	85,011,767	4.70%	4,491.09

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

(2) Population can be found in the Schedule of Demographic Statistics page 68.

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

CITY OF FERNLEY, NEVADA

COMPUTATION OF GENERAL OBLIGATION DIRECT AND OVERLAPPING DEBT

June 30, 2010

	Total General Obligation Debt	Presently Self-Supporting General Obligation Debt	Net Debt Outstanding	% Applicable	Applicable Net Debt
Direct:					
City of Fernley	\$ 85,011,767	\$ 80,688,767	\$ 4,323,000	100.00%	<u>\$ 4,323,000</u>
Overlapping:					
State of Nevada (1)	1,374,695,000	-	1,374,695,000	0.44%	6,048,658
Lyon County (2)	20,103,727	20,103,727	-	0.00%	-
Lyon County School (3) District	80,790	-	80,790	35.88%	<u>28,987</u>
Total Overlapping Debt					<u>6,077,645</u>
Total Direct and Overlapping Debt					<u><u>\$ 10,400,645</u></u>

Source:

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

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

CITY OF FERNLEY, NEVADA
COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2010

Estimated Assessed Value	\$1,808,437,540
Debt Limit - 30 Percent of Total Assessed Value	542,531,262
Total Amount of Debt Applicable to Debt Limit	<u>85,011,767</u>
Legal Debt Margin	<u><u>\$457,519,495</u></u>

Note: Legal debt margin as set forth in NRS 266.600

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

Fiscal Year	Operating Revenue	Operating Expenses(1)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002*	\$ 2,201,361	\$ 1,645,441	\$ 555,920	\$ 283,405	\$ 107,847	\$ 391,252	142%
2003	2,501,125	1,815,858	685,267	243,778	97,428	341,206	201%
2004	2,981,642	2,096,056	885,586	248,173	84,152	332,325	266%
2005	3,416,906	2,338,729	1,078,177	262,745	72,580	335,325	322%
2006	3,888,017	2,647,912	1,240,105	277,502	60,323	337,825	367%
2007	4,061,013	2,873,207	1,187,806	287,451	620,879	908,330	131%
2008	5,528,032	3,420,207	2,107,825	1,122,600	3,531,002	4,653,602	45%
2009	5,975,722	4,168,048	1,807,674	1,122,600	3,773,565	4,896,165	37%
2010	7,099,810	4,836,862	2,262,948	1,822,957	3,738,999	5,561,956	41%

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 NINE FISCAL YEARS***

Fiscal Year	Population (1)	Total Personal Income	Per Capita Personal Income (2)	Unemployment Rate (3)
2002	9,529	\$ 217,089,678	\$ 22,782	5.60%
2003	10,440	243,617,400	23,335	5.40%
2004	11,718	285,380,172	24,354	5.20%
2005	13,775	336,110,000	24,400	5.00%
2006	16,357	399,110,800	24,400	4.70%
2007	18,850	459,940,000	24,400	7.30%
2008	19,585	515,555,540	26,324	8.90%
2009	19,609	514,677,423	26,247	15.30%
2010	18,929	527,967,668	27,892	19.20%

Sources:

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

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

CITY OF FERNLEY, NEVADA

MAJOR EMPLOYERS

JUNE 30,

Employer	2010			2005*		
	Employees	Rank	Percentage of Total County Employment (1)	Employees	Rank	Percentage of Total County Employment (1)
Lyon County School District	1000-1499	1	9.43%	-	-	-
Amazon.com	600-699	2	5.66%	700-799	1	6.14%
Lyon County	500-599	3	4.72%	-	-	-
MSC Industrial Supply Co.	200-299	4	1.89%	100-199	3	1.23%
TREX Company	200-299	5	1.97%	100-199	4	1.23%
World Color Printing USA Corp	100-199	6	0.94%	-	-	-
South Lyon Medical Center	100-199	7	0.94%	-	-	-
Nevada Cement Company	100-199	8	1.18%	100-199	6	1.23%
Lowe's HIW Inc.	100-199	9	1.18%	-	-	-
Silverado Casino	90-99	10	0.75%	90-99	7	0.78%

Source: Nevada Department of Employment, Training and Rehabilitation

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

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

CITY OF FERNLEY, NEVADA
FULL-TIME EQUIVALENT CITY OF FERNLEY, NEVADA EMPLOYEES BY FUNCTION/PROGRAM
LAST NINE FISCAL YEARS*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
FUNCTION/PROGRAM									
General government	11.9	14.3	14.7	15.5	12.1	18.6	22.3	9.3	13.0
Judicial	1.7	1.7	1.9	1.9	2.0	1.9	1.9	3.0	2.4
Public works	1.2	1.2	1.3	1.3	2.0	1.5	1.8	2.5	5.5
Culture and recreation	3.5	4.5	4.5	7.5	7.5	10.9	11.5	4.8	6.0
Community development	4.5	7.0	7.0	12.0	15.5	16.0	14.0	8.1	8.0
Health	-	-	-	2.0	3.9	2.9	2.5	3.0	2.0
Water	5.4	5.4	5.6	5.9	8.6	6.8	8.1	15.3	16.5
Sewer	5.4	5.4	5.6	5.9	9.1	6.8	8.1	9.2	4.5
Total	<u>33.6</u>	<u>39.5</u>	<u>40.6</u>	<u>51.9</u>	<u>60.7</u>	<u>65.4</u>	<u>70.1</u>	<u>55.2</u>	<u>57.9</u>

Sources: City of Fernley, Nevada FY 2009/2010 Annual Budget

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

CITY OF FERNLEY, NEVADA
OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST EIGHT FISCAL YEARS*

<u>Function/Program</u>	<u>FISCAL YEAR ENDED JUNE 30,</u>							
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Judicial:								
Municipal Court Cases Filed:								
Drug	55	33	34	68	35	28	25	39
Driving Under Influence	82	71	75	91	81	83	68	79
Domestic Violence	37	48	65	45	5	3	1	3
Traffic	1,979	2,132	2,410	2,530	1,829	1,668	1,260	2,206
Non-Traffic	160	309	314	326	319	397	326	307
Other	5	0	1	0	0	3	3	3
Public Safety:								
Calls for Service:								
Criminal	2,292	2,760	3,072	3,382	3,866	3,633	2,791	2,679
Non-Criminal	948	828	924	1,028	1,180	1,129	1,889	2,144
Domestic Violence	312	432	684	678	866	889	463	414
Follow-up	1,044	1,488	1,404	1,630	1,439	1,624	1,599	1,920
Traffic Stops	1,080	672	876	1,026	1,450	1,639	2,067	1,999
Civil Papers	2,028	1,596	2,028	2,232	2,136	2,601	2,359	2,568
Animal	132	192	168	102	156	204	337	377
Death/Coroner	36	36	36	42	33	45	42	29
Public Service	1,536	1,440	1,044	1,250	927	1,191	1,111	1,195
Assist other Agencies	612	600	684	732	625	1,112	1,024	851
Alarms	216	252	276	346	383	377	517	494
Property Damage Accident	72	120	132	92	120	98	115	108
Injury Accident	12	12	24	24	20	5	15	9
Private Property Accident	60	48	48	48	73	81	65	52
Administrative	2,016	2,316	2,196	2,304	2,761	3,113	3,204	4,715
Total Calls for Service	<u>12,372</u>	<u>12,792</u>	<u>13,572</u>	<u>15,076</u>	<u>16,035</u>	<u>17,741</u>	<u>17,598</u>	<u>19,554</u>
Total Reports Written	<u>1,788</u>	<u>1,740</u>	<u>1,704</u>	<u>1,756</u>	<u>2,298</u>	<u>2,130</u>	<u>1,947</u>	<u>2,326</u>
Arrests:								
Felony	84	72	60	90	123	76	95	122
Gross Misdemeanor	12	12	24	16	17	27	44	34
Misdemeanor	192	168	120	112	143	146	121	160
Driving Under the Influence	48	48	36	48	84	90	76	111
Domestic Violence	48	48	72	52	71	53	73	61
Mental Health	12	12	12	8	12	11	4	5
Total Arrests	<u>396</u>	<u>360</u>	<u>312</u>	<u>326</u>	<u>450</u>	<u>403</u>	<u>413</u>	<u>493</u>
Citations:								
Traffic	444	240	228	274	593	464	557	535
Non-Traffic	240	132	168	162	209	234	328	339
Total Citation	<u>684</u>	<u>372</u>	<u>408</u>	<u>436</u>	<u>802</u>	<u>698</u>	<u>885</u>	<u>874</u>
Water Utility								
Customer Count	3,966	4,980	6,083	6,634	6,816	6,896	6,876	6,693
New Connections	657	1,014	1,103	551	182	80	15	12
Sewer Utility								
Customer Count	3,950	4,957	6,049	6,600	6,782	6,862	6,312	6,140
New Connections	649	1,007	1,092	551	182	80	14	12
Building								
Number of Inspection Performed	868	1,492	1,445	897	500	352	221	217
	7,042	15,929	19,108	13,302	5,838	3,107	1,894	929
Planning								
Number of applications processed	144	195	211	238	223	150	93	52

Sources: City of Fernley

*Information presented for fiscal years as available

CITY OF FERNLEY, NEVADA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST NINE FISCAL YEARS*

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010
Streets									
Public Road Mileage	89.5	92.03	95.45	104.12	106.64	116.96	125.36	126.79	126.79
Parks and Recreation:									
Parks and Open Space Acreage	56.9	68	68.3	85.3	150	155	155	155	155
Developed Parks	5	7	7	8	11	11	11	11	11
Tennis Courts	1	1	1	1	1	1	1	1	1
Rodeo Arena	1	1	1	1	2	2	2	2	2
Playing Fields	6	6	7	8	10	19	19	19	19
Pavilions	1	1	1	2	2	2	3	3	7
Skate Park	1	1	1	1	1	1	1	1	1
Water Utility:									
Water lines (miles)	73.5	79.4	85.8	92.6	105	115.2	124.7	148.9	152.1
Fire Hydrants	700	775	850	925	1,000	1,033	1,083	1,102	1,102
Sewer Utility:									
Sanitary Sewer lines (miles)	63.0	68.0	73.4	79.3	90.0	93.6	101.3	124.2	124.2
Sanitary Sewer Manhole	615	864	1,113	1,362	1,510	1,600	2,126	2,227	2,227

Sources: City of Fernley

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

COMPLIANCE SECTION



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

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

We have audited the accompanying financial statements of the City of Fernley, Nevada, (the “City”), as of and for the year ended June 30, 2010, and have issued our report thereon dated January 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Fernley, in a separate letter dated January 3, 2011.

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

Kafoury, Armstrong & Co.

Fallon, Nevada
January 3, 2011



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the City of Fernley, Nevada's, (the "City"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City of Fernley's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 10-1.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as finding 10-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Kafoury, Armstrong & Co.

Fallon, Nevada
January 3, 2011

**CITY OF FERNLEY, NEVADA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL-GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROJECT/ PASS-THROUGH CFDA NUMBER	FEDERAL EXPENDITURES
<u>Department of Housing and Urban Development:</u>			
Passed through the State of Nevada:			
Commission on Economic Development			
Community Development Block Grant	14.218	CDGB/09-PCB/029	\$ 26,073
<u>Department of the Interior:</u>			
Direct Programs:			
Bureau of Reclamation			
Joint Planning and Development for Water Systems	15.508	R09AP20010	316,418
Bureau of Reclamation			
Truckee River Settlement Act Implementation,			
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	07FG200125	50,230
			<u>366,648</u>
Passed through the State of Nevada:			
Division of State Parks			
ARRA Outdoor Recreation, Acquisition, Development and Planning	15.916	3200302	38,664
Department of Conservation and Natural Resources			
Division C, Title II, Section 204, Consolidate Appropriations Act,			
2008 as Amended by Consolidated Security, Disaster Assistance,			
and Continuing Appropriations Act, 2009	15.xxx	09G200020	73,521
Total Department of the Interior			<u>478,833</u>
<u>Department of Justice:</u>			
Direct Program:			
Bureau of Justice Assistance			
BJA FY 09 Congressionally Selected	16.753	2009-D1-BX-0070	139,889
<u>Department of Energy:</u>			
Direct Program:			
ARRA Energy Efficiency and Conservation Block Grant	81.128	DE-RW0000138	52,000
<u>Department of Health and Human Services:</u>			
Passed through the State of Nevada:			
Department of Health and Human Services			
Social Services Block Grant	93.667	Title XX SSSBG T27001574	53,062
Total Expenditures of Federal Awards			<u>\$ 749,857</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

A. REPORTING ENTITY:

The accompanying schedule of expenditures of federal awards presents the expenditure activity of all federal awards programs of City of Fernley (the City) for the year ended June 30, 2010. The City's reporting entity is defined in Note 1 to its basic financial statements. All expenditures of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

B. BASIS OF ACCOUNTING:

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

C. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS:

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

Governmental Activities:

Major Governmental Fund:

Streets and Storm Drains Fund	\$ 73,520
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Other Governmental Funds:

Residential Construction Tax District #2 Fund	38,664
Grants	586,043

Business-Type Activities:

Major Business-Type Fund:

Water Utility Fund	<u>51,630</u>
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	<u>\$ 749,857</u>
--	-------------------

**CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

A. SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Fernley, Nevada for the year ended June 30, 2010.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. The audit disclosed no instances of noncompliance, which were material to the financial statements of the City of Fernley, Nevada.
4. The audit disclosed a significant deficiency in internal control over the major programs that was not considered to be a material weakness.
5. The auditor's report on compliance with the requirements applicable to each major federal award program for the City of Fernley, Nevada expressed an unqualified opinion.
6. An audit finding relative to the major federal award programs for City of Fernley, Nevada for the year ended June 30, 2010 which is required to be reported under Section .510(a) of OMB Circular A-133, is reported in Part C of this schedule.
7. The programs tested as major programs were:
 - Truckee River Settlement Act Implementation, Providing Water to At-Risk Natural Desert Terminal Lakes, CFDA 15.508
 - Joint Planning and Development for Water Systems, CFDA 15.508
 - Bureau of Justice Assistance 09 Congressionally Selected, CFDA 16.753
8. The dollar threshold for distinguishing Type A and B programs for the year ended June 30, 2010, was \$300,000.
9. The City of Fernley, Nevada did not qualify as a low risk auditee for the year ended June 30, 2010, under the criteria set forth in Section .530 of OMB Circular A-133.

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

None.

**CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

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

Finding 10-1

U.S. Department of Interior

Joint Planning and Development for Water Systems, CFDA 15.508

Condition: During our testing of allowable costs, no supporting documentation was found for the administrative cost allocation plan.

Criteria: 2 CFR 225 (OMB Circular A-87) prescribes cost principles in determining allowable costs that may be charged to a Federal program. Costs that are allocated to a Federal program must be reasonable, allocable and determined in accordance with generally accepted accounting principles. Appendix C to Part 225 specifies that the local governments should maintain the plan and related documentation for audit.

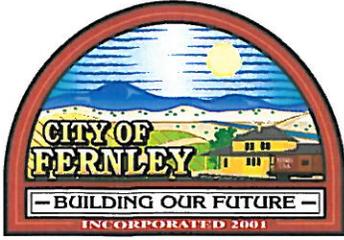
Questioned Costs: \$12,170

Cause: Management used an expected percentage of grant proceeds in the application and budget for administrative costs, but failed to support the percentage with proper documentation.

Effect: Cost reimbursements submitted to the granting agency may contain costs that are not allowed under 2 CFR 225 (OMB Circular A-87).

Recommendation: We recommend the City develop an overhead allocation plan based upon current costs and allocated on a reasonable basis and all documentation supporting such allocations be retained for audit.

Managements response: See management's response on page 89.



CITY OF FERNLEY

Finance Department

Utility Billing
Accounting
Budgeting
Treasury

January 4, 2011

Ms. Vivian Davis
Bureau of Reclamation, Mid-Pacific Region
Acquisition Services
2800 Cottage Way, Room E-1815
Sacramento, CA 95825-1808

RE: Schedule of Findings and Questioned Costs

Dear Ms. Davis,

The City staff has reviewed the finding related to Major Federal Award Programs:

In reference to Finding 10-1

Condition: During our testing of allowable costs, no supporting documentation was found for the administrative cost allocation plan.

Corrective Action: The City of Fernley submitted a proposed budget for USBOR grant R09AP20010 that included a 4% amount for administration. The 4% amount for administration was acceptable to the Bureau of Reclamation, however the audit Firm of Kafoury & Armstrong found this to be in violation of 2 CFR 225 (OMB Circular A-87).

The City of Fernley will develop an overhead allocation plan based upon current costs and allocated on a reasonable basis and all documentation supporting such allocations will be retained. The City of Fernley will apply to the appropriate Federal agency for an indirect cost rate that will bring this issue to a final resolution.

Respectfully submitted,

Melville D. Drown
Treasurer/Finance Director
City of Fernley

CITY OF FERNLEY, NEVADA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Finding 09-2:

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

Condition: This finding was a significant deficiency stating that Financial Status Reports were not being reconciled to the general ledger on a timely basis. The accounting records associated with this program included costs in excess of the reports submitted.

Recommendation: We recommended procedures be put in place to reconcile the accounting records to the reports prior to submission.

Current status: Implemented.

AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

June 30, 2010

Statute Compliance

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

Progress on Prior Year Statute Compliance

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

Prior Year Recommendations

We identified a financial weaknesses that was reported as a material weaknesses. Our current year audit noted no similar control deficiencies.

Current Year Recommendations

Our audit disclosed no recommendations for the current year.

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, 2009	<u>\$ 137,657</u>
--	-------------------

Adjustment to Base:

Base year:

- | | | |
|--|-------------|--|
| 1. Percentage increase in population of the local
government | 0.1% | |
| 2. Percentage increase in the Consumer Price Index for
the year ending on December 31, next preceding the
year for which the limit is being calculated | <u>4.1%</u> | |

Adjusted Base at June 30, 2010	4.1%	143,301
Actual Revenue		<u>168,379</u>
Actual Amount over (under) Allowable Amount		<u>\$ 25,078</u>

Fee calculated on a Percentage of Gross Revenue:

Adjusted base at June 30, 2009		\$ 840,310
Percentage change in CPI		<u>1,041</u>
Adjusted base at June 30, 2010		843,533
Actual Revenue		<u>1,031,452</u>
Actual Amount over (under) Allowable Amount		<u>\$ 187,919</u>



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

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

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

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

- The identified funds are being used expressly for the purposes for which they were created,
- The funds are administered in accordance with accounting principles generally accepted in the United State of America
- The reserved fund balances/net asset in the funds were reasonable and necessary to carry out the purposes of the funds at June 30, 2010 (based on the interpretation of reasonable and necessary provided by the Legislative Counsel Bureau),
- The sources of revenues, including transfers, available for the funds are as noted in the financial statements,
- The funds conform to significant statutory and regulatory constraints on their financial administration during the fiscal year ended June 30, 2010 (except as previously noted under statute compliance in Note 2 to the financial statements),
- The balance and net assets of the funds are as noted in the financial statements.

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

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

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

Kafoury, Armstrong & Co.

Fallon, Nevada
January 3, 2011