

# Comprehensive Annual Financial Report

City of Fernley, Nevada

For the Fiscal Year Ended  
June 30, 2009

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Prepared by:  
Finance Department

Melville Drown  
*Finance Director*  
*City Treasurer*

# CITY OF FERNLEY, NEVADA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2009

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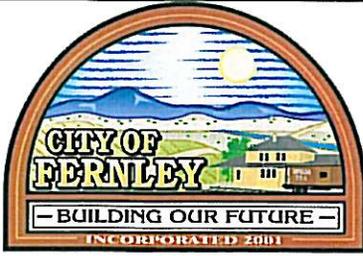
# CITY OF FERNLEY, NEVADA

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# **INTRODUCTORY SECTION**



**City of Fernley**  
**Finance**  
**Department**

Utility Billing  
Accounting  
Budgeting  
Treasury

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November 20, 2009

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, 2009 is hereby submitted. State law requires that local governments provide for an annual audit by independent certified public accountants of its financial statements in accordance with auditing standards generally accepted in the United States of America.

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

The City of Fernley's financial statements have been audited by Kafoury, Armstrong & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Fernley for the fiscal year ended June 30, 2009 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, 2009, 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 second 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, 2009, 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 basis financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Fernley's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The City of Fernley, incorporated in 2001, is located in western Nevada. The City of Fernley currently occupies a land area of 164 square miles and serves a population of approximately 19,609. The City of Fernley is empowered to levy a property tax on both real and personal properties located within its boundaries. The City of Fernley is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

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

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

District, operates a swimming pool in Fernley. Lyon County and the Lyon County School District also provide services in Fernley.

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

### **Factors Affecting Financial Condition**

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

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. The current unemployment rate in Fernley mirrors that of the State of Nevada at 15.3%. 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.

Several companies have located facilities in Fernley, benefiting the community and leading the way into the future. Companies that have established facilities in Fernley include, Amazon.com, Trex Inc., Quebecor Printing, MSC Industrial Supply, Allied Signal, UPS Worldwide Logistics (Honeywell), Johns Manville, Sherwin Williams, and Feldmeir Corporation, Wal Mart and Lowe's. Recent development includes the relocation of Southwest Gas from Fallon, Nevada, the opening of the Fernley Nugget Casino and Black Bear Restaurant, the Big Wheel Truck Stop and some smaller commercial projects along the Main Street Corridor.

During FY09, the City of Fernley had a tax rate of \$0.3505 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, City Clerk, hired a Community Development Director and appointed an interim City Attorney.

**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, 2008. This was the fourth consecutive year that the City of Fernley has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

City of Fernley  
Finance Department

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'GJE', written in a cursive style.

Gregory Evangelatos  
City Manager

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'M Drown', written in a cursive style.

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, 2008

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.

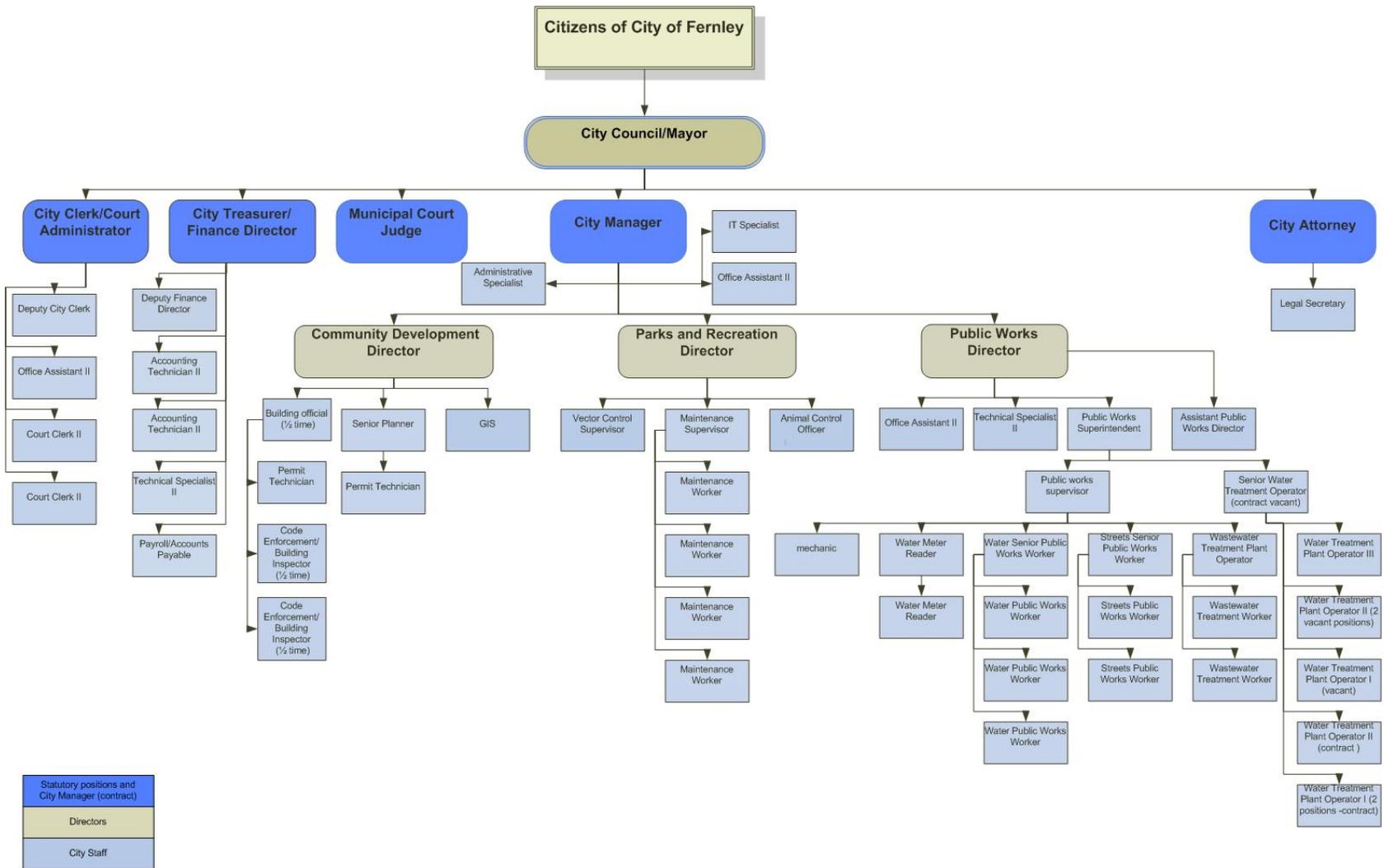


A handwritten signature in black ink, appearing to read "M. L. R.", is positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enow", is positioned above the title "Executive Director".

Executive Director



Statutory positions and City Manager (contract)
Directors
City Staff

## **City Council**

Mayor	Todd Cutler
Council Member Ward 1	Kelly Malloy
Council Member Ward 2	Don Parsons
Council Member Ward 3	Monte Martin
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	Stephen Jeff McGowan
Chief of Police	Allen Veil
Municipal Court Judge	Daniel Bauer
Building Official	Randy Rudy
City Clerk	Lena Shumway
Community Development Director	Fred Turnier
Finance Director/City Treasurer	Susan Fairfield (Interim)
Parks and Recreation Director	Keith Penner
Public Works Director	Lowell Patton

# **FINANCIAL SECTION**



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

## **Independent Auditor's Report**

To the Honorable City Council of  
City of Fernley, Nevada

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fernley, Nevada, (the "City") as of and for the year ended June 30, 2009, 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, 2009, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Residential Construction Tax District #1 Special Revenue Fund and the Streets and Storm Drains Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2009, 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 the 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 3L is not a required part of the basic financial statements but is supplementary information required by accounting

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

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

*Kaufman, Armstrong & Co.*

Fallon, Nevada  
November 20, 2009

## 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, 2009. 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 \$152,125,715 (*net assets*). Of this amount, \$ 16,800,352 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$11,595,046. The majority of the increase is not cash and is primarily attributable to capital grants and capital contributions.
- As of the close of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$2,622,168, a decrease of \$156,136 in comparison with the prior year. With the exception of the reserved balance of \$394,251 the funds are available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, fund balance for the general fund was \$688,868. Of the \$688,868 in fund balance, \$394,251 is reserved for prepaid items and future capital projects leaving an unreserved, undesignated fund balance of \$294,617 or 9% of general fund expenditures. This ending fund balance is within the targeted ending fund balance of 8% to 17% of general fund expenditures.

### Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of the City of Fernley's assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Fernley is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Fernley that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Fernley include general government, judicial, public works, culture and recreation, community development, and health. The business-type activities of the City of Fernley are water and sewer operations.

The government-wide financial statements can be found on pages 4 through 5 of this report.

***Fund financial statements.*** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fernley, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Fernley can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Fernley maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the three funds, which are considered major funds. Data for the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of

these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

*Proprietary funds.* The City of Fernley maintains 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 40 of this report

*Other Information.* The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41 through 52 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fernley, assets exceeded liabilities by \$152,125,715 at the close of the most recent fiscal year.

A large portion of the City of Fernley's net assets (89%) 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	
	FY09	FY08	FY09	FY08	FY09	FY08
Current & other assets	\$3,465,285	\$3,886,753	\$31,366,903	\$78,199,907	\$34,832,188	\$34,086,660
Capital assets, net	44,156,258	40,354,010	167,459,162	112,405,170	211,615,420	152,759,180
Total assets	<u>47,621,543</u>	<u>44,240,763</u>	<u>199,416,403</u>	<u>190,605,077</u>	<u>247,037,946</u>	<u>234,845,840</u>
Long-term liabilities	4,402,477	4,583,974	80,701,818	82,540,544	85,104,295	87,124,518
Other liabilities	898,828	1,221,910	8,909,108	5,968,744	9,807,936	7,190,654
Total liabilities	<u>5,305,305</u>	<u>5,805,884</u>	<u>89,610,926</u>	<u>88,509,288</u>	<u>94,916,231</u>	<u>94,315,172</u>
Net assets:						
Invested in capital assets, net of related debt	39,652,258	35,677,010	95,281,505	77,070,390	134,933,763	112,747,400
Restricted	391,600	362,289	-	-	391,600	362,289
Unrestricted	2,276,380	2,395,580	14,523,972	25,025,399	16,800,352	27,420,979
Total net assets	<u>\$42,320,238</u>	<u>\$38,434,879</u>	<u>109,805,477</u>	<u>\$102,095,789</u>	<u>\$152,125,715</u>	<u>\$140,530,668</u>

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* (\$16,800,352) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased \$11,595,046 during the current fiscal year. The increase is primarily due to donated capital assets reported for governmental activities and capital contributions reported for the business-type activities that were greater than the related program expenses. Net assets invested in capital assets, net of related debt,

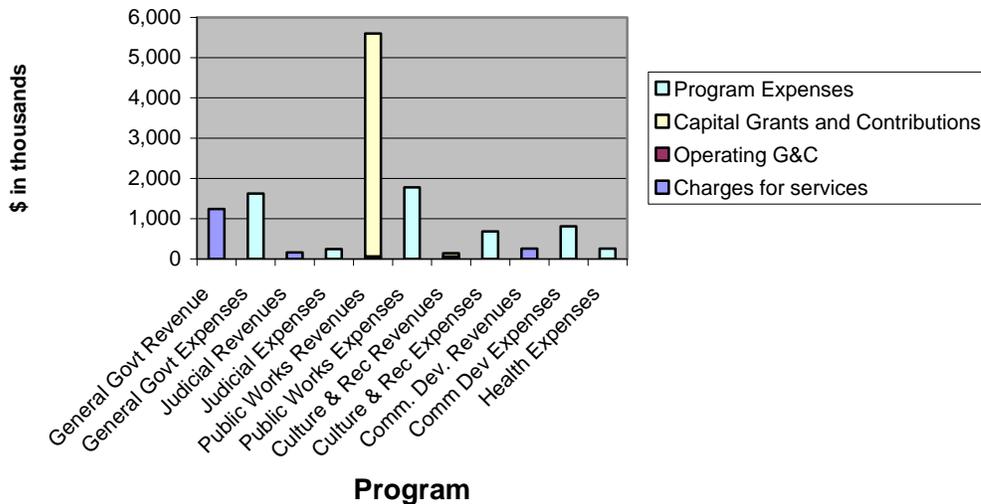
increased about \$22 million due to the ongoing construction of the water treatment plant and associated conveyance systems.

*Governmental activities.* Governmental activities increased the City of Fernley's net assets by \$3,885,359. Key elements of this increase are donated (dedicated) infrastructure and purchased infrastructure for streets and storm drains. Property tax revenue increased 29% between FY08 and FY09, but unrestricted interest income declined 77% due 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	
	FY09	FY08	FY09	FY08	FY09	FY08
Revenues:						
Program revenues:						
Charges for services	\$1,732,998	\$ 1,731,740	\$5,663,909	\$5,104,415	\$7,396,907	\$6,836,156
Operating grants and contributions	60,383	60,000	562,372	424,671	622,755	484,671
Capital grants and contributions	5,613,270	4,869,410	7,146,143	4,579,348	12,759,413	9,448,756
General revenues:						
Property taxes	1,381,621	1,074,726	-	-	1,381,621	1,074,726
Shared revenues	604,295	597,779	-	-	604,295	597,779
Other revenues	97,264	600,515	1,046,710	1,510,813	1,143,974	2,111,330
Total revenues	9,489,831	8,934,170	14,419,134	11,619,248	23,908,965	20,553,418
Expenses:						
General government	1,626,115	1,572,115	-	-	1,626,115	1,572,115
Judicial	243,889	252,189	-	-	243,889	252,189
Public works	1,778,649	997,891	-	-	1,778,649	997,891
Culture & recreation	685,706	689,281	-	-	685,706	689,281
Community develop.	811,701	1,977,586	-	-	811,701	1,977,586
Health	252,320	280,743	-	-	252,320	280,743
Water	-	-	4,127,466	3,152,845	4,127,466	3,152,845
Sewer	-	-	2,581,981	2,012,862	2,581,981	2,012,862
Interest	206,092	-	-	212,651	206,092	212,651
Total expenses	5,604,472	5,769,805	6,709,447	5,378,358	12,313,919	11,148,163
Increase in net assets	3,885,359	3,164,365	7,709,687	6,240,890	11,595,046	9,405,255
Net assets, July 1	38,434,879	35,270,514	102,095,790	95,854,899	140,530,669	131,125,414
Net assets, June 30	\$42,320,238	\$38,434,879	109,805,477	\$102,095,789	\$152,125,715	\$140,530,669

## FY09 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.

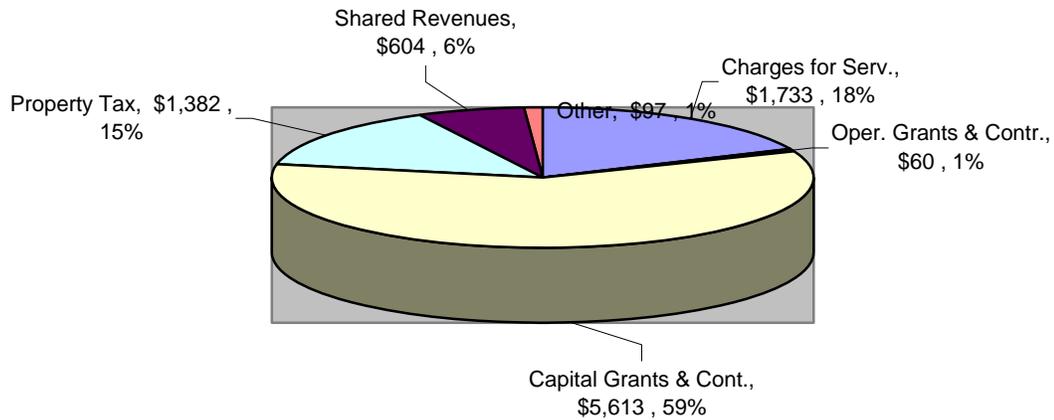
The major source of program revenues for community development activities is building permits and fees. Planning fees are also included in program revenues. The program

expenses associated with these revenues include the operations of the Community Development Department. 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.

### FY09 Revenues by Source - Governmental Activities (in thousands of \$)

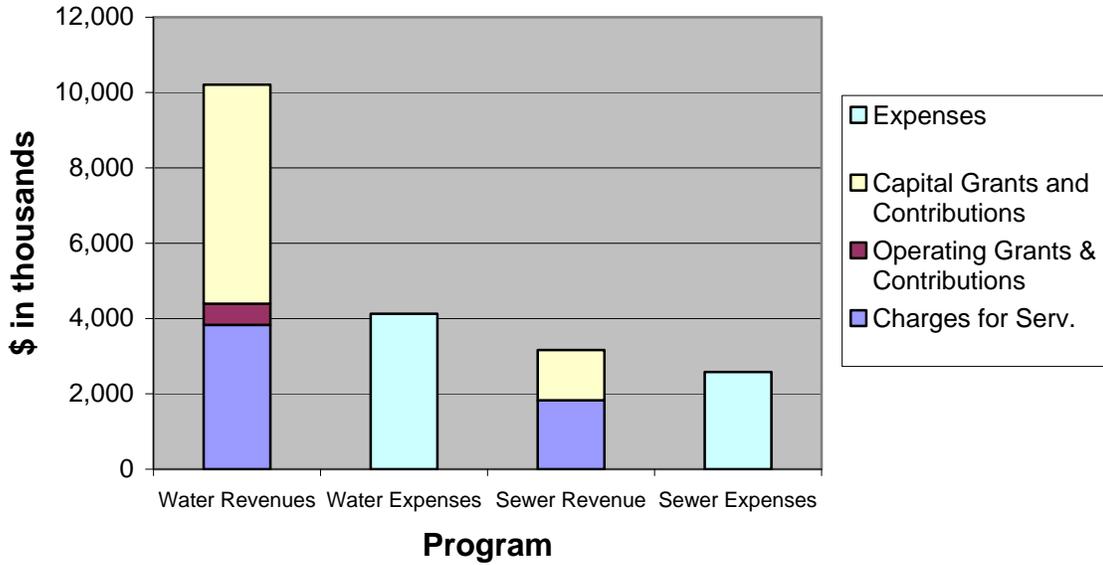


The Charges for Services category includes primarily fees, fines, and licenses. The Capital Grants and Contributions primarily includes donated (dedicated) infrastructure (streets and storm drains). The Shared Revenue category includes primarily consolidated tax, fuel tax and gaming licenses. The Other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

*Business-type activities.* Business-type activities increased the City of Fernley's net assets by \$7,709,687. Key elements of this increase are higher revenues for water and sewer use fees, donated (dedicated) infrastructure and connection fees.

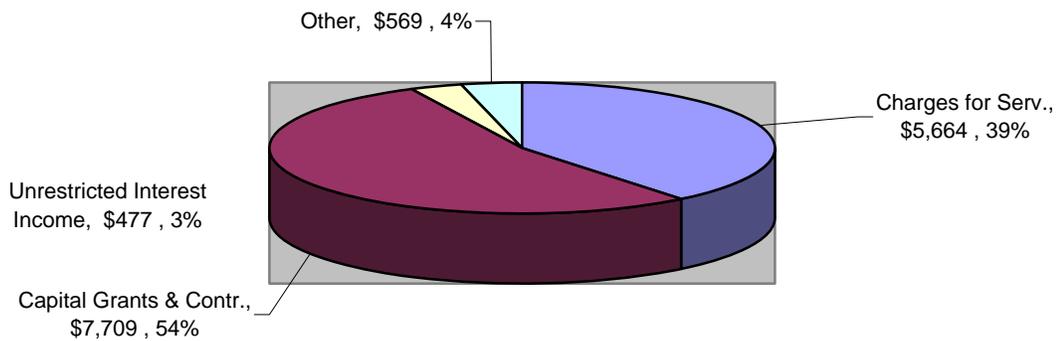
- Charges for services for business-type activities increased by \$927,098 or 18% due to a rate increase which took effect 7/01/08.
- Capital contributions increased by \$2,566,797 or 56%, primarily as a result of the acceptance of subdivision improvements whose 1 year warranty had been reached.
- Investment earnings decreased due to lower interest rates and lower levels of cash available for investment.

### FY09 Program Revenues and Expenses Business-type Activities



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

### FY09 Revenue by Source Business Type Activities (in thousands of \$)



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

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

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

As of the end of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$2,622,168, a decrease of \$156,136 in comparison with the prior year. \$394,251 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 \$294,617, while total fund balance reached \$688,868. 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 9% of total general fund expenditures, while total fund balance also represents about 21% of that same amount.

The balance of the City of Fernley's general fund increased by \$43,001 during the current fiscal year. Key factors in this increase are as follows:

- Staff reduction of 14 FTE's through attrition and/or layoffs of staff in early 2009.
- A citywide effort to reduce spending for non-essential goods and services.

Expenditures exceeded estimates in several cost centers in the general fund, however in aggregate the general fund ended with operating revenues exceeding expenditures by \$69,001. The expenditures that did exceed budget were primarily in salaries and benefits.

The Residential Construction Tax District #1 Fund is used to account for the receipt and use of a special tax that is dedicated to specific purposes of construction of parks in accordance with the Park Plan. At the end of the current fiscal year, unreserved, undesignated fund balance of the fund was \$9,313. 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 FY10.

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 \$408,749. Unreserved,

undesignated fund balance represents 34% of total fund expenditures. The City is currently considering the implementation of impact fees for streets to provide the necessary funding for street construction projects.

The Capital Projects Fund is used to accrue funds under a “pay as you go” program to provide funding for future projects involving replacement of equipment and buildings or new facilities and equipment. At the end of the current fiscal year fund balance of the Capital Fund was \$1,145,372. Projects planned for FY10 include purchase of technology upgrades and replacements.

***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 \$6,334,263; those for the Sewer Fund amounted to \$8,189,709 resulting in total unrestricted net assets of \$14,523,972. The total growth in net assets for these funds was \$8,798,574 and \$769,429 respectively. 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**

During the year there was a \$326,425 decrease in revenues between the original and final amended budget, primarily due to an unrealized expectation of franchise fee revenue and reduced revenue estimates for building permits and other revenues directly associated with development.

There was a \$436,991 decrease in appropriations between the original and final amended budget. Following are the main components of the decrease:

- Appropriations were reduced for employee benefits in most cost centers due to an anticipated increase in health insurance premiums which did not materialize.
- Appropriations for the General Government, Culture and Recreation, and Community Development decreased due to staff reductions.

### **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, 2009 amounts to \$211,615,420 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure (streets and bridges), and other capital assets. The total increase in the City of Fernley’s investment in capital assets for the current fiscal year was 38.5% (a 9% increase for governmental activities and a 49% increase for business-type activities).

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

- Donation of capital assets from developers
- Construction costs for the water treatment plant
- Construction costs for conveyance system associated with the water treatment plant
- Sewer interceptor improvements
- Street improvements

City of Fernley Capital Assets  
(net of depreciation)

	Governmental activities		Business-type activities		Totals	
	FY09	FY08	FY09	FY08	FY09	FY08
Land	\$3,909,626	\$3,909,624	\$1,195,948	\$ 677,677	\$5,105,574	\$4,587,301
Water rights			36,814,699	34,223,899	36,814,699	34,223,899
Construction in progress	361,206	638,614	73,705,225	32,921,280	74,066,431	33,559,894
Buildings	7,362,231	7,706,195	1,662	2,661	7,363,893	7,708,856
Improvements other than buildings	6,855,047	6,049,808	54,081,331	42,864,900	60,936,378	48,914,708
Machinery & Equipment	338,214	441,849	629,915	602,911	968,129	1,044,760
Infrastructure	25,329,934	21,607,920	-	-	25,329,934	21,607,920
Other capital assets			1,030,382	1,111,840	1,030,382	1,111,840
<b>TOTAL</b>	<b>\$44,156,258</b>	<b>\$40,354,010</b>	<b>\$167,459,162</b>	<b>\$112,405,170</b>	<b>\$211,615,420</b>	<b>\$152,759,180</b>

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

*Long-term debt.* At the end of the current fiscal year, the City of Fernley had total bonded debt outstanding of \$86,976,729. All of the debt is backed by the full faith and credit of the government.

	Governmental activities		Business-type activities		Totals	
	7/1/09	7/1/08	7/1/09	7/1/08	7/1/09	7/1/08
General obligation/revenue bonds	4,504,000	4,677,000	\$82,472,729	\$83,595,329	\$86,976,729	\$88,272,329
Unamortized bond premium	-	-	\$54,824	\$70,652	\$54,824	\$70,652
Compensated absences	\$104,477	\$104,974	\$52,101	\$52,042	\$156,578	\$157,016
<b>TOTAL</b>	<b>\$4,608,477</b>	<b>\$4,781,974</b>	<b>\$82,579,654</b>	<b>\$83,718,023</b>	<b>\$87,188,131</b>	<b>\$88,499,997</b>

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 \$153 million, which is significantly in excess of the City of Fernley's outstanding general obligation debt of \$87,188,131.

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

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

Both water rates and sewer rates were increased for the second 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 essentially completed. The operation costs will have a significant impact on future operating costs for the water fund.
- The city has begun to aggressively seek grant funding to enhance the community, to fund capital projects and to defray the expense of building and maintaining operations of the new water treatment plant.

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 \$294,617. The FY10 General Fund budget assumed a beginning unreserved, undesignated fund balance of \$283,578. The cost saving measures put into place at the beginning of the calendar year enabled the city to reflect a small 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 are scheduled to be implemented on July 1 each subsequent two years.

### **Requests for Information**

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

# **BASIC FINANCIAL STATEMENTS**

**CITY OF FERNLEY  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 2,388,484	\$ 19,223,865	\$ 21,612,349
Restricted cash and investments			
Refundable deposits	-	636,936	636,936
Bond proceeds	-	10,349,897	10,349,897
Interest receivable	2,632	34,267	36,899
Taxes receivable	124,604	-	124,604
Accounts receivable, net	391,322	590,206	981,528
Accounts receivable, other	40,399	136,736	177,135
Due from other governments	527,243	250,557	777,800
Internal balances	(12,050)	12,050	-
Inventories	-	127,389	127,389
Prepaid expenses	2,651	5,000	7,651
	<u>3,465,285</u>	<u>31,366,903</u>	<u>34,832,188</u>
Total Current Assets			
Noncurrent assets:			
Deferred charges	-	590,338	590,338
Capital assets:			
Land and construction in progress	4,270,832	111,715,872	115,986,704
Other capital assets, net of depreciation	39,885,426	55,743,290	95,628,716
	<u>44,156,258</u>	<u>167,459,162</u>	<u>211,615,420</u>
Total Capital Assets			
	<u>44,156,258</u>	<u>168,049,500</u>	<u>212,205,758</u>
Total Noncurrent Assets			
	<u>\$ 47,621,543</u>	<u>\$ 199,416,403</u>	<u>\$ 247,037,946</u>
Total Assets			
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 420,683	\$ 594,560	\$ 1,015,243
Payable from restricted assets:			
Accounts payable	-	\$ 4,240,524	4,240,524
Accrued interest	-	1,559,252	1,559,252
Refundable deposits	-	636,936	636,936
Due to developers	269,667	-	269,667
Due to other governments	1,545	-	1,545
Due within one year	206,000	1,877,836	2,083,836
Unearned revenue	933	-	933
	<u>898,828</u>	<u>8,909,108</u>	<u>9,807,936</u>
Total Current Liabilities			
Noncurrent liabilities:			
Due in more than one year	4,402,477	80,701,818	85,104,295
	<u>4,402,477</u>	<u>80,701,818</u>	<u>85,104,295</u>
Total Liabilities			
	<u>5,301,305</u>	<u>89,610,926</u>	<u>94,912,231</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	39,652,258	95,281,505	134,933,763
Restricted for capital projects	391,600	-	391,600
Unrestricted	2,276,380	14,523,972	16,800,352
	<u>42,320,238</u>	<u>109,805,477</u>	<u>152,125,715</u>
Total Net Assets			

See accompanying notes.

**CITY OF FERNLEY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
<b>Governmental Activities:</b>							
General government	\$ 1,626,115	\$ 1,243,230	\$ -	\$ -	\$ (382,885)	\$ -	\$ (382,885)
Judicial	243,889	161,819	-	-	(82,070)	-	(82,070)
Public works	1,778,649	65,129	-	5,533,993	3,820,473	-	3,820,473
Culture and recreation	685,706	200	60,000	79,277	(546,229)	-	(546,229)
Community development	811,701	258,801	-	-	(552,900)	-	(552,900)
Health	252,320	3,819	383	-	(248,118)	-	(248,118)
<b>Debt Service:</b>							
Interest and fiscal charges	206,092	-	-	-	(206,092)	-	(206,092)
Total Governmental Activities	5,604,472	1,732,998	60,383	5,613,270	1,802,179	-	1,802,179
<b>Business-type Activities:</b>							
Water	4,127,466	3,833,095	562,372	5,812,399	-	6,080,400	6,080,400
Sewer	2,581,981	1,830,814	-	1,333,744	-	582,577	582,577
Total Business- type Activities	6,709,447	5,663,909	562,372	7,146,143	-	6,662,977	6,662,977
Total	\$ 12,313,919	\$ 7,396,907	\$ 622,755	\$ 12,759,413	1,802,179	6,662,977	8,465,156
<b>General Revenues:</b>							
Property taxes					1,381,621	-	1,381,621
Consolidated taxes					202,188	-	202,188
Fuel taxes					309,896	-	309,896
Unrestricted gaming licenses					92,211	-	92,211
Unrestricted interest income					41,085	477,258	518,343
Miscellaneous revenue					56,179	569,452	625,631
Total General Revenues					2,083,180	1,046,710	3,129,890
Change in Net Assets					3,885,359	7,709,687	11,595,046
<b>NET ASSETS, July 1</b>					38,434,879	102,095,790	140,530,669
<b>NET ASSETS, June 30</b>					\$ 42,320,238	\$ 109,805,477	\$ 152,125,715

See accompanying notes.

**CITY OF FERNLEY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2009**

	<b>GENERAL FUND</b>	<b>RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND</b>	<b>STREETS AND STORM DRAINS FUND</b>	<b>CAPITAL PROJECTS FUND</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS</b>						
Cash and investments	\$ 596,575	\$ 9,302	\$ 325,500	\$ 642,466	\$ 814,641	\$ 2,388,484
Interest receivable	597	11	376	727	921	2,632
Accounts receivable	402,184	-	-	-	3,850	406,034
Due from other governments	124,604	-	191,401	-	211,238	527,243
Due from other funds	-	-	-	506,600	-	506,600
Prepaid items	2,651	-	-	-	-	2,651
Total Assets	<u>\$ 1,126,611</u>	<u>\$ 9,313</u>	<u>\$ 517,277</u>	<u>\$ 1,149,793</u>	<u>\$ 1,030,650</u>	<u>\$ 3,833,644</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 282,675	\$ -	\$ 108,528	\$ 4,421	\$ 25,059	\$ 420,683
Due to developers	140,542	-	-	-	129,125	269,667
Due to other governments	1,545	-	-	-	-	1,545
Due to other funds	12,050	-	-	-	506,600	518,650
Deferred revenue	931	-	-	-	-	931
Total Liabilities	<u>437,743</u>	<u>-</u>	<u>108,528</u>	<u>4,421</u>	<u>660,784</u>	<u>1,211,476</u>
Fund Balance:						
Reserved for:						
Prepaid items	2,651	-	-	-	-	2,651
Capital projects	391,600	-	-	-	-	391,600
Unreserved - reported in:						
General Fund	294,617	-	-	-	-	294,617
Special revenue funds	-	9,313	408,749	-	369,866	787,928
Capital projects funds	-	-	-	1,145,372	-	1,145,372
Total Fund Balance	<u>688,868</u>	<u>9,313</u>	<u>408,749</u>	<u>1,145,372</u>	<u>369,866</u>	<u>2,622,168</u>
Total Liabilities and Fund Balance	<u>\$ 1,126,611</u>	<u>\$ 9,313</u>	<u>\$ 517,277</u>	<u>\$ 1,149,793</u>	<u>\$ 1,030,650</u>	<u>\$ 3,833,644</u>

See accompanying notes.

**CITY OF FERNLEY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 2,622,168</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:</p>		
Capital assets	50,531,444	
Less: Accumulated depreciation	6,375,186	44,156,258
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
		150,289
<p>Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period:</p>		
Bonds payable	(4,504,000)	
Compensated absences	(104,477)	(4,608,477)
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 42,320,238</u></b>

See accompanying notes.

**CITY OF FERNLEY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>GENERAL FUND</b>	<b>RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND</b>	<b>STREETS AND STORM DRAINS FUND</b>	<b>CAPITAL PROJECTS FUND</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>REVENUES</b>						
Taxes	\$ 1,315,878	\$ 1,001	\$ -	\$ -	\$ -	\$ 1,316,879
Licenses and permits	1,598,061	-	65,123	-	-	1,663,184
Intergovernmental	262,188	-	1,330,781	-	38,091	1,631,060
Fines and forfeits	142,030	-	-	-	19,790	161,820
Miscellaneous	94,662	171	2,000	11,991	29,194	138,018
Total Revenues	<u>3,412,819</u>	<u>1,172</u>	<u>1,397,904</u>	<u>11,991</u>	<u>87,075</u>	<u>4,910,961</u>
<b>EXPENDITURES</b>						
Current:						
General government	1,290,272	-	-	-	-	1,290,272
Judicial	243,866	-	-	-	848	244,714
Public works	-	-	457,243	-	-	457,243
Culture and recreation	517,945	-	-	-	28,547	546,492
Community development	679,800	-	-	12,910	94,346	787,056
Health	232,843	-	-	-	-	232,843
Total Current	<u>2,964,726</u>	<u>-</u>	<u>457,243</u>	<u>12,910</u>	<u>123,741</u>	<u>3,558,620</u>
Debt service:						
Principal	173,000	-	-	-	-	173,000
Interest	206,092	-	-	-	-	206,092
Total Debt Service	<u>379,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,092</u>
Capital outlay:						
Public works	-	-	741,736	-	-	741,736
Culture and recreation	-	-	-	-	373,047	373,047
Community development	-	-	-	14,602	-	14,602
Health	-	-	-	-	-	-
Total Capital Outlay	<u>-</u>	<u>-</u>	<u>741,736</u>	<u>14,602</u>	<u>373,047</u>	<u>1,129,385</u>
Total Expenditures	<u>3,343,818</u>	<u>-</u>	<u>1,198,979</u>	<u>27,512</u>	<u>496,788</u>	<u>5,067,097</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>69,001</u>	<u>1,172</u>	<u>198,925</u>	<u>(15,521)</u>	<u>(409,713)</u>	<u>(156,136)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers out	(26,000)	-	-	-	-	(26,000)
Transfers in	-	-	-	-	26,000	26,000
Total Other Financing Sources (Uses)	<u>(26,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,000</u>	<u>-</u>
Net Change in Fund Balance	43,001	1,172	198,925	(15,521)	(383,713)	(156,136)
<b>FUND BALANCE, JULY 1</b>	<u>645,867</u>	<u>8,141</u>	<u>209,824</u>	<u>1,160,893</u>	<u>753,579</u>	<u>2,778,304</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 688,868</u>	<u>\$ 9,313</u>	<u>\$ 408,749</u>	<u>\$ 1,145,372</u>	<u>\$ 369,866</u>	<u>\$ 2,622,168</u>

See accompanying notes.

**CITY OF FERNLEY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**Net Change if Fund Balances - Governmental Funds** **\$ (156,136)**

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	1,138,513	
Less: Current year depreciation	<u>(1,849,373)</u>	(710,860)

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

Donated capital assets	4,513,108
Intergovernmental revenues	65,750

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.

173,000

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

Change in long-term compensated absences payable	<u>497</u>
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**Change in Net Assets - Governmental Activities** **\$ 3,885,359**

See accompanying notes.

**CITY OF FERNLEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009  
(Page 1 of 3)**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
<b>REVENUES</b>					
Taxes:					
Ad valorem	\$ 1,351,000	\$ 1,450,000	\$ 1,315,878	\$ 99,000	\$ (134,122)
Licenses and permits:					
Business licenses	150,000	180,000	168,379	30,000	(11,621)
Franchise fees	1,235,000	940,000	1,031,452	(295,000)	91,452
Liquor licenses	30,000	37,000	31,809	7,000	(5,191)
City gaming licenses	105,000	90,000	92,211	(15,000)	2,211
Building permits and fees	500,000	190,000	204,466	(310,000)	14,466
Planning and zoning permits and fees	100,000	16,000	54,335	(84,000)	38,335
Other permits	15,000	16,545	15,409	1,545	(1,136)
	<u>2,135,000</u>	<u>1,469,545</u>	<u>1,598,061</u>	<u>(665,455)</u>	<u>128,516</u>
Intergovernmental revenues:					
Consolidated tax distribution	196,000	196,000	202,188	-	6,188
Fernley park agreement	60,000	60,000	60,000	-	-
	<u>256,000</u>	<u>256,000</u>	<u>262,188</u>	<u>-</u>	<u>6,188</u>
Fines and forfeits:					
Municipal court fines	140,000	135,000	122,017	(5,000)	(12,983)
Municipal court fees	21,000	20,900	20,013	(100)	(887)
	<u>161,000</u>	<u>155,900</u>	<u>142,030</u>	<u>(5,100)</u>	<u>(13,870)</u>
Miscellaneous:					
Interest	40,000	13,000	12,643	(27,000)	(357)
Park development	-	200	200	200	-
Miscellaneous	6,000	277,930	81,819	277,947	(196,111)
	<u>46,000</u>	<u>291,130</u>	<u>94,662</u>	<u>251,147</u>	<u>(196,468)</u>
<b>Total Revenues</b>	<u>3,949,000</u>	<u>3,622,575</u>	<u>3,412,819</u>	<u>(320,408)</u>	<u>(209,756)</u>
<b>EXPENDITURES</b>					
General government:					
Finance:					
Salaries and wages	79,300	89,300	81,963	(10,000)	7,337
Employee benefits	35,900	30,200	28,016	5,700	2,184
Services and supplies	52,700	57,600	56,606	(4,900)	994
<b>Total Finance</b>	<u>167,900</u>	<u>177,100</u>	<u>166,585</u>	<u>(9,200)</u>	<u>10,515</u>
Information Technology					
Salaries and wages	48,800	37,620	38,272	11,180	(652)
Employee benefits	23,600	13,375	12,857	10,225	518
Services and supplies	48,000	40,525	35,077	7,475	5,448
<b>Total Information Technology</b>	<u>120,400</u>	<u>91,520</u>	<u>86,206</u>	<u>28,880</u>	<u>5,314</u>

See accompanying notes.

**CITY OF FERNLEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009  
(Page 2 of 3)**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
Office of the City Clerk:					
Salaries and wages	\$ 127,400	\$ 119,000	\$ 120,484	\$ 8,400	\$ (1,484)
Employee benefits	66,700	40,960	40,741	25,740	219
Services and supplies	44,250	19,365	21,036	24,885	(1,671)
Total City Clerk	<u>238,350</u>	<u>179,325</u>	<u>182,261</u>	<u>59,025</u>	<u>(2,936)</u>
Office of the City Manager:					
Salaries and wages	176,000	194,241	196,977	(18,241)	(2,736)
Employee benefits	75,000	54,161	48,085	20,839	6,076
Services and supplies	52,800	96,040	99,598	(43,240)	(3,558)
Total City Manager	<u>303,800</u>	<u>344,442</u>	<u>344,660</u>	<u>(40,642)</u>	<u>(218)</u>
Office of the City Attorney:					
Salaries and wages	54,200	54,760	55,517	(560)	(757)
Employee benefits	21,900	23,200	19,243	(1,300)	3,957
Services and supplies	46,600	40,228	26,840	6,372	13,388
Total City Attorney	<u>122,700</u>	<u>118,188</u>	<u>101,600</u>	<u>4,512</u>	<u>16,588</u>
Mayor/City Council:					
Salaries and wages	55,700	57,000	59,725	(1,300)	(2,725)
Employee benefits	10,300	11,087	11,147	(787)	(60)
Services and supplies	43,000	24,860	24,508	18,140	352
Total Mayor/City Council	<u>109,000</u>	<u>92,947</u>	<u>95,380</u>	<u>16,053</u>	<u>(2,433)</u>
Facilities (City Hall) & General					
Salaries and wages	91,500	61,400	60,555	30,100	845
Employee benefits	47,700	20,700	17,114	27,000	3,586
Services and supplies	226,300	233,000	235,911	(6,700)	(2,911)
Total City Hall	<u>365,500</u>	<u>315,100</u>	<u>313,580</u>	<u>50,400</u>	<u>1,520</u>
Total General Government	<u>1,307,250</u>	<u>1,227,102</u>	<u>1,290,272</u>	<u>80,148</u>	<u>23,036</u>
Judicial:					
Municipal court:					
Salaries and wages	143,600	140,239	139,836	3,361	403
Employee benefits	66,800	62,600	59,767	4,200	2,833
Services and supplies	42,500	41,000	44,263	1,500	(3,263)
Total Judicial	<u>252,900</u>	<u>243,839</u>	<u>243,866</u>	<u>9,061</u>	<u>(27)</u>
Culture and Recreation:					
Parks:					
Salaries and wages	227,300	188,624	191,071	38,676	(2,447)
Employee benefits	127,100	56,725	64,158	70,375	(7,433)
Services and supplies	253,200	268,615	262,716	(15,415)	5,899
Total Culture and Recreation	<u>607,600</u>	<u>513,964</u>	<u>517,945</u>	<u>93,636</u>	<u>(3,981)</u>

See accompanying notes.

**CITY OF FERNLEY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009  
(Page 3 of 3)**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
	Community development:				
Building:					
Salaries and wages	\$ 290,200	\$ 241,790	\$ 243,764	\$ 48,410	\$ (1,974)
Employee benefits	152,200	88,486	73,176	63,714	15,310
Services and supplies	37,020	22,794	20,320	14,226	2,474
Total Building	<u>479,420</u>	<u>353,070</u>	<u>337,260</u>	<u>126,350</u>	<u>15,810</u>
Planning:					
Salaries and wages	269,200	206,165	205,804	63,035	361
Employee benefits	124,800	75,793	60,756	49,007	15,037
Services and supplies	43,980	89,547	75,980	(45,567)	13,567
Total Planning	<u>437,980</u>	<u>371,505</u>	<u>342,540</u>	<u>66,475</u>	<u>28,965</u>
Total Community Development	<u>917,400</u>	<u>724,575</u>	<u>679,800</u>	<u>192,825</u>	<u>44,775</u>
Health:					
Animal control:					
Salaries and wages	70,500	67,400	66,673	3,100	727
Employee benefits	28,900	20,200	17,117	8,700	3,083
Services and supplies	21,000	18,429	17,285	2,571	1,144
Total Animal Control	<u>120,400</u>	<u>106,029</u>	<u>101,075</u>	<u>14,371</u>	<u>4,954</u>
Vector control:					
Salaries and wages	47,800	62,000	59,046	(14,200)	2,954
Employee benefits	23,500	17,400	15,596	6,100	1,804
Services and supplies	119,010	63,960	57,126	55,050	6,834
Total Vector Control	<u>190,310</u>	<u>143,360</u>	<u>131,768</u>	<u>46,950</u>	<u>11,592</u>
Total Health	<u>310,710</u>	<u>249,389</u>	<u>232,843</u>	<u>61,321</u>	<u>16,546</u>
Debt service:					
Principal	173,000	173,000	173,000	-	-
Interest	206,113	206,113	206,092	-	21
Total Debt Service	<u>379,113</u>	<u>379,113</u>	<u>379,092</u>	<u>-</u>	<u>21</u>
Total Expenditures	<u>3,774,973</u>	<u>3,337,982</u>	<u>3,343,818</u>	<u>(436,991)</u>	<u>(80,370)</u>
Excess of Revenues Over Expenditures	<u>174,027</u>	<u>284,593</u>	<u>69,001</u>	<u>110,566</u>	<u>(215,592)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Contingency	(50,000)	-	-	50,000	-
Transfer out:					
Privates Sectore Community Support	<u>(20,000)</u>	<u>(26,000)</u>	<u>(26,000)</u>	<u>(6,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(70,000)</u>	<u>(26,000)</u>	<u>(26,000)</u>	<u>44,000</u>	<u>-</u>
Net Change in Fund Balance	104,027	258,593	43,001	154,566	(215,592)
<b>FUND BALANCE, July 1</b>	<u>489,161</u>	<u>645,867</u>	<u>645,867</u>	<u>156,706</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 593,188</u>	<u>\$ 904,460</u>	<u>\$ 688,868</u>	<u>\$ 311,272</u>	<u>\$ (215,592)</u>

See accompanying notes.

**CITY OF FERNLEY**  
**RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
<b>REVENUES</b>					
Taxes:					
Residential construction tax	\$ 10,000	\$ 1,333	\$ 1,001	\$ (8,667)	\$ (332)
Miscellaneous:					
Interest	250	173	171	(77)	(2)
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,250	1,506	1,172	(8,744)	(334)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out):					
Residential construction tax district #2	(10,000)	-	-	10,000	-
Net Change in Fund Balance	250	1,506	1,172	1,256	(334)
<b>FUND BALANCE, July 1</b>	-	8,141	8,141	8,141	-
<b>FUND BALANCE, June 30</b>	<u>\$ 250</u>	<u>\$ 9,647</u>	<u>\$ 9,313</u>	<u>\$ 9,397</u>	<u>\$ (334)</u>

See accompanying notes.

**CITY OF FERNLEY  
STREETS AND STORM DRAINS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
<b>REVENUES</b>					
Licenses and permits:					
Public works fees	\$ 11,000	\$ 51,000	\$ 65,123	\$ 40,000	\$ 14,123
Intergovernmental revenues:					
Motor vehicle fuel tax	311,831	275,831	309,896	(36,000)	34,065
Regional transportation commission	808,158	938,158	1,020,885	130,000	82,727
	<u>1,119,989</u>	<u>1,213,989</u>	<u>1,330,781</u>	<u>94,000</u>	<u>116,792</u>
Miscellaneous:					
Interest	10,000	1,500	2,000	(8,500)	500
Total Revenues	<u>1,140,989</u>	<u>1,266,489</u>	<u>1,397,904</u>	<u>125,500</u>	<u>131,415</u>
<b>EXPENDITURES</b>					
Public works:					
Salaries and wages	131,200	120,200	115,338	11,000	4,862
Employee benefits	74,950	55,050	51,419	19,900	3,631
Services and supplies	266,400	294,661	290,486	(28,261)	4,175
Capital outlay	667,213	785,000	741,736	(117,787)	43,264
Total Expenditures	<u>1,139,763</u>	<u>1,254,911</u>	<u>1,198,979</u>	<u>(115,148)</u>	<u>55,932</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,226	11,578	198,925	10,352	187,347
<b>FUND BALANCE, July 1</b>	<u>701,982</u>	<u>209,819</u>	<u>209,824</u>	<u>(492,163)</u>	<u>5</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 703,208</u>	<u>\$ 221,397</u>	<u>\$ 408,749</u>	<u>\$ (481,811)</u>	<u>\$ 187,352</u>

See accompanying notes.

**CITY OF FERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			
	<b>WATER UTILITY FUND</b>	<b>SEWER UTILITY FUND</b>	<b>OTHER ENTERPRISE FUND</b>	<b>TOTAL ENTERPRISE FUNDS</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 10,851,343	\$ 8,372,522	\$ -	\$ 19,223,865
Restricted cash and investments:				
Refundable deposits	332,110	304,826	-	636,936
Bond proceeds	8,049,169	2,300,728	-	10,349,897
Interest receivable	21,813	12,454	-	34,267
Accounts receivable, net	425,820	164,386	-	590,206
Accounts receivable, other	121,285	15,451	-	136,736
Due from other governments	250,557	-	-	250,557
Due from other funds	12,050	-	-	12,050
Inventories	120,753	6,636	-	127,389
Prepaid expenses	5,000	-	-	5,000
Total Current Assets	<u>20,189,900</u>	<u>11,177,003</u>	<u>-</u>	<u>31,366,903</u>
Noncurrent assets:				
Deferred charges	<u>533,358</u>	<u>56,980</u>	<u>-</u>	<u>590,338</u>
Capital assets:				
Not being depreciated	110,859,962	855,910	-	111,715,872
Depreciable assets	<u>36,211,370</u>	<u>34,587,845</u>	<u>-</u>	<u>70,799,215</u>
	147,071,332	35,443,755	-	182,515,087
Less: Accumulated depreciation	<u>8,449,799</u>	<u>6,606,126</u>	<u>-</u>	<u>15,055,925</u>
Total Capital Assets	<u>138,621,533</u>	<u>28,837,629</u>	<u>-</u>	<u>167,459,162</u>
Total Noncurrent Assets	<u>139,154,891</u>	<u>28,894,609</u>	<u>-</u>	<u>168,049,500</u>
Total Assets	<u>159,344,791</u>	<u>40,071,612</u>	<u>-</u>	<u>199,416,403</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	361,054	233,506	-	594,560
Payable from restricted assets:				
Accounts payable	4,228,598	11,926	-	4,240,524
Accrued interest	1,392,014	167,238	-	1,559,252
Refundable deposits	332,110	304,826	-	636,936
Debt due within one year	<u>1,575,530</u>	<u>302,306</u>	<u>-</u>	<u>1,877,836</u>
Total Current Liabilities	<u>7,889,306</u>	<u>1,019,802</u>	<u>-</u>	<u>8,909,108</u>
Noncurrent liabilities:				
Bonds payable, due after one year	<u>72,544,038</u>	<u>8,157,780</u>	<u>-</u>	<u>80,701,818</u>
Total Liabilities	<u>80,433,344</u>	<u>9,177,582</u>	<u>-</u>	<u>89,610,926</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	72,577,184	22,704,321	-	95,281,505
Unrestricted	<u>6,334,263</u>	<u>8,189,709</u>	<u>-</u>	<u>14,523,972</u>
Total Net Assets	<u>\$ 78,911,447</u>	<u>\$ 30,894,030</u>	<u>\$ -</u>	<u>\$ 109,805,477</u>

See accompanying notes.

**CITY OF FERNLEY  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2009**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			
	<b>WATER UTILITY FUND</b>	<b>SEWER UTILITY FUND</b>	<b>OTHER ENTERPRISE FUND</b>	<b>TOTAL ENTERPRISE FUNDS</b>
<b>OPERATING REVENUES</b>				
User fees	4,187,553	1,843,961	\$ -	\$ 6,031,514
Operating grants	562,372	-	-	562,372
Total Operating Revenue	<u>4,749,925</u>	<u>1,843,961</u>	<u>-</u>	<u>6,593,886</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	681,882	461,770	-	1,143,652
Employee benefits	243,794	175,579	-	419,373
Services and supplies	1,887,542	717,481	-	2,605,023
Depreciation	1,126,147	940,822	-	2,066,969
Total Operating Expenses	<u>3,939,365</u>	<u>2,295,652</u>	<u>-</u>	<u>6,235,017</u>
Operating Income (Loss)	<u>810,560</u>	<u>(451,691)</u>	<u>-</u>	<u>358,869</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest earned on investments	303,555	173,703	-	477,258
In lieu of water rights fees	201,845	-	-	201,845
Interest expense	(188,101)	(286,329)	-	(474,430)
Total Nonoperating Revenue (Expense)	<u>317,299</u>	<u>(112,626)</u>	<u>-</u>	<u>204,673</u>
Income (Loss) Before Capital Contributions and Transfers	<u>1,127,859</u>	<u>(564,317)</u>	<u>-</u>	<u>563,542</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Customer connection fees	223,932	289,776	-	513,708
Developer agreements	5,790	175	-	5,965
Developer contributed infrastructure	2,991,877	1,043,795	-	4,035,672
Developer contributed water rights	2,590,800	-	-	2,590,800
Total Capital Contributions	<u>5,812,399</u>	<u>1,333,746</u>	<u>-</u>	<u>7,146,145</u>
<b>TRANSFERS IN (OUT)</b>				
Transfers in	963,114	-	-	963,114
Transfers out	-	-	(963,114)	(963,114)
Capital asset transfer	895,202	-	(895,202)	-
Total Transfer In (Out)	<u>1,858,316</u>	<u>-</u>	<u>(1,858,316)</u>	<u>-</u>
Change in Net Assets	<u>8,798,574</u>	<u>769,429</u>	<u>(1,858,316)</u>	<u>7,709,687</u>
<b>NET ASSETS, July 1</b>	<u>70,112,873</u>	<u>30,124,601</u>	<u>1,858,316</u>	<u>102,095,790</u>
<b>NET ASSETS, June 30</b>	<u>\$ 78,911,447</u>	<u>\$ 30,894,030</u>	<u>\$ -</u>	<u>\$ 109,805,477</u>

See accompanying notes.

**CITY OF FERNLEY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			
	<b>WATER UTILITY FUND</b>	<b>SEWER UTILITY FUND</b>	<b>OTHER ENTERPRISE FUND</b>	<b>TOTAL ENTERPRISE FUNDS</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 4,491,996	\$ 1,855,472	\$ 299	\$ 6,347,767
Cash paid for employees services	(915,726)	(637,349)	-	(1,553,075)
Cash paid to vendors for services and supplies	(1,529,297)	(698,214)	(10,862)	(2,238,373)
Net Cash Provided (Used) by Operating Activities	<u>2,046,973</u>	<u>519,909</u>	<u>(10,563)</u>	<u>2,556,319</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfer (to) from other funds	963,114	-	(963,114)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal payments on debt	(899,800)	(222,800)	-	(1,122,600)
Interest paid on debt	(2,639,595)	(331,600)	-	(2,971,195)
Deferred charges	19,029	2,039	-	21,068
In lieu of water rights fees	201,845	-	-	201,845
Acquisition of capital assets	(45,742,687)	(402,130)	-	(46,144,817)
Developer agreements	5,790	175	-	5,965
Connection fees	223,932	289,774	-	513,706
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(48,831,486)</u>	<u>(664,542)</u>	<u>-</u>	<u>(49,496,028)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received on investments	454,930	189,837	2,567	647,334
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(45,366,469)</u>	<u>45,204</u>	<u>(971,110)</u>	<u>(46,292,375)</u>
<b>CASH AND CASH EQUIVALENTS, July 1</b>	<u>64,599,091</u>	<u>10,932,872</u>	<u>971,110</u>	<u>76,503,073</u>
<b>CASH AND CASH EQUIVALENTS, June 30</b>	<u>\$ 19,232,622</u>	<u>\$ 10,978,076</u>	<u>\$ -</u>	<u>\$ 30,210,698</u>
<b>REPRESENTED BY:</b>				
Cash and cash equivalents	\$ 10,851,343	\$ 8,372,522	\$ -	\$ 19,223,865
Cash - refundable deposits	332,110	304,826	-	636,936
Cash - bond proceeds	8,049,169	2,300,728	-	10,349,897
	<u>\$ 19,232,622</u>	<u>\$ 10,978,076</u>	<u>\$ -</u>	<u>\$ 30,210,698</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 456,102	\$ (464,840)	\$ -	\$ (8,738)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,126,147	940,822	-	2,066,969
Miscellaneous revenues	354,458	13,149	-	367,607
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable, net	(12,659)	11,507	299	(853)
Accounts receivable, other	17,337	-	-	17,337
Due from other funds	(12,050)	-	-	(12,050)
Inventories	5,263	7	-	5,270
Increase (decrease) in:				
Accounts payable	331,111	13,861	(10,862)	334,110
Accrued liabilities	9,950	-	-	9,950
Compensated absences payable	29	29	-	58
Refundable deposits	21,842	5,374	-	27,216
Total Adjustments	<u>1,841,428</u>	<u>984,749</u>	<u>(10,563)</u>	<u>2,815,614</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,297,530</u>	<u>\$ 519,909</u>	<u>\$ (10,563)</u>	<u>\$ 2,806,876</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Contribution of capital assets from developers	\$ 5,582,677	\$ 1,043,795	\$ -	\$ 6,626,472
Transfer of capital assets - other enterprise fund	<u>\$ 895,202</u>	<u>\$ -</u>	<u>\$ (895,202)</u>	<u>\$ -</u>

See accompanying notes.

**CITY OF FERNLEY  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2009**

	<u>AGENCY FUND</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 12,055
	<hr/>
<b>LIABILITIES</b>	
Bail bond deposits held for others	10,773
Other liabilities	1,282
	<hr/>
Total Liabilities	\$ 12,055
	<hr/>

See accompanying notes.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Reporting Entity:

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

B. Government-wide and Fund Financial Statements:

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

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

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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, 2009

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, 2009

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, 2009

- 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, 2009

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, 2009

*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, 2009

***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, 2009

***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, 2009

The following amounts are restricted for future capital projects:

Developer/ Development	Balance at June 30, 2009	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
Willow Springs Apartments	63,853	Willow Springs Park
Total	\$ <u>391,600</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

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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, 2009

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 Judicial function of the General Fund by \$27.
- Actual expenditures exceeded appropriations in the Culture and Recreation function of the General Fund by \$3,981.
- Actual expenditures exceeded appropriations in the Residential Construction Tax District #2 Fund by \$4,047.
- Actual expenditures exceeded appropriations in the Private Sector Community Support Fund by \$2,547.
- Actual operating and nonoperating expenses exceeded appropriations in the Water Enterprise Fund by \$56,315 and \$178,301, respectively.
- Actual operating and nonoperating expenses exceeded appropriations in the Sewer Enterprise Fund by \$219,452 and \$262,029, respectively.

These are apparent violations 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, 2009

NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2009, is as follows:

Cash and Investment Balances Held by:	
Governmental Funds	\$ 2,388,484
Fiduciary Funds	12,055
Proprietary Funds	
Unrestricted	29,573,762
Restricted	636,936*
<b>Total Cash and Investments</b>	<b>\$ 32,611,237</b>

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

Balances Classified by:	
On hand	\$ 400
Wells Fargo Bank:	
Checking	1,148,091
EFT Transaction Account	11,306
NVEST	11,723,403
Local Government Investment Pool	19,728,037
<b>Total Cash and Investments</b>	<b>\$ 32,611,237</b>

As of June 30, 2009, the City of Fernley had the following investments and maturities:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasuries	\$ 1,373,439	\$ -	\$ 1,373,439	\$ -	\$ -
U.S. Agencies	6,647,540	1,896,267	4,751,273	-	-
Mortgage-Backed	1,692,819	-	679,397	704,251	309,171
Corporate Bonds	1,642,012	438,294	1,203,718	-	-
Money Market Fund	367,593	367,593	-	-	-
State of Nevada					
Local Government Investment Pool	19,728,037	19,728,037*	-	-	-
<b>Total</b>	<b>\$31,451,440</b>	<b>\$22,430,191</b>	<b>\$8,007,827.00</b>	<b>\$704,251</b>	<b>\$309,171</b>

\* represents average weighted maturity

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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, 2009, the City's investments in Mortgage-Backed securities were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. Of the City's investments in corporate bonds, \$1,205,292 was rated AAA/Aaa, \$202,278 was rated AA/Aa, \$204,942 was rated A and \$29,500 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.

*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, 2009

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2009
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 3,909,626	\$ -	\$ -	\$ 3,909,626
Construction in progress	638,614	1,138,513	(1,415,921)	361,206
Total capital assets, not being depreciated	4,548,240	1,138,513	(1,415,921)	4,270,832
Capital assets, being depreciated				
Buildings	8,599,098	-	-	8,599,098
Improvements other than buildings	6,881,037	1,319,543	-	8,200,580
Machinery and Equipment	1,060,429	96,377	-	1,156,806
Infrastructure	23,791,019	4,513,108	-	28,304,127
Total capital assets, being depreciated	40,331,583	5,929,028	-	46,260,611
Less accumulated depreciation for:				
Buildings	(892,903)	(343,964)	-	(1,236,867)
Improvements other than buildings	(831,229)	(514,304)	-	(1,345,533)
Machinery and Equipment	(618,580)	(200,012)	-	(818,592)
Infrastructure	(2,183,099)	(791,094)	-	(2,974,193)
Total accumulated depreciation	(4,525,811)	(1,849,374)	-	(6,375,185)
Total capital assets, being depreciated, net	35,805,772	4,079,654	-	39,885,426
Governmental activities capital assets, net	\$ 40,354,012	\$ 5,218,167	\$ (1,415,921)	\$ 44,156,258

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

	Balance July 1, 2008	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2009
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 677,677	\$ 518,271	\$ -	\$ 1,195,948
Water rights	34,223,899	2,590,800	-	36,814,699
Construction in progress	32,921,280	49,751,487	(8,967,542)	73,705,225
Total capital assets, not being depreciated	<u>67,822,856</u>	<u>52,860,558</u>	<u>(8,967,542)</u>	<u>111,715,872</u>
Capital assets, being depreciated				
Buildings	17,530	-	-	17,530
Improvements other than buildings	54,381,956	13,019,997	-	67,401,953
Machinery and Equipment	1,500,154	207,948	-	1,708,102
Other capital assets	1,671,630	-	-	1,671,630
Total capital assets, being depreciated	<u>57,571,270</u>	<u>13,227,945</u>	<u>-</u>	<u>70,799,215</u>
Less accumulated depreciation for:				
Buildings	(14,869)	(999)	-	(15,868)
Improvements other than buildings	(11,517,056)	(1,803,566)	-	(13,320,622)
Machinery and Equipment	(897,241)	(180,946)	-	(1,078,187)
Other capital assets	(559,790)	(81,458)	-	(641,248)
Total accumulated depreciation	<u>(12,988,956)</u>	<u>(2,066,969)</u>	<u>-</u>	<u>(15,055,925)</u>
Total capital assets, being depreciated, net	<u>44,582,314</u>	<u>11,160,976</u>	<u>-</u>	<u>55,743,290</u>
Business-type activities capital assets, net	<u>\$ 112,405,170</u>	<u>\$ 64,021,534</u>	<u>\$ (8,967,542)</u>	<u>\$ 167,459,162</u>

CITY OF FERNLEY, NEVADA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

**Governmental Activities:**

General government	\$ 454,804
Public works	1,228,940
Culture and recreation	139,359
Health	17,654
Community development	8,617
Total depreciation expense – governmental activities	<u>\$ 1,849,374</u>

**Business-type Activities:**

Water	\$ 1,126,147
Sewer	940,822
Total depreciation expense – business-type activities	<u>\$ 2,066,969</u>

**NOTE 5 – DEFINED BENEFIT PENSION PLAN:**

Plan Description. The City of Fernley contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing, multiple 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.

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

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

Fiscal Year	Contribution Rate ER	Contribution Rate ER/EE	Total Contribution
2008-2009	20.50%	10.50%	\$468,921
2007-2008	20.50%	10.50%	\$509,714
2006-2007	20.50%	10.50%	\$391,872

NOTE 6 – INTERFUND TRANSFERS:

The composition of interfund balances as of June 30, 2009, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Utility Fund	General Fund	\$ 12,050
Capital Projects Fund	Grants Fund	505,000
	Private Sector Community Support Fund	1,600
	Total	\$ 518,650

Transfers to/from other funds:

<u>Transfer Out:</u>	<u>Transfer In:</u>		
	<u>Water Utility Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 26,000	\$ 26,000
Nonmajor business fund	963,114	-	-
Total	\$ 963,114	\$ 26,000	\$ 989,114

Transfers were used to 1.) transfer unrestricted general fund revenues to finance other programs and 2.) move cash and other noncapital assets from a Nonmajor business fund now accounted for within the Water Utility Fund.

In the current fiscal year, the City made a one-time transfer of \$895,202 in capital assets (reported as capital contributions in fund statements) and \$963,114 of noncapital assets (as noted above) for the transfer of all assets in a Nonmajor business fund that will be accounted for as part of the Water Utility Fund.

NOTE 7 – LONG-TERM DEBT:

- A. The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2009.
- B. The following schedule summarizes the changes in long-term debt:

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

	Issue Date	Interest Rate	Maturity Date	Authorized and Issued	Outstanding July 1, 2008	Additions	(Deletions)	Outstanding June 30, 2009	Due in 2009-2010
<b>Governmental Activities:</b>									
Compensated absences payable	-	-	-	\$ -	\$ 104,974	\$ 35,259	\$ (35,756)	\$ 104,477	\$ 25,000
City Hall Expansion Bonds	12/29/05	4.49%	12/01/2025	\$ 5,000,000	4,677,000	-	(173,000)	4,504,000	181,000
Total governmental activities					<u>4,781,974</u>	<u>35,259</u>	<u>(208,756)</u>	<u>4,608,477</u>	<u>206,000</u>
<b>Business-type Activities:</b>									
State Water Pollution Control Revolving Fund	10/28/92	4.00%	6/30/2012	\$ 2,000,000	640,329	-	(132,600)	507,729	137,957
2003 Refunding Bonds	11/25/03	3% - 5%	5/01/2010	\$ 950,000	355,000	-	(170,000)	185,000	185,000
2007 Water/Sewer Bonds	3/28/07	4% - 5%	2/01/2037	\$50,000,000	50,000,000	-	(820,000)	49,180,000	860,000
2008 Water/Sewer Bonds	4/01/08	3.25% - 5%	2/01/2038	\$32,600,000	32,600,000	-	-	32,600,000	640,000
					<u>83,595,329</u>	<u>-</u>	<u>(1,122,600)</u>	<u>82,472,729</u>	<u>1,822,957</u>
Unamortized Bond Discount/(Premium)					70,652	-	(15,828)	54,824	14,879
Compensated Absences payable					52,042	78,479	(78,420)	52,101	40,000
Total business-type activities					<u>83,718,023</u>	<u>78,479</u>	<u>(1,216,848)</u>	<u>82,579,654</u>	<u>1,877,836</u>
Total Long-Term Debt					<u>\$ 88,499,997</u>	<u>\$ 113,738</u>	<u>\$ (1,425,604)</u>	<u>\$ 87,188,131</u>	<u>\$ 2,083,836</u>

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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
2010	181,000	198,166	281,637	376,829	1,541,320	3,362,170	2,003,957	3,937,165
2011	189,000	189,860	292,595	365,759	1,405,937	3,308,617	1,887,532	3,864,236
2012	198,000	181,172	304,493	354,377	1,459,836	3,256,950	1,962,329	3,792,499
2013	207,000	172,079	238,010	342,526	1,513,902	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- 2019	1,238,000	654,687	960,764	1,558,493	8,974,236	14,655,451	11,173,000	16,868,631
2020- 2024	1,551,000	342,924	1,205,148	1,307,639	11,199,852	12,347,236	13,956,000	13,997,799
2025- 2029	724,000	32,867	1,522,754	1,007,747	14,107,246	9,552,084	16,354,000	10,592,698
2030- 2034	-	-	1,919,067	617,381	17,755,933	5,891,338	19,675,000	6,508,719
2035- 2038	-	-	1,524,930	154,522	14,520,069	1,529,141	16,044,999	1,683,663
<b>Total</b>	<b>\$ 4,504,000</b>	<b>\$ 1,934,338</b>	<b>\$ 8,417,529</b>	<b>\$ 6,420,083</b>	<b>\$ 74,055,200</b>	<b>\$ 60,252,102</b>	<b>\$ 86,976,729</b>	<b>\$ 68,606,523</b>

\* Exclusive of unamortized premium and issuance costs.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**NOTE 8 – POSTEMPLOYMENT RETIREMENT HEALTH INSURANCE BENEFIT:**

In addition to the pension benefit described in Note 5, the City provides a subsidy for postemployment health care benefits, in accordance with NRS 287.023, to all retired employees who enroll with the Nevada Public Employee's Benefits Program (PEBP). As of June 30, 2009, there were 6 retirees belonging to the program. Enrolled retirees pay monthly premiums for health insurance benefits directly to the program, while the City is required to subsidize the partial or total costs of the premium based incrementally on a retiree's number of years of service with the City. The unsubsidized state premiums for retirees range from \$323 to \$736, while retiree subsidies range from \$103 for five years of service to \$564 for 20 years of service, with incremental increase for years in between. As of June 30, 2009, the City paid \$18,592 for retirees participating in PEBP. Premium payments are funded by operating resources as incurred and no provision has been made to permanently fund future liabilities.

**NOTE 9 – RISK MANAGEMENT:**

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

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

The City pays an annual premium and specific deductibles, as necessary, to the Pool for its general insurance coverage. The Pool is considered a self-sustaining risk pool that will provide 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.

CITY OF FERNLEY, NEVADA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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, 2009, the City had several construction contracts in progress. Management has estimated that of the \$66,006,057 in contracts awarded, approximately \$10,680,000 will be billed for work completed over the next fiscal year.

NOTE 11 – SUBSEQUENT EVENTS:

Effective July 1, 2009, new water and sewer rates went into effect, primarily due to increasing operating costs and debt service demands. On average, the water rate increase is approximately 25%, and the sewer rates increase is 2.5%. These amounts are consistent with the rate study completed during fiscal year 2007, which recommended a water rate increase of 180% over a five year period beginning July 1, 2007, and a sewer rate increase of approximately 10% over a five year period beginning July 1, 2007.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

CITY OF FERNLEY  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2009

	<u>MUNICIPAL COURT ADMINISTRATIVE FEES FUND</u>	<u>MUNICIPAL COURT FACILITIES FEES FUND</u>	<u>RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND</u>	<u>GRANTS FUND</u>	<u>PRIVATE SECTOR COMMUNITY SUPPORT FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>						
Cash and investments	\$ 17,316	\$ 28,055	\$ 296,004	\$ 462,397	\$ 10,869	\$ 814,641
Interest receivable	19	32	335	523	12	921
Accounts receivable	1,638	2,212	-	-	-	3,850
Due from other governments	-	-	38,091	169,072	4,075	211,238
Total Assets	<u>\$ 18,973</u>	<u>\$ 30,299</u>	<u>\$ 334,430</u>	<u>\$ 631,992</u>	<u>\$ 14,956</u>	<u>\$ 1,030,650</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ 25,059	\$ -	\$ -	\$ 25,059
Due to developers	-	-	129,125	-	-	129,125
Due to other funds	-	-	-	505,000	1,600	506,600
Total Liabilities	<u>-</u>	<u>-</u>	<u>154,184</u>	<u>505,000</u>	<u>1,600</u>	<u>660,784</u>
Fund Balance:						
Unreserved:						
Undesignated	<u>18,973</u>	<u>30,299</u>	<u>180,246</u>	<u>126,992</u>	<u>13,356</u>	<u>369,866</u>
Total Liabilities and Fund Balance	<u>\$ 18,973</u>	<u>\$ 30,299</u>	<u>\$ 334,430</u>	<u>\$ 631,992</u>	<u>\$ 14,956</u>	<u>\$ 1,030,650</u>

**CITY OF FERNLEY**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>MUNICIPAL COURT ADMINISTRATIVE FEES FUND</u>	<u>MUNICIPAL COURT FACILITIES FEES FUND</u>	<u>RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND</u>	<u>GRANTS FUND</u>	<u>PRIVATE SECTOR COMMUNITY SUPPORT FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>						
Intergovernmental Grant	\$ -	\$ -	\$ 38,091	\$ -	\$ -	\$ 38,091
Fines and forfeits:						
Municipal administrative fees	8,418	11,372	-	-	-	19,790
Miscellaneous:						
Interest earnings	261	437	9,876	3,688	16	14,278
Other	-	-	-	-	14,916	14,916
Total Revenues	<u>8,679</u>	<u>11,809</u>	<u>47,967</u>	<u>3,688</u>	<u>14,932</u>	<u>87,075</u>
<b>EXPENDITURES</b>						
Services and supplies:						
Judicial	848	-	-	-	-	848
Culture and recreation	-	-	-	-	28,547	28,547
Community development	-	-	-	94,346	-	94,346
Total Services and supplies	<u>848</u>	<u>-</u>	<u>-</u>	<u>94,346</u>	<u>28,547</u>	<u>123,741</u>
Capital outlay:						
Culture and recreation	-	-	373,047	-	-	373,047
Total Expenditures	<u>848</u>	<u>-</u>	<u>373,047</u>	<u>94,346</u>	<u>28,547</u>	<u>496,788</u>
Excess (Deficiency) of Revenues over (under) Expenditures	7,831	11,809	(325,080)	(90,658)	(13,615)	(409,713)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in (out)	-	-	-	-	26,000	26,000
Net Change in Fund Balance	7,831	11,809	(325,080)	(90,658)	12,385	(383,713)
<b>FUND BALANCE, JULY 1</b>	<u>11,142</u>	<u>18,490</u>	<u>505,326</u>	<u>217,650</u>	<u>971</u>	<u>753,579</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 18,973</u>	<u>\$ 30,299</u>	<u>\$ 180,246</u>	<u>\$ 126,992</u>	<u>\$ 13,356</u>	<u>\$ 369,866</u>

**CITY OF FERNLEY  
MUNICIPAL COURT ADMINISTRATIVE FEES FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Fines and forfeits:			
Municipal administrative fees	\$ 7,800	\$ 8,418	\$ 618
Miscellaneous:			
Interest earnings	<u>300</u>	<u>261</u>	<u>(39)</u>
Total Revenues	8,100	8,679	579
<b>EXPENDITURES</b>			
Judicial			
Services and supplies	<u>7,000</u>	<u>848</u>	<u>6,152</u>
Excess (Deficiency) of Revenue Over Expenditures	1,100	7,831	6,731
<b>FUND BALANCE, July 1</b>	<u>11,142</u>	<u>11,142</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 12,242</u>	<u>\$ 18,973</u>	<u>\$ 6,731</u>

**CITY OF FERNLEY**  
**MUNICIPAL COURT FACILITY FEES FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<b>REVENUES</b>			
Fines and forfeits:			
Municipal administrative fees	\$ 10,500	\$ 11,372	\$ 872
Miscellaneous:			
Interest earnings	450	437	(13)
Total Revenues	10,950	11,809	859
<b>FUND BALANCE, July 1</b>	18,490	18,490	-
<b>FUND BALANCE, June 30</b>	\$ 29,440	\$ 30,299	\$ 859

**CITY OF FERNLEY**  
**RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Intergovernmental:			
Grant	\$ 77,775	\$ 38,091	\$ (39,684)
Miscellaneous:			
Interest earnings	<u>12,000</u>	<u>9,876</u>	<u>(2,124)</u>
Total Revenues	89,775	47,967	(41,808)
<b>EXPENDITURES</b>			
Culture and recreation:			
Capital outlay	<u>369,000</u>	<u>373,047</u>	<u>(4,047)</u>
Excess (Deficiency) of Revenue Over Expenditures	(279,225)	(325,080)	(45,855)
<b>FUND BALANCE, July 1</b>	<u>505,326</u>	<u>505,326</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 226,101</u>	<u>\$ 180,246</u>	<u>\$ (45,855)</u>

**CITY OF FERNLEY  
GRANTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 2,600	\$ 3,688	\$ 1,088
<b>EXPENDITURES</b>			
Community Development:			
Services and supplies	<u>158,099</u>	<u>94,346</u>	<u>63,753</u>
Excess (Deficiency) of Revenues Over Expenditures	(155,499)	(90,658)	64,841
<b>FUND BALANCE, July 1</b>	<u>217,650</u>	<u>217,650</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u><u>\$ 62,151</u></u>	<u><u>\$ 126,992</u></u>	<u><u>\$ 64,841</u></u>

**CITY OF FERNLEY  
PRIVATE SECTOR COMMUNITY SUPPORT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 3	\$ 16	\$ 13
Other	<u>-</u>	<u>14,916</u>	<u>14,916</u>
Total Revenues	3	14,932	14,929
<b>EXPENDITURES</b>			
Culture and Recreation:			
Services and supplies	<u>26,000</u>	<u>28,547</u>	<u>(2,547)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(25,997)</u>	<u>(13,615)</u>	<u>12,382</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in:	<u>26,000</u>	<u>26,000</u>	<u>-</u>
Net Change in Fund Balance	3	12,385	12,382
<b>FUND BALANCE, July 1</b>	<u>(625)</u>	<u>971</u>	<u>1,596</u>
<b>FUND BALANCE, June 30</b>	<u>\$ (622)</u>	<u>\$ 13,356</u>	<u>\$ 13,978</u>

**CITY OF FERNLEY  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES</b>			
Miscellaneous:			
Interest earnings	\$ 75,000	\$ 11,991	\$ (63,009)
<b>EXPENDITURES</b>			
Community development:			
Services and supplies	-	12,910	(12,910)
Capital outlay	364,650	14,602	350,048
Total Expenditures	<u>364,650</u>	<u>27,512</u>	<u>337,138</u>
<b>FUND BALANCE, July 1</b>	<u>1,160,893</u>	<u>1,160,893</u>	<u>-</u>
<b>FUND BALANCE, June 30</b>	<u>\$ 871,243</u>	<u>\$ 1,145,372</u>	<u>\$ (274,129)</u>

**CITY OF FERNLEY  
WATER UTILITY ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
User fees	\$ 3,717,700	\$ 3,833,095	\$ 115,395
Operating Grant	582,009	562,372	(19,637)
Total Operating Revenues	<u>4,299,709</u>	<u>4,395,467</u>	<u>95,758</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	699,800	681,882	17,918
Employee benefits	258,050	243,794	14,256
Services and supplies	1,965,200	1,887,542	77,658
Depreciation	960,000	1,126,147	(166,147)
Total Operating Expenses	<u>3,883,050</u>	<u>3,939,365</u>	<u>(56,315)</u>
Operating Income (Loss)	<u>416,659</u>	<u>456,102</u>	<u>39,443</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	5,000	303,555	298,555
In lieu of water rights fees	140,100	201,845	61,745
Miscellaneous	218,000	354,458	136,458
Interest expense	(9,800)	(188,101)	(178,301)
Total Nonoperating Revenue (Expense)	<u>353,300</u>	<u>671,757</u>	<u>318,457</u>
Income (Loss) Before Capital Contributions and Transfers	<u>769,959</u>	<u>1,127,859</u>	<u>357,900</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	160,500	223,932	63,432
Developer agreements	5,816	5,790	(26)
Developer contributed infrastructure	2,930,000	2,991,877	61,877
Developer contributed water rights	2,100,000	2,590,800	490,800
Total Capital Contributions	<u>5,196,316</u>	<u>5,812,399</u>	<u>616,083</u>
<b>TRANSFER IN (OUT)</b>			
Transfer in	963,114	963,114	-
Capital asset transfer - other enterprise fund	895,202	895,202	-
Total Transfers In (Out)	<u>1,858,316</u>	<u>1,858,316</u>	<u>-</u>
Change in Net Assets	7,824,591	8,798,574	973,983
<b>NET ASSETS, July 1</b>	<u>70,112,873</u>	<u>70,112,873</u>	<u>-</u>
<b>NET ASSETS, June 30</b>	<u>\$ 77,937,464</u>	<u>\$ 78,911,447</u>	<u>\$ 973,983</u>

**CITY OF FERNLEY  
SEWER UTILITY ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
User fees	\$ 1,830,000	\$ 1,843,961	\$ 13,961
<b>OPERATING EXPENSES</b>			
Salaries and wages	481,900	461,770	20,130
Employee benefits	205,400	175,579	29,821
Services and supplies	758,900	717,481	41,419
Depreciation	630,000	940,822	(310,822)
Total Operating Expenses	<u>2,076,200</u>	<u>2,295,652</u>	<u>(219,452)</u>
Operating Income (Loss)	<u>(246,200)</u>	<u>(451,691)</u>	<u>(205,491)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned on investments	-	173,703	173,703
Miscellaneous	1,525	-	(1,525)
Interest expense	<u>(24,300)</u>	<u>(286,329)</u>	<u>(262,029)</u>
Total Nonoperating Revenue (Expense)	<u>(22,775)</u>	<u>(112,626)</u>	<u>(89,851)</u>
Income (Loss) Before Capital Contributions	<u>(268,975)</u>	<u>(564,317)</u>	<u>(295,342)</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Customer connection fees	280,000	289,776	9,776
Developer agreements	200	175	(25)
Developer contributed infrastructure	<u>2,506,000</u>	<u>1,043,795</u>	<u>(1,462,205)</u>
Total Capital Contributions	<u>2,786,200</u>	<u>1,333,746</u>	<u>(1,452,454)</u>
Change in Net Assets	2,517,225	769,429	(1,747,796)
<b>NET ASSETS, July 1</b>	<u>30,124,601</u>	<u>30,124,601</u>	<u>-</u>
<b>NET ASSETS, June 30</b>	<u>\$ 32,641,826</u>	<u>\$ 30,894,030</u>	<u>\$ (1,747,796)</u>

**CITY OF FERNLEY  
NON-POTABLE WATER ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>TRANSFER IN (OUT)</b>			
Transfer out	(963,114)	(963,114)	-
Capital asset transfer out - other enterprise fund	<u>(895,202)</u>	<u>(895,202)</u>	<u>-</u>
Total Transfer In (Out)	(1,858,316)	(1,858,316)	-
<b>NET ASSETS, July 1</b>	<u>1,858,316</u>	<u>1,858,316</u>	<u>-</u>
<b>NET ASSETS, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF FERNLEY**  
**AGENCY FUND - MUNICIPAL TRUST FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>
<b>ASSETS</b>				
Cash and investments	\$ 10,936	\$ 48,678	\$ 47,559	\$ 12,055
<b>LIABILITIES</b>				
Bail bond deposits held for others	\$ 10,153	\$ 38,841	\$ 38,221	\$ 10,773
Other liabilities	783	9,837	9,338	1,282
Total Liabilities	<u>\$ 10,936</u>	<u>\$ 48,678</u>	<u>\$ 47,559</u>	<u>\$ 12,055</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.*

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

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

## CITY OF FERNLEY, NEVADA

## NET ASSETS BY COMPONENT

## LAST SIX FISCAL YEARS

	FISCAL YEAR ENDED JUNE 30,					
	2004	2005	2006	2007	2008	2009
<b>GOVERNMENTAL ACTIVITIES</b>						
Invested in capital assets, net of related debt	\$ 11,913,896	\$ 15,883,001	\$ 24,608,748	\$ 30,721,447	\$ 35,677,010	\$ 39,652,258
Restricted	-	-	-	-	362,289	391,600
Unrestricted	3,927,329	5,884,904	5,535,323	4,549,063	2,395,580	2,276,380
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>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Invested in capital assets, net of related debt	\$ 32,471,737	\$ 39,238,863	\$ 57,581,522	\$ 35,352,177	\$ 77,070,390	\$ 95,281,505
Restricted	-	535,237	579,560	-	-	-
Unrestricted	12,780,664	16,901,342	17,939,851	60,502,722	25,025,399	14,523,972
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>
<b>PRIMARY GOVERNMENT</b>						
Invested in capital assets, net of related debt	\$ 44,385,633	\$ 55,121,864	\$ 82,190,270	\$ 66,073,624	\$ 112,747,400	\$ 134,933,763
Restricted	-	535,237	579,560	-	362,289	391,600
Unrestricted	16,707,993	22,786,246	23,475,174	65,051,785	27,420,979	16,800,352
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>

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

## CITY OF FERNLEY, NEVADA

## CHANGE IN NET ASSETS

## LAST SIX FISCAL YEARS

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

**CITY OF FERNLEY, NEVADA**  
**CHANGE IN NET ASSETS (CONTINUED)**  
**LAST SIX FISCAL YEARS**

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

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

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

**LAST EIGHT FISCAL YEARS**

	<b>FISCAL YEAR ENDED JUNE 30,</b>							
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
General fund								
Reserved	\$ 2,478	\$ 287,018	\$ 1,330	\$ 5,205	\$ 6,239	\$ 6,709	\$ 366,424	\$ 394,251
Unreserved	774,938	725,358	790,990	869,817	938,757	582,237	279,443	294,617
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>
All other governmental funds								
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
Capital projects fund	-	728,195	1,499,182	2,502,129	8,032,479	2,397,510	1,160,893	1,145,372
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>

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

## CITY OF FERNLEY, NEVADA

**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST EIGHT FISCAL YEARS**

	FISCAL YEAR ENDED JUNE 30,							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>REVENUES</b>								
Taxes	\$ 359,112	\$ 585,458	\$ 1,190,598	\$ 1,316,826	\$ 1,787,949	\$ 988,056	\$ 1,077,545	\$ 1,316,879
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
Intergovernmental	494,110	772,510	1,415,460	1,354,521	1,231,732	2,333,333	2,117,309	1,631,060
Fines and forfeits	17,643	104,330	170,836	175,167	228,424	234,353	207,465	161,820
Miscellaneous	40,306	55,149	199,081	192,613	794,352	581,833	610,883	138,018
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>
<b>EXPENDITURES</b>								
General government	480,143	475,065	528,906	595,297	717,355	1,025,295	1,238,982	1,290,272
Judicial	61,567	144,797	154,514	171,868	169,163	194,518	251,829	244,714
Public works	297,293	517,855	331,318	420,500	376,571	515,394	428,988	457,243
Culture and recreation	221,460	337,677	324,629	381,962	508,797	647,542	522,392	546,492
Community development	240,811	301,269	405,298	669,105	810,965	834,503	1,226,149	787,056
Health	10,036	40,828	48,395	96,876	256,738	275,905	262,526	232,843
Debt service:								
Principal	84,000	90,314	-	-	-	158,000	165,000	173,000
Interest	10,822	5,117	-	-	94,789	221,032	214,326	206,092
Capital outlay	-	73,948	1,499,163	1,799,989	3,684,115	8,097,529	3,143,509	1,129,385
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>
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>
<b>OTHER FINANCING SOURCES (USES)</b>								
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	-	-	-
Sale of capital assets	-	-	4,277	-	-	61,450	-	-
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>
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>
Debt service as a percentage of noncapital expenditures	7.2%	5.3%	0.0%	0.0%	3.3%	10.9%	9.6%	10.7%

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

**CITY OF FERNLEY, NEVADA**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST EIGHT 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

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 EIGHT FISCAL YEARS\***

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

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, 2009**

Taxpayer	Product/Service	Taxable		Approximate Percentage of Taxable Assessed Valuation
		Estimated Appraised Value (1)	Taxable Assessed Value	
Sierra Pacific Power	Utility	\$ 133,954,886	\$ 46,884,210	6.205%
BMO Leasing US, Inc. (Quebecor)	Printing	45,026,877	15,759,407	2.086%
Southwest Gas Corp.	Utility	37,258,460	13,040,461	1.726%
Reynen & Bardis	Paint Manufacturer	34,763,186	12,167,115	1.610%
TREX Company, Inc.	Wood Product Manufacturer	30,262,731	10,591,956	1.402%
Sherwin-Williams Acceptance Corp	Paint Manufacturer	26,018,991	9,106,647	1.205%
1600 East Newlands Dr., LLC	Developer	25,588,063	8,955,822	1.185%
Nevada Cement Company	Cement Manufacturer	22,188,571	7,766,000	1.028%
Amazon.com	Retail Distributor	21,403,760	7,491,316	0.992%
MSC Industrial Direct Co. Inc.	Industrial Distributor	20,461,513	7,161,530	0.948%
Totals		<u>\$ 396,927,039</u>	<u>\$ 138,924,464</u>	<u>18.387%</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 EIGHT FISCAL YEARS\***

	<b>FISCAL YEAR ENDED JUNE 30,</b>							
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>WATER UTILITY</b>								
Number of Customers	3309	3,966	4,980	6,083	6,634	6,816	7,170	7,371
Annual Average Day Demand per customer	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
Direct rater per 1000 gallons	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 1.11	\$ 1.50

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,**

<b>Employer</b>	<b>2009</b>		<b>2004*</b>	
	<b>User Fees</b>	<b>Rank</b>	<b>User Fees</b>	<b>Rank</b>
Quebecor World MS #2	\$ 68,983	1	\$ 31,703	2
Trex Manufacturing Company	60,941	2	42,141	1
Granite Construction	41,903	3	-	-
Fernley High School	39,771	4	11,081	7
Veteran's Cemetery	33,015	5	15,059	4
Hollywood Investments	28,187	6	18,076	3
City of Fernley Out of Town Park	25,899	7	-	-
Fernley Intermediate School	15,722	8	6,318	9
Rewana Mobile Home Park	13,792	9	5,708	10
Fernley Swimming Pool	13,111	10	-	-
Trails End Mobile Park	-	-	12,016	5
Blue Beacon Wash	-	-	7,413	8
Green Valley Park	-	-	11,957	6

Source: City of Fernley

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

## CITY OF FERNLEY, NEVADA

## RATIOS OF OUTSTANDING DEBT BY TYPE

## LAST EIGHT 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

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 EIGHT FISCAL YEARS\***

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

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, 2009

	Total General Obligation Debt	Presently Self-Supporting General Obligation Debt	Net Debt Outstanding	% Applicable	Applicable Net Debt
<b>Direct:</b>					
City of Fernley	\$ 86,976,729	\$ 82,472,729	\$ 4,504,000	100.00%	<u>\$ 4,504,000</u>
<b>Overlapping:</b>					
State of Nevada (1)	2,315,460	727,545	1,587,915	0.44%	6,987
Lyon County (2)	24,208,999	24,208,999	-	0.00%	-
Lyon County School (3) District	62,983,923	-	62,983,923	35.88%	<u>22,598,632</u>
Total Overlapping Debt					<u>22,605,618</u>
Total Direct and Overlapping Debt					<u><u>\$ 27,109,618</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, 2009**

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Estimated Assessed Value	\$755,529,070
Debt Limit - 30 Percent of Total Assessed Value	226,658,721
Total Amount of Debt Applicable to Debt Limit	<u>86,976,729</u>
Legal Debt Margin	<u>\$139,681,992</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 EIGHT 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%

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 EIGHT 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%

**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	2009			2005*		
	Employees	Rank	Percentage of Total County Employment (1)	Employees	Rank	Percentage of Total County Employment (1)
Amazon.com	1000-1499	1	6.71%	700-799	1	6.14%
Wal-Mart Associates Inc.	200-299	2	1.97%	-	-	-
MSC Industrial Supply Co.	200-299	3	1.97%	100-199	3	1.23%
Quebecor World Nevada Inc.	200-299	4	1.97%	200-299	2	2.05%
TREX Company	200-299	5	1.97%	100-199	4	1.23%
Nevada Cement Company	100-199	6	1.18%	100-199	6	1.23%
Lowe's HIW Inc.	100-199	7	1.18%	-	-	-
Silverado Casino	90-99	8	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 EIGHT 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>
FUNCTION/PROGRAM								
General government	11.9	14.3	14.7	15.5	12.1	18.6	22.3	9.3
Judicial	1.7	1.7	1.9	1.9	2.0	1.9	1.9	3.0
Public works	1.2	1.2	1.3	1.3	2.0	1.5	1.8	2.5
Culture and recreation	3.5	4.5	4.5	7.5	7.5	10.9	11.5	4.8
Community development	4.5	7.0	7.0	12.0	15.5	16.0	14.0	8.1
Health	-	-	-	2.0	3.9	2.9	2.5	3.0
Water	5.4	5.4	5.6	5.9	8.6	6.8	8.1	15.3
Sewer	5.4	5.4	5.6	5.9	9.1	6.8	8.1	9.2
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>

Source: City of Fernley, Nevada FY 2008/2009 Annual Budget

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

**CITY OF FERNLEY, NEVADA**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**

**LAST SEVEN FISCAL YEARS\***

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

Sources: City of Fernley

\*Information presented for fiscal years as available

**CITY OF FERNLEY, NEVADA**  
**CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM**  
**LAST EIGHT FISCAL YEARS\***

Function/Program	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Streets								
Public Road Mileage	89.5	92.03	95.45	104.12	106.64	116.96	125.36	126.79
Parks and Recreation:								
Park and Open Space	56.9	68	68.3	85.3	150	155	155	155
Developed Parks	5	7	7	8	11	11	11	11
Tennis Courts	1	1	1	1	1	1	1	1
Rodeo Arena	1	1	1	1	2	2	2	2
Playing Fields	6	6	7	8	10	19	19	19
Pavilions	1	1	1	2	2	2	3	3
Skate Park	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
Fire Hydrants	700	775	850	925	1000	1033	1083	1102
Sewer Utility:								
Sanitary Sewer lines	63.0	68.0	73.4	79.3	90.0	93.6	101.3	124.2
Sanitary Sewer	615	864	1113	1362	1510	1600	2126	2227

Sources: City of Fernley

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

# **COMPLIANCE SECTION**



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

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

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

We have audited the accompanying financial statements of the City of Fernley, Nevada, (the "City"), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

*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 combinations 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. Finding 09-1.

### Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City of Fernley, in a separate letter dated November 20, 2009.

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

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

*Kapoury, Armstrong + Co.*

Fallon, Nevada  
November 20, 2009



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

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

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

**Compliance**

We have audited the compliance of City of Fernley, Nevada, (the "City"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The City of Fernley's major federal program is 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 program 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 are applicable to its major federal program for the year ended June 30, 2009.

**Internal Control over Compliance**

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-02 to be a significant deficiency.

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

The City of Fernley'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 of Fernley's response and, accordingly, we express no opinion on it.

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

Kafoury, Armstrong + Co.

Fallon, Nevada  
November 20, 2009

**CITY OF FERNLEY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2009**

<b>FEDERAL-GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>FEDERAL EXPENDITURES</b>
<b><u>U.S. Department of Interior:</u></b>		
Direct Program		
Bureau of Reclamation		
Truckee River Settlement Act Implementatin, Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	<u>548,363</u>
 Total Expenditures of Federal Awards		 <u><u>\$ 548,363</u></u>

**CITY OF FERNLEY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**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, 2009. The City's reporting entity is defined in Note 1 to its basic financial statements. All expenditures of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

**B. BASIS OF ACCOUNTING:**

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

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

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

Business-Type Activities:	
Water Utility Fund	<u>\$ 548,363</u>

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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, 2009.
2. A material weakness was identified during the audit of the financial statements as reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. The audit disclosed no instances of noncompliance, which were material to the financial statements of the City of Fernley, Nevada.
4. A significant deficiency in internal control over major Federal award programs was disclosed during the audit and is being reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report issued an unqualified opinion for major Federal award programs of the City of Fernley, Nevada.
6. Audit findings relative to the major federal award programs for City of Fernley, Nevada for the year ended June 30, 2009 which are required to be reported under Section .510(a) of OMB Circular A-133, are reported in Part C of this schedule.
7. The program tested as a major program was:

Truckee River Settlement Act Implementation, Providing Water to  
At-Risk Natural Desert Terminal Lakes, CFDA 15.508
8. The dollar threshold for distinguishing Type A and B programs for the year ended June 30, 2009, was \$300,000.
9. The City of Fernley, Nevada did not qualify as a low risk auditee for the year ended June 30, 2009, under the criteria set forth in Section .530 of OMB Circular A-133.

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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

***Finding 09-1***

*Condition:* Personnel responsible for financial reporting over the City's capital assets and debt activity do not possess the expertise required to calculate and record capitalized interest in accordance with generally accepted accounting principles.

*Criteria:* Controls should be in place to provide reasonable assurance that the City's financial statements are presented in accordance with generally accepted accounting principles.

*Cause:* Significant turnover in the finance department created limited personnel who did not possess the skills and knowledge necessary to record transactions and apply generally accepted accounting principles with respect to the City's capital assets financed with debt proceeds.

*Effect:* The City's financial statements were materially misstated given errors in reporting capital asset additions related to capitalized interest on projects constructed with bond proceeds, and required an audit adjustment of \$1,644,541 in order for the financial statements to be in accordance with generally accepted accounting principles.

*Recommendation:* Management implement procedures to ensure personnel possess the skills and knowledge necessary to record transactions and apply generally accepted accounting principles with respect to the City's debt and capital asset activity.

*Managements response:* See management's response on page 82.

**CITY OF FERNLEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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

***Finding 09-2***

U.S. Department of Interior

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

*Condition:* During our testing of reports, we found that the Financial Status Report for the quarter ending March 31, 2009 had not been reconciled with the general ledger on a timely basis. The accounting records associated with this program included costs in excess of the reports submitted.

*Criteria:* Reports submitted to the Federal awarding agency should include all activity and be supported by the underlying data recorded in the City's accounting system.

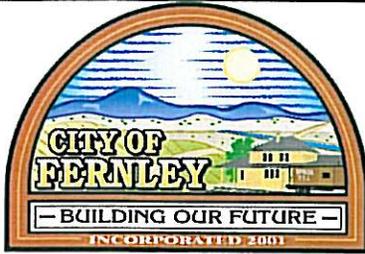
*Questioned Costs:* None

*Cause:* While the report submitted to the granting agency included only allowable costs, the accounting records were not adjusted to agree to the report submitted. Certain costs were recorded in the accounting system were not eligible for reimbursement. The City failed to follow their established procedures in place to ensure that federal reports are reconciled and agreeable to the City's financial records.

*Effect:* The granting agency may receive inaccurate information of actual program expenditures.

*Recommendation:* We recommend the City ensure that during the preparation of the requests for reimbursements and reconciliation to the underlying accounting records any adjustments considered necessary to reconcile these sources be made prior to submission to the granting agency.

*Managements response:* See management's response on page 83.



**City of Fernley**  
**Finance**  
**Department**

Utility Billing  
Accounting  
Budgeting  
Treasury

**MEMORANDUM**

To: Mayor  
Members of the City Council  
Members of the Fernley Audit Committee

From: Melville D. Drown *MDD*

Date: December 14, 2009

RE: **Schedule of Findings and Questioned Costs**

Dear Honorable Members

The City staff has reviewed the finding related to the Financial Statement Audit Reported in Accordance with Generally Accepted Auditing Standards GAGAS:

In reference to Finding 09-1

Condition: Personnel responsible for financial reporting over the City's capital assets and debt activity do not possess the expertise required to calculate and record capitalized interest in accordance with generally accepted accounting principles.

Corrective Action: Management agrees with finding 09-01. Management will take the necessary steps to provide the proper training and gain the expertise to accurately calculate and record capitalized interest in accordance with generally accepted accounting principles.



**CITY OF FERNLEY**  
**Finance**  
**Department**

Utility Billing  
Accounting  
Budgeting  
Treasury

December 11, 2009

Ms. Alice Morgan  
United States Department of Interior  
Bureau of Reclamation  
2800 Cottage Way, MP-3800  
Sacramento, California 95825-1898

RE: Schedule of Findings and Questioned Costs

Dear Ms. Morgan,

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

In reference to Finding 09-2

Condition: During our testing of reports, we determined that amounts included in the report could not be reconciled to the accounting system.

Corrective Action: The Public Works Department of the City of Fernley proposes the following language as management's response.

While the event that precipitated this finding did not result in invoicing the subject grant for an inappropriate charge, it did result in a charge billed against the general ledger's line item which had to be reassigned. This resulted in a discrepancy between the grant reporting documents and the accounting system.

As a result of the discovery of this event during audit preparation, regular reconciliation between reimbursement requests and General Ledger information has already been implemented. This reconciliation is implied in the proposed Grants Policy and Procedures. It will, however, be added specifically in "Section III- Provisions-Roles and Responsibilities – Operating Departments – Administer Grant Programs If Awarded" as "Project Managers will reconcile proposed reimbursement requests with the appropriate General Ledger information prior to submitting reimbursement requests."

Respectfully submitted,

Melville D. Drown  
Treasurer/Finance Director  
City of Fernley

**CITY OF FERNLEY  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

*Finding 08-2:*

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

*Condition:* This finding was a material weakness stating that cash advances were not being limited to immediate cash needs. Cash advances were being requested prior to the related expenditures being made.

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

*Current status:* Implemented.

*Finding 08-3:*

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

*Condition:* This finding was a material weakness stating Financial Status and Performance Progress reports were not being filed timely.

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

*Current status:* Implemented.

# **AUDITOR'S COMMENTS**

# AUDITOR'S COMMENTS

June 30, 2009

## 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 financial weaknesses that were reported as significant deficiencies and material weaknesses. The current status of these findings can be found on the Summary Schedule of Prior Year Audit Findings.

## Current Year Recommendations

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

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

Flat Fixed Fees:

Business license revenue for the year ended June 30, 2008	<u>\$ 137,657</u>
--	-------------------

Adjustment to Base:

Base year:

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

Adjusted Base at June 30, 2009	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, 2008	\$ 840,310
Percentage change in CPI	<u>1.041</u>
Adjusted base at June 30, 2009	843,533
Actual Revenue	<u>1,031,452</u>
Actual Amount over (under) Allowable Amount	<u>\$ 187,919</u>



**KAFOURY, ARMSTRONG & CO.**  
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**Independent Accountant's Report  
on Nevada Revised Statute 354.6241**

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

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

- The identified funds are being used expressly for the purposes for which they were created,
- The funds are administered in accordance with accounting principles generally accepted in the United State of America
- The reserved fund balances/net asset in the funds were reasonable and necessary to carry out the purposes of the funds at June 30, 2009 (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, 2009 (except as previously noted under statute compliance in Note 2 to the financial statements),
- The balance and net assets of the funds are as noted in the financial statements.

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

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

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

*Kafoury, Armstrong & Co.*

Fallon, Nevada  
November 20, 2009