

Comprehensive Annual Financial Report

City of Fernley, Nevada

For the Fiscal Year Ended
June 30, 2011

Prepared by:
Finance Department

Melville Drown
Finance Director
City Treasurer

**CITY OF FERNLEY, NEVADA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2011**

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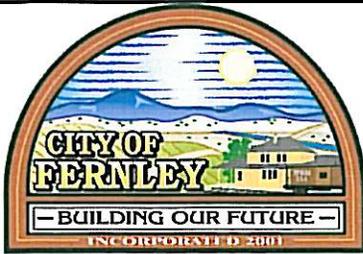
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City of Fernley
Finance
Department

Utility Billing
Accounting
Budgeting
Treasury

February 9, 2012

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, 2011 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, 2011 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, 2011, 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 fourth 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, 2011, the City of Fernley was required to have the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

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

Profile of the Government

The City of Fernley, incorporated in 2001, is located in western Nevada. The City of Fernley currently occupies a land area of 164 square miles and serves a population of 19,368 according to the United States Census taken in 2010. The City of Fernley is empowered to levy a property tax on both real and personal properties located within its boundaries. The City of Fernley is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

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

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

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

The annual budget serves as the foundation for the City of Fernley's financial planning and control. All departments of the City of Fernley are required to submit requests for appropriation to the City Manager in February of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review and a series of City Council workshops are held to discuss the budget. The City Council is required to hold a public hearing on the proposed budget and adopt a final budget by no later than June 1 of each year. The appropriated budget is prepared by fund, function, and department. Department heads may make transfers of appropriations within a department and with the consent of the City Manager appropriations may be transferred between departments. 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 and Outlook

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

Local Economy – The City of Fernley is the largest city in rural Nevada and the 6th largest in the State of Nevada. Fernley is 35% of the current population in Lyon County with a Median Age of 34.8, reflecting a younger work force in comparison with other Nevada cities. Fernley within a 600-mile, one-day service radius of major western cities such as Los Angeles, San Francisco, Portland, and Las Vegas, benefits from a varied manufacturing, and industrial base that adds to the relative stability of employment. Major employers within the City's boundaries include Amazon, Trex, Honeywell, MSC, World Color Printing, and Sherwin-Williams.

Fernley's location in proximity to Interstate 80, rail service, U.S. 50A, U.S. 95A and the Reno-Tahoe International Airport are all positives for business ventures looking to relocate to a more business friendly environment. The City of Fernley and its economic development partners are aggressive in recruiting new businesses. Expansion of new and existing local business ventures are expected to continue to be established in Fernley as a result of the economic development efforts and focus of the City.

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 the completion of the Highway 50 Lift Station.

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 1.73%.

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.

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, 2010. This was the sixth consecutive year that the City of Fernley has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government

City of Fernley
Finance Department

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.

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

Respectfully submitted,

Handwritten signature of Fred Turnier in black ink.

Fred Turnier
Interim City Manager &
Community Development Director

Respectfully submitted,

Handwritten signature of Melville Drown in black ink.

Melville Drown
City Treasurer
Finance Director



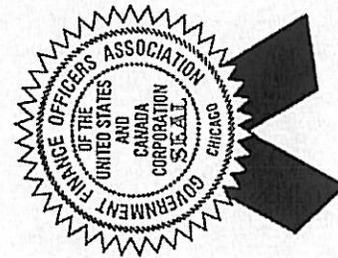
The Government Finance Officers Association
of the United States and Canada

presents this

AWARD OF FINANCIAL REPORTING ACHIEVEMENT

to

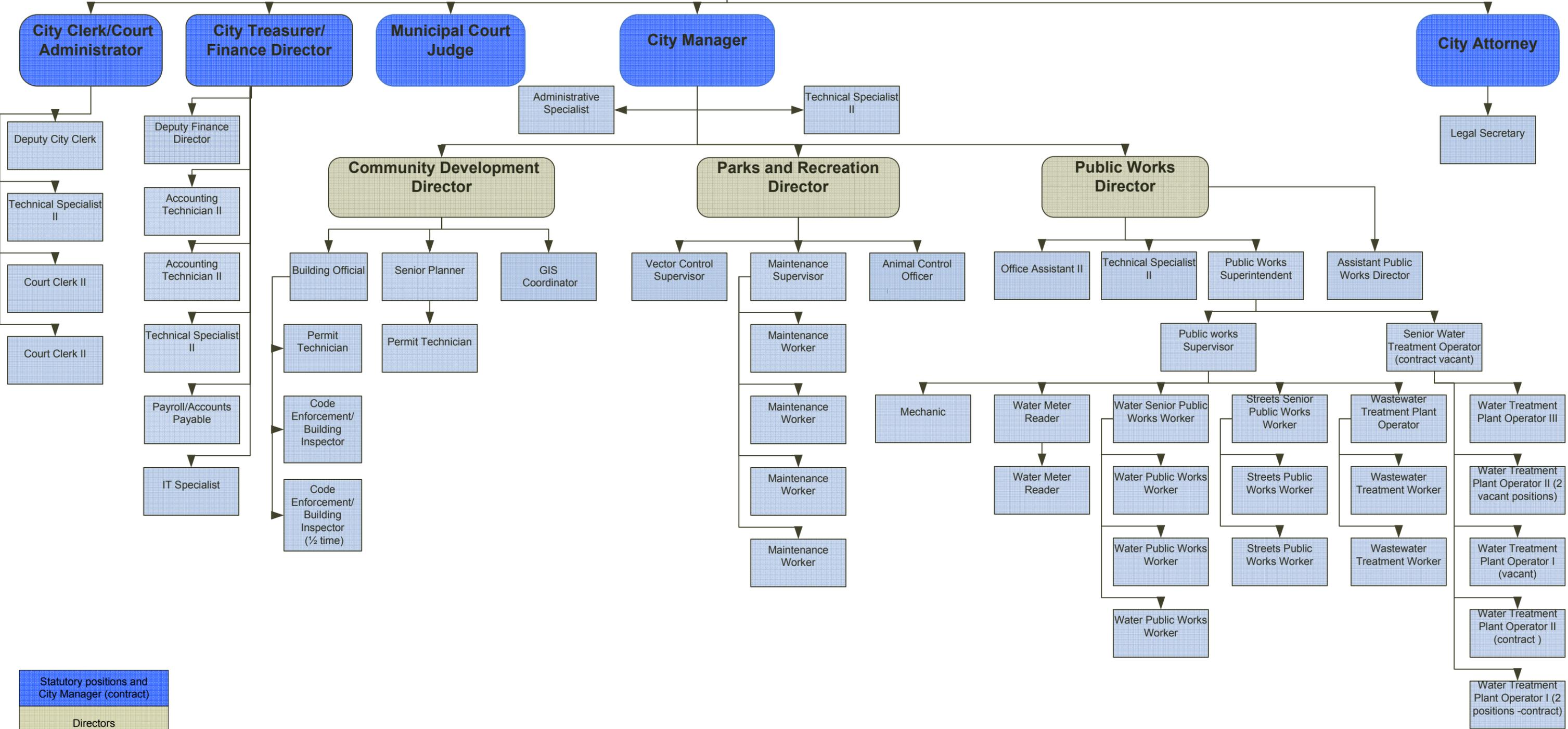
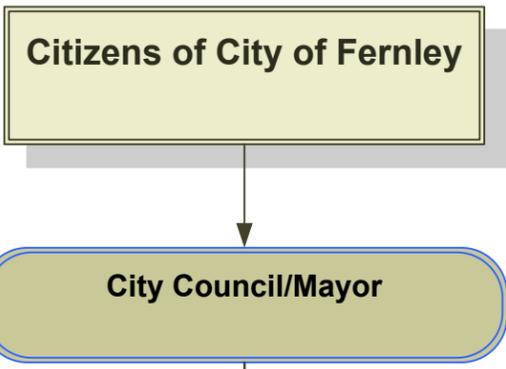
Finance Department
City of Fernley, Nevada



The award of Financial Reporting Achievement is presented by the Government Finance Officers Association to the individual(s) designated as instrumental in their government unit achieving a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is presented to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

Executive Director

Date August 26, 2011



Statutory positions and City Manager (contract)
Directors
City Staff

City Council

Mayor	LeRoy Goodman
Council Member Ward 1	Kelly Malloy
Council Member Ward 2	Don Parsons, Sr.
Council Member Ward 3	Roy Edgington
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

Interim City Manager	Fred Turnier
City Attorney	Brandi Jensen
Chief of Police	Allen Veil
Municipal Court Judge	Daniel Bauer
Building Official	James Ball
City Clerk	Lena Shumway
Community Development Director	Fred Turnier
Finance Director/City Treasurer	Melville Drown
City Engineer	Shari Whalen



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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fernley, Nevada, (the "City") as of and for the year ended June 30, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 9, 2012, on our consideration of the City of Fernley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3A through 3L and budgetary comparison information and the schedule of funding progress-other postemployment benefit plans on

pages 37 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Fallon, Nevada
February 9, 2012

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, 2011. 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 \$145,517,272 (*net assets*). Of this amount, \$13,277,666 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$3,035,371. The decrease is primarily attributable to the reduction in cash and investments used for the payment of the debt service for the water treatment plant which was put in service in 2010.
- As of the close of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$3,243,150, an increase of \$193,128 in comparison with the prior year. The increase is primarily the result of a budget savings of \$105,337 for group insurance resulting from a reduction in benefits. With the exception of the non-spendable, restricted, and assigned balances totaling \$2,019,478 the funds are available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,223,672 or 33% of general fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

The City of Fernley maintains eight 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 two 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 9 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 10 through 12 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 13 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 14 through 36 of this report

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 44 through 60 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fernley, assets exceeded liabilities by \$145,517,272 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	
	FY11	FY10	FY11	FY10	FY11	FY10
Current & other assets	\$ 4,022,176	\$ 3,906,619	\$ 14,364,996	\$ 17,300,501	\$ 18,387,172	\$ 21,207,120
Capital assets	42,817,760	43,003,602	170,671,868	172,875,230	213,489,628	215,878,832
Total Assets	46,839,936	46,910,221	185,036,864	190,048,816	231,876,800	236,959,037
Long-term liabilities	4,106,620	4,274,438	77,346,108	79,035,761	81,452,728	83,310,199
Other liabilities	944,060	1,036,970	3,962,740	4,755,375	4,906,800	5,792,345
Total liabilities	5,050,680	5,311,408	81,308,848	83,791,136	86,359,528	89,102,544
Net assets:						
Invested in capital assets, net of related debt	38,683,760	38,680,602	91,669,313	92,141,040	130,353,073	130,821,642
Restricted	1,886,533	363,402	-	-	1,886,533	363,402
Unrestricted	1,218,963	2,554,809	12,058,703	14,812,790	13,277,666	17,367,599
Total net assets	\$ 41,789,256	\$ 41,598,813	\$ 103,728,016	\$ 106,953,830	\$ 145,517,272	\$ 148,552,643

A portion of the City of Fernley's net assets (4.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$13,277,666) may be used to meet the government's ongoing obligations to citizens and creditors.

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

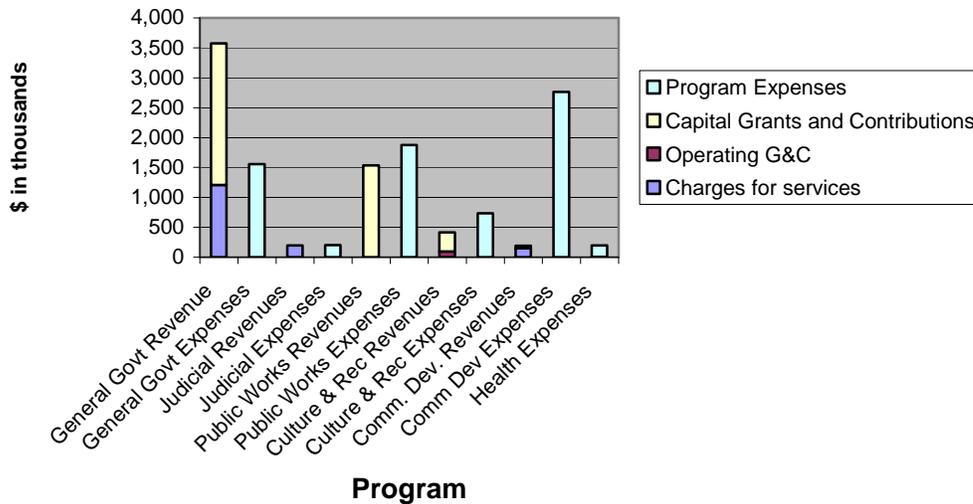
The government's net assets decreased \$3,035,371 during the current fiscal year. The decrease is primarily due to the scheduled debt service payment in the amount of \$5,216,006.

Governmental activities. Governmental activities increased the City of Fernley's net assets by \$190,443.

The following table summarizes the change in net assets for the current and prior fiscal years:

	Governmental Activities		Business-Type Activities		Total	
	FY11	FY10	FY11	FY10	FY11	FY10
Revenues:						
Program revenues:						
Charges for services	\$1,560,667	\$1,817,215	\$6,445,283	\$6,658,068	\$8,005,950	\$8,475,283
Operating grants and contributions	133,460	61,500	4,893	441,742	138,353	503,242
Capital grants and contributions	3,933,102	1,538,400	1,897,368	908,392	5,830,470	2,446,792
General revenues:						
Property taxes	1,473,876	1,410,347	-	-	1,473,876	1,410,347
Shared revenues	412,832	561,429	-	-	412,832	561,429
Other revenues	187,585	73,085	222,951	506,220	410,536	579,305
Total revenues	7,701,522	5,461,976	8,570,495	8,514,422	16,272,017	13,976,398
Expenses:						
General government	1,499,967	1,762,449	-	-	1,499,967	1,762,449
Judicial	204,071	265,515	-	-	204,071	265,515
Public works	1,871,798	1,824,412	-	-	1,871,798	1,824,412
Culture & recreation	734,553	622,998	-	-	734,553	622,998
Community develop.	2,817,551	1,247,018	-	-	2,817,551	1,247,018
Health	193,303	262,865	-	-	193,303	262,865
Interest and Fiscal	189,836	198,144	-	-	189,836	198,144
Water	-	-	9,271,351	9,420,709	9,271,351	9,420,709
Sewer	-	-	2,524,958	2,641,510	2,524,958	2,641,510
Total expenses	7,511,079	6,183,401	11,796,309	12,062,219	19,307,388	18,245,620
Change in net assets	190,443	(721,425)	(3,225,814)	(3,547,797)	(3,035,371)	(4,269,222)
Net assets July	41,598,813	42,320,238	106,953,830	109,805,477	148,552,643	152,125,715
Prior period adjustment	-	-	-	696,150	-	696,150
Net assets June 30	\$41,789,256	\$41,598,813	\$103,728,016	\$106,953,830	\$145,517,272	\$148,552,643

FY11 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 (unassigned) as well as administrative assessment and court facility fees (restricted). The program expenses associated with judicial activities include expenses for the Judge, City Prosecutor, Public Defender, and direct court costs. Overhead costs are not allocated.

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

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

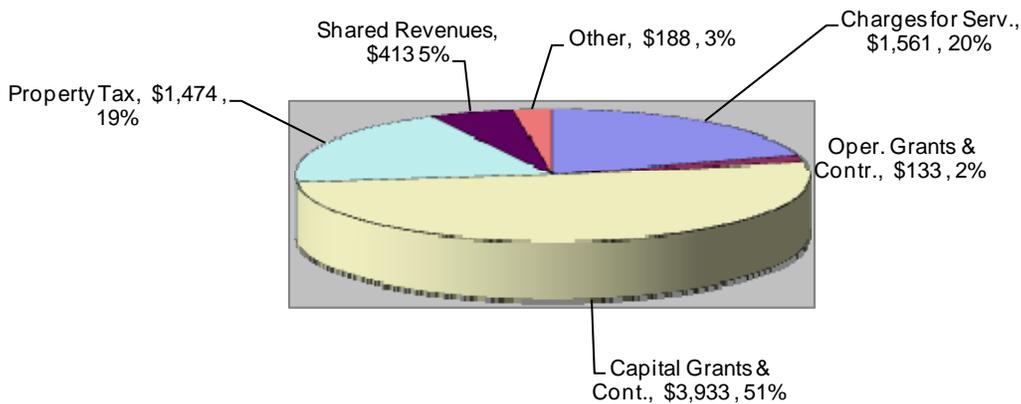
The major source of program revenues for community development activities is building permits and fees. Planning fees are also included in program revenues. The program

expenses associated with these revenues include the operations of the Community Development Department. It is important to note that other, non-routine Community Development expenditures are grouped in this category. 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.

FY11 Revenues by Source - Governmental Activities (in thousands of \$)

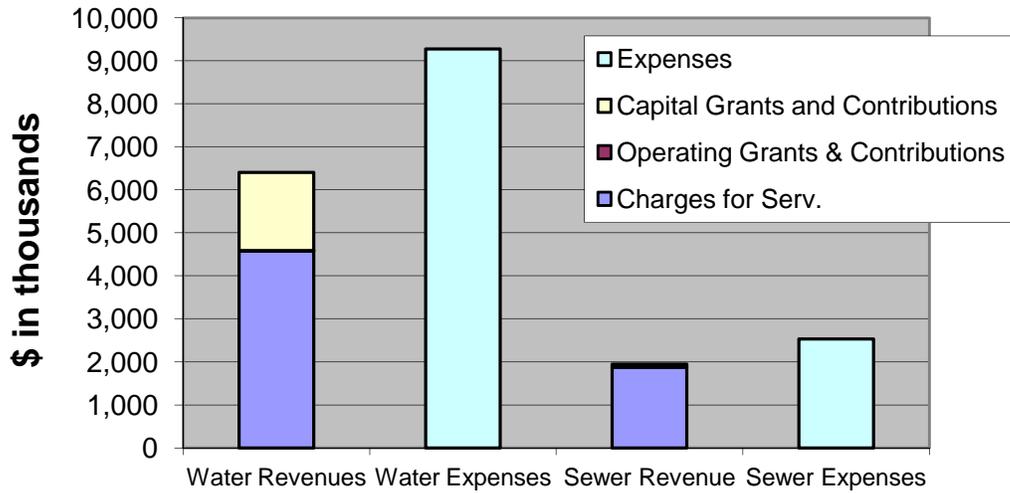


The Charges for Services category includes primarily fees, fines, and licenses. The Capital Grants and Contributions primarily include grants and donated (dedicated) infrastructure (streets and storm drains). The Shared Revenue category includes primarily consolidated tax, fuel tax and gaming licenses.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

Business-type activities. Business-type activities decreased the City of Fernley’s net assets by \$3,225,814. The key element of this decrease is the recording of interest expense in the amount of \$3,696,707.

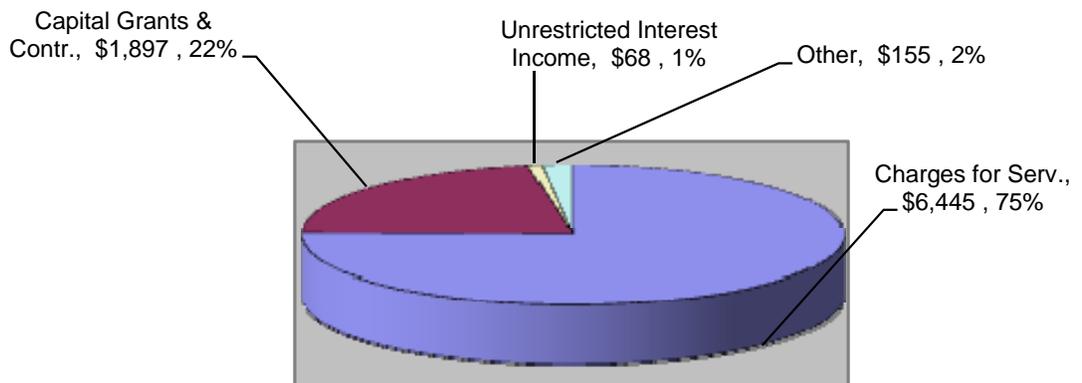
- Charges for services for business-type activities decreased by \$212,785 or 3.2%
- Operating grants decreased \$436,849. All grant activity is now recorded in the Grants Fund.
- Capital contributions increased \$988,976 or 52% primarily due to the recording of dedicated water rights from Lyon County.
- Investment earnings continued to decrease due to lower interest rates and lower levels of cash available for investment.

FY11 Program Revenues and Expenses Business-type Activities



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

FY11 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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Fernley's governmental funds reported combined ending fund balances of \$3,243,150, an increase of \$193,128 in comparison with the prior year. The total of the Non-spendable, Restricted and Assigned fund balances of \$2,019,478 is reserved for prepaid items, capital projects as well as specific projects designated by the City, leaving the remaining *unassigned 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, unassigned fund balance of the general fund was \$1,223,672, while total fund balance decreased to \$1,594,029. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 33% of total general fund expenditures, while total fund balance also represents about 43% of that same amount.

The Grants Fund is used to track revenues and expenditures for various grants that the City has applied for and received. The Grants Fund ended the fiscal year with a fund balance of \$118,133. Administrative fees comprise \$77,208 of the fund balance. The majority of grants that the City has received are reimbursement grants with a small administrative fee (4%). The City has since applied for and received an indirect rate which allows the City to receive an administrative fee of 10.98% for most federal grant awards.

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 Projects Fund was \$1,018,908.

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 \$4,222,773; those for the Sewer Fund amounted to \$7,835,930 resulting in total unrestricted net assets of \$12,058,703. The total change in net assets for the Water Fund was a decrease of \$2,684,979 and decrease in the Sewer Fund of \$540,835. The \$2.7 million decrease in net assets in the city's Water Fund is being addressed in the following manner:

1. Institute a residential and commercial assessment that will increase revenue by approximately \$1.5 million.
2. Transfer or advance \$863,000 from the General Fund to the Water Fund.

Long term solutions could include, but are not limited to bond refunding, increasing the current assessment amount and increasing the water usage rates. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Fernley's business-type activities.

General Fund Budgetary Highlights

The General fund recorded a \$200,000 decrease in revenues between the original and final amended budget, and finished the year with a budget shortfall of \$277,768, with the largest shortfall of \$286,276 in RTC shared revenue.

There was not a need to increase appropriations between the original and final amended budget.

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, 2011 amounts to \$213,489,628 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure (streets and bridges), and other capital assets. The City of Fernley's investment in capital assets for the current fiscal year decreased 0.7%.

City of Fernley Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Totals	
	FY11	FY10	FY11	FY10(restated)	FY11	FY10(restated)
Land	\$3,909,626	\$3,909,626	\$1,195,948	\$ 1,195,948	\$5,105,574	\$5,105,574
Water rights	-	-	38,699,444	37,634,374	38,699,444	37,634,374
Construction in progress	19,779	203,926	69,257	4,331,806	89,036	4,535,732
Buildings	6,674,631	7,018,267	-	663	6,674,631	7,018,930
Improvements other than buildings	6,289,214	6,897,184	129,367,976	128,282,816	135,657,190	135,180,000
Machinery & Equipment	363,998	257,538	471,777	480,699	835,775	738,237
Infrastructure	25,560,512	24,717,061	-	-	25,560,512	24,717,061
Other capital assets			867,466	948,924	867,466	948,924
TOTAL	\$42,817,760	\$43,003,602	\$170,671,868	\$172,875,230	\$213,489,628	\$215,878,832

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 \$78,951,241 and lease-purchase debt of \$4,134,000. All of the debt is backed by the full faith and credit of the government.

	Governmental activities		Business-type activities		Totals	
	7/1/11	7/1/10	7/1/11	7/1/10	7/1/11	7/1/10
General obligation/revenue bonds			\$78,951,241	\$80,649,772	\$78,951,241	\$80,649,772
Lease/Purchase Debt	\$4,134,000	\$4,323,000			\$4,134,000	\$4,323,000
Unamortized bond premium			\$51,314	\$38,995	\$51,314	\$38,995
Compensated absences	\$77,320	\$111,795	\$79,056	\$54,020	\$79,056	\$54,020
TOTAL	\$4,211,320	\$4,434,795	\$79,081,611	\$80,742,787	\$83,215,611	\$85,065,787

The City of Fernley’s total debt decreased by \$1,850,176 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 \$134,431,799, which is significantly in excess of the City of Fernley’s outstanding general obligation debt of \$78,951,241.

Additional information of the City of Fernley’s long-term debt can be found in Note 7 on pages 29 through 31 of this report.

Economic Factors and Next Year’s Budget and Rates

The scheduled rate increases in the water and sewer rates were not put into effect due to a moratorium imposed by the Council pending further study of possible solutions for funding the shortfall from operations in the Water fund.

- Residential development has slowed to a standstill, but limited commercial development has continued.
- The City continues to seek grant funding to enhance the community, to fund capital projects and to defray the expense of maintaining operations of the water treatment plant.

All of these factors were considered in preparing the City of Fernley budget for FY12.

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.

**CITY OF FERNLEY, NEVADA
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Current assets:			
Cash and investments	\$ 3,320,446	\$ 12,346,191	\$ 15,666,637
Restricted cash and investments			
Refundable deposits	-	576,310	576,310
Interest receivable	4,245	16,808	21,053
Taxes receivable	68,329	-	68,329
Accounts receivable, net	218,459	708,742	927,201
Due from other governments	388,322	-	388,322
Inventories	-	140,945	140,945
Prepaid expenses	22,375	-	22,375
Total Current Assets	<u>4,022,176</u>	<u>13,788,996</u>	<u>17,811,172</u>
Noncurrent assets:			
Deferred charges	-	576,000	576,000
Capital assets:			
Land and construction in progress	3,929,405	39,964,649	43,894,054
Other capital assets, net of depreciation	38,888,355	130,707,219	169,595,574
Total Capital Assets	<u>42,817,760</u>	<u>170,671,868</u>	<u>213,489,628</u>
Total Noncurrent Assets	<u>42,817,760</u>	<u>171,247,868</u>	<u>214,065,628</u>
Total Assets	<u>46,839,936</u>	<u>185,036,864</u>	<u>231,876,800</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	498,531	1,559,913	2,058,444
Payable from restricted assets:			
Refundable deposits	-	576,310	576,310
Due to developers	218,577	-	218,577
Due to other governments	3,952	-	3,952
Due within one year	223,000	1,826,517	2,049,517
Total Current Liabilities	<u>944,060</u>	<u>3,962,740</u>	<u>4,906,800</u>
Noncurrent liabilities:			
Other postemployment benefit liabilities	118,300	91,014	209,314
Due in more than one year	3,988,320	77,255,094	81,243,414
Total Noncurrent Liabilities	<u>4,106,620</u>	<u>77,346,108</u>	<u>81,452,728</u>
Total Liabilities	<u>5,050,680</u>	<u>81,308,848</u>	<u>86,359,528</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,683,760	91,669,313	130,353,073
Restricted	1,886,533	-	1,886,533
Unrestricted	1,218,963	12,058,703	13,277,666
Total Net Assets	<u>\$ 41,789,256</u>	<u>\$ 103,728,016</u>	<u>\$ 145,517,272</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
Governmental Activities:							
General government	\$ 1,499,967	\$ 1,209,522	\$ -	\$ 2,079,380	\$ 1,788,935	\$ -	\$ 1,788,935
Judicial	204,071	197,395	-	-	(6,676)	-	(6,676)
Public works	1,871,798	-	-	1,533,877	(337,921)	-	(337,921)
Culture and recreation	734,553	525	93,224	319,845	(320,959)	-	(320,959)
Community development	2,817,551	149,647	40,236	-	(2,627,668)	-	(2,627,668)
Health	193,303	3,578	-	-	(189,725)	-	(189,725)
Debt Service:							
Interest and fiscal charges	189,836	-	-	-	(189,836)	-	(189,836)
Total Governmental Activities	<u>7,511,079</u>	<u>1,560,667</u>	<u>133,460</u>	<u>3,933,102</u>	<u>(1,883,850)</u>	<u>-</u>	<u>(1,883,850)</u>
Business-type Activities:							
Water	9,271,351	4,580,081	4,893	1,817,050	-	(2,869,327)	(2,869,327)
Sewer	2,524,958	1,865,202	-	80,318	-	(579,438)	(579,438)
Total Business- type Activities	<u>11,796,309</u>	<u>6,445,283</u>	<u>4,893</u>	<u>1,897,368</u>	<u>-</u>	<u>(3,448,765)</u>	<u>(3,448,765)</u>
Total	<u>\$ 19,307,388</u>	<u>\$ 8,005,950</u>	<u>\$ 138,353</u>	<u>\$ 5,830,470</u>	<u>(1,883,850)</u>	<u>(3,448,765)</u>	<u>(5,332,615)</u>
General Revenues:							
Property taxes					1,473,876	-	1,473,876
Consolidated taxes					130,215	-	130,215
Fuel taxes					282,617	-	282,617
Unrestricted gaming licenses					99,439	-	99,439
Unrestricted interest income					13,921	68,217	82,138
Miscellaneous revenue					74,225	154,734	228,959
Total General Revenues					<u>2,074,293</u>	<u>222,951</u>	<u>2,297,244</u>
Change in Net Assets					<u>190,443</u>	<u>(3,225,814)</u>	<u>(3,035,371)</u>
Net Assets July 1, as previously reported					41,598,813	106,257,680	147,856,493
Prior period adjustment					-	696,150	696,150
Net Assets July 1, as adjusted					<u>41,598,813</u>	<u>106,953,830</u>	<u>148,552,643</u>
Net Assets June 30					<u>\$ 41,789,256</u>	<u>\$ 103,728,016</u>	<u>\$ 145,517,272</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	GENERAL FUND	CAPITAL PROJECTS FUND	GRANTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	\$ 1,765,854	\$ 513,242	\$ 555,948	\$ 485,402	\$ 3,320,446
Interest receivable	2,232	666	723	624	4,245
Taxes receivable	68,329	-	-	-	68,329
Accounts receivable	214,609	-	-	3,850	218,459
Due from other governments	23,816	-	334,323	30,183	388,322
Advance to other funds	-	505,000	-	-	505,000
Prepaid items	22,375	-	-	-	22,375
	<u>\$ 2,097,215</u>	<u>\$ 1,018,908</u>	<u>\$ 890,994</u>	<u>\$ 520,059</u>	<u>\$ 4,527,176</u>
Total Assets					
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued liabilities	\$ 222,691	\$ -	\$ 267,861	\$ 7,979	\$ 498,531
Due to developers	218,577	-	-	-	218,577
Due to other governments	3,952	-	-	-	3,952
Advance from other funds	-	-	505,000	-	505,000
Deferred revenue	57,966	-	-	-	57,966
	<u>503,186</u>	<u>-</u>	<u>772,861</u>	<u>7,979</u>	<u>1,284,026</u>
Total Liabilities					
Fund Balance:					
Nonspendable					
Prepaid items	22,375	-	-	-	22,375
Restricted:					
Court administration and graffiti abatement - NRS 268.4085	-	-	-	37,313	37,313
Court fees - NRS 176.0611	-	-	-	76,316	76,316
Grants	-	-	98,606	-	98,606
Convention center	-	-	-	132,588	132,588
Future development	327,747	-	-	-	327,747
Specified purpose/donations	13,575	-	-	-	13,575
Capital projects	1,078	1,018,908	-	180,402	1,200,388
Assigned	5,582	-	19,527	85,461	110,570
Unassigned	1,223,672	-	-	-	1,223,672
	<u>1,594,029</u>	<u>1,018,908</u>	<u>118,133</u>	<u>512,080</u>	<u>3,243,150</u>
Total Fund Balance					
Total Liabilities and Fund Balance	<u>\$ 2,097,215</u>	<u>\$ 1,018,908</u>	<u>\$ 890,994</u>	<u>\$ 520,059</u>	<u>\$ 4,527,176</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		\$ 3,243,150
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Capital assets	52,895,492	
Less: Accumulated depreciation	10,077,732	42,817,760
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.		
		57,966
Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period:		
Other postemployment benefits liability	(118,300)	
Bonds payable	(4,134,000)	
Compensated absences	(77,320)	(4,329,620)
Total Net Assets - Governmental Activities		<u>\$ 41,789,256</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND	CAPITAL PROJECTS FUND	GRANTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$ 1,449,538	\$ -	\$ -	\$ 208,844	\$ 1,658,382
Licenses and permits	1,455,105	-	-	-	1,455,105
Intergovernmental	506,056	-	2,119,615	-	2,625,671
Fines and forfeits	157,638	-	-	39,759	197,397
Miscellaneous	89,775	2,623	1,448	1,906	95,752
Developer fees	-	-	-	111,000	111,000
Total Revenues	<u>3,658,112</u>	<u>2,623</u>	<u>2,121,063</u>	<u>361,509</u>	<u>6,143,307</u>
EXPENDITURES					
Current:					
General government	1,661,818	-	-	-	1,661,818
Judicial	190,732	-	-	10,330	201,062
Culture and recreation	612,681	-	-	42	612,723
Community development	590,807	126	2,161,536	43,823	2,796,292
Health	176,488	-	-	-	176,488
Total Current	<u>3,232,526</u>	<u>126</u>	<u>2,161,536</u>	<u>54,195</u>	<u>5,448,383</u>
Debt service:					
Principal	189,000	-	-	-	189,000
Interest	189,836	-	-	-	189,836
Total Debt Service	<u>378,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,836</u>
Capital outlay:					
General government	72,733	-	-	-	72,733
Culture and recreation	14,261	-	-	5,521	19,782
Community development	-	30,445	-	-	30,445
Total Capital Outlay	<u>86,994</u>	<u>30,445</u>	<u>-</u>	<u>5,521</u>	<u>122,960</u>
Total Expenditures	<u>3,698,356</u>	<u>30,571</u>	<u>2,161,536</u>	<u>59,716</u>	<u>5,950,179</u>
Excess (Deficiency) of Revenues over (under) Expenditures	(40,244)	(27,948)	(40,473)	301,793	193,128
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	-	(10,000)	60,000	(50,000)	-
Net Change in Fund Balance	(40,244)	(37,948)	19,527	251,793	193,128
FUND BALANCE, JULY 1	<u>1,634,273</u>	<u>1,056,856</u>	<u>98,606</u>	<u>260,287</u>	<u>3,050,022</u>
FUND BALANCE, JUNE 30	<u>\$ 1,594,029</u>	<u>\$ 1,018,908</u>	<u>\$ 118,133</u>	<u>\$ 512,080</u>	<u>\$ 3,243,150</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net Change if Fund Balances - Governmental Funds **\$ 193,128**

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	122,960	
Less: Current year depreciation	<u>1,839,164</u>	(1,716,204)

In the statement of activities, the gain or loss on the disposal of capital assets is reported. In the governmental funds, the gain or loss is not reported. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold less the balance in accumulated depreciation. (3,515)

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	1,533,877
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Because some property taxes will not be collected in time to pay for obligations in the current period, they are not considered available revenues in the governmental funds and are instead reported as deferred revenues. These revenues are accounted for as revenue in the statement of activities. 24,339

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. 189,000

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

Change in other postemployment benefit liability	(64,657)
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Generally expenditures recognized in the fund financial statements are limited to only those that use current financial resources but expenses are recognized in the statement of activities when incurred:

Change in long-term compensated absences payable	<u>34,475</u>
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Change in Net Assets - Governmental Activities **\$ 190,443**

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER UTILITY FUND	SEWER UTILITY FUND	TOTAL ENTERPRISE FUNDS
ASSETS			
Current assets:			
Cash and investments	\$ 4,515,528	\$ 7,830,663	\$ 12,346,191
Restricted cash and investments:			
Refundable deposits	283,973	292,337	576,310
Interest receivable	6,257	10,551	16,808
Accounts receivable, net	535,118	173,624	708,742
Inventories	116,198	24,747	140,945
Total Current Assets	<u>5,457,074</u>	<u>8,331,922</u>	<u>13,788,996</u>
Noncurrent assets:			
Deferred charges	519,428	56,572	576,000
Capital assets:			
Not being depreciated	39,778,939	185,710	39,964,649
Depreciable assets	115,566,896	38,389,070	153,955,966
	155,345,835	38,574,780	193,920,615
Less: Accumulated depreciation	14,621,012	8,627,735	23,248,747
Total Capital Assets	<u>140,724,823</u>	<u>29,947,045</u>	<u>170,671,868</u>
Total Noncurrent Assets	<u>141,244,251</u>	<u>30,003,617</u>	<u>171,247,868</u>
Total Assets	<u>146,701,325</u>	<u>38,335,539</u>	<u>185,036,864</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,385,277	174,636	1,559,913
Payable from restricted assets:			
Refundable deposits	283,973	292,337	576,310
Debt due within one year	1,476,519	349,998	1,826,517
Total Current Liabilities	<u>3,145,769</u>	<u>816,971</u>	<u>3,962,740</u>
Noncurrent liabilities:			
Other postemployment benefits	59,932	31,082	91,014
Bonds payable, due after one year	69,689,918	7,565,176	77,255,094
Total Noncurrent Liabilities	<u>69,749,850</u>	<u>7,596,258</u>	<u>77,346,108</u>
Total Liabilities	<u>72,895,619</u>	<u>8,413,229</u>	<u>81,308,848</u>
NET ASSETS			
Invested in capital assets, net of related debt	69,582,933	22,086,380	91,669,313
Unrestricted	4,222,773	7,835,930	12,058,703
Total Net Assets	<u>\$ 73,805,706</u>	<u>\$ 29,922,310</u>	<u>\$ 103,728,016</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER UTILITY FUND	SEWER UTILITY FUND	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES			
User fees	\$ 4,580,081	\$ 1,865,202	\$ 6,445,283
Operating grants	4,893	-	4,893
Total Operating Revenues	<u>4,584,974</u>	<u>1,865,202</u>	<u>6,450,176</u>
OPERATING EXPENSES			
Salaries and wages	850,082	373,712	1,223,794
Employee benefits	355,206	161,035	516,241
Services and supplies	1,526,874	556,688	2,083,562
Depreciation	3,207,491	1,068,514	4,276,005
Total Operating Expenses	<u>5,939,653</u>	<u>2,159,949</u>	<u>8,099,602</u>
Operating Income (Loss)	<u>(1,354,679)</u>	<u>(294,747)</u>	<u>(1,649,426)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	29,619	38,598	68,217
In lieu of water rights fees	5,690	-	5,690
Miscellaneous	149,039	5	149,044
Interest expense	(3,331,698)	(365,009)	(3,696,707)
Total Nonoperating Revenue (Expense)	<u>(3,147,350)</u>	<u>(326,406)</u>	<u>(3,473,756)</u>
Income (Loss) Before Capital Contributions	<u>(4,502,029)</u>	<u>(621,153)</u>	<u>(5,123,182)</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	40,157	31,178	71,335
Developer agreements	4,303	-	4,303
Developer contributed infrastructure	707,520	49,140	756,660
Developer contributed water rights	1,065,070	-	1,065,070
Total Capital Contributions	<u>1,817,050</u>	<u>80,318</u>	<u>1,897,368</u>
Change in Net Assets	<u>(2,684,979)</u>	<u>(540,835)</u>	<u>(3,225,814)</u>
Net Assets July 1, as previously reported	<u>75,794,535</u>	<u>30,463,145</u>	<u>106,257,680</u>
Prior period adjustment	<u>696,150</u>	<u>-</u>	<u>696,150</u>
Net Assets July 1, as previously reported	<u>76,490,685</u>	<u>30,463,145</u>	<u>106,953,830</u>
Net Assets, June 30	<u>\$ 73,805,706</u>	<u>\$ 29,922,310</u>	<u>\$ 103,728,016</u>

See accompanying notes.

**CITY OF FERNLEY, NEVADA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER UTILITY FUND	SEWER UTILITY FUND	TOTAL ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 4,686,669	\$ 1,882,515	\$ 6,569,184
Cash received from other funds for services	28,612	-	28,612
Cash received from others	4,893	-	4,893
Cash paid for employees services	(1,207,751)	(507,320)	(1,715,071)
Cash paid to vendors for services and supplies	(1,637,694)	(1,305,789)	(2,943,483)
Net Cash Provided (Used) by Operating Activities	<u>1,874,729</u>	<u>69,406</u>	<u>1,944,135</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payments on debt	(1,405,937)	(292,595)	(1,698,532)
Interest paid on debt	(3,312,607)	(364,800)	(3,677,407)
Deferred charges	109,019	(957)	108,062
In lieu of water rights fees	5,690	-	5,690
Acquisition of capital assets	(40,822)	(200,296)	(241,118)
Developer agreements	4,303	-	4,303
Connection fees	40,157	31,178	71,335
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,600,197)</u>	<u>(827,470)</u>	<u>(5,427,667)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	44,028	52,417	96,445
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,681,440)</u>	<u>(705,647)</u>	<u>(3,387,087)</u>
CASH AND CASH EQUIVALENTS, July 1	<u>7,480,941</u>	<u>8,828,647</u>	<u>16,309,588</u>
CASH AND CASH EQUIVALENTS, June 30	<u>\$ 4,799,501</u>	<u>\$ 8,123,000</u>	<u>\$ 12,922,501</u>
REPRESENTED BY:			
Cash and cash equivalents	\$ 4,515,528	\$ 7,830,663	\$ 12,346,191
Cash - refundable deposits	283,973	292,337	576,310
	<u>\$ 4,799,501</u>	<u>\$ 8,123,000</u>	<u>\$ 12,922,501</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (1,354,679)	\$ (294,747)	\$ (1,649,426)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	3,207,491	1,068,514	4,276,005
Miscellaneous revenues	149,039	5	149,044
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable, net	(44,341)	17,309	(27,032)
Accounts receivable, other	15,742	-	15,742
Due from other funds	14,760	-	14,760
Inventories	(3,811)	(18,297)	(22,108)
Increase (decrease) in:			
Accounts payable	(101,923)	(730,280)	(832,203)
Accrued liabilities	-	562	562
Compensated absences payable	(2,459)	27,499	25,040
Refundable deposits	(36,092)	(14,788)	(50,880)
Other postemployment benefit liability	31,002	13,629	44,631
Total Adjustments	<u>3,229,408</u>	<u>364,153</u>	<u>3,593,561</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,874,729</u>	<u>\$ 69,406</u>	<u>\$ 1,944,135</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES			
Contribution of water rights from developers	1,065,070	-	1,065,070
Contribution of capital assets from developers	<u>707,520</u>	<u>49,140</u>	<u>756,660</u>

See accompanying notes.

CITY OF FERNLEY, NEVADA
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2011

	<u>AGENCY FUND</u>
ASSETS	
Cash and cash equivalents	\$ 11,618
LIABILITIES	
Bail bond deposits held for others	\$ 11,618

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Reporting Entity:

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

B. Government-wide and Fund Financial Statements:

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

The *Grants Fund* is used to account for all federal and state grant awards received.

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

collateralized mortgage obligations rated “AAA” or higher by a nationally recognized rating service. These investments must not, in the aggregate, exceed 20 percent of the total portfolio at the time of purchase, nor include notes and bonds issued by any one corporation in excess of 25 percent of such investments

- United States bonds and debentures maturing within ten (10) years from the date of purchase
- Certain farm loan bonds
- Bills and notes of the United States Treasury, maturing within ten (10) years from the date of purchase
- Obligations of an agency of the United States or a corporation sponsored by the government, maturing within ten (10) years from the date of purchase
- Obligations of state and local governments if, (1) the interest is exempt for federal income tax purposes and (2) the obligations have been rated “A” or higher by a nationally recognized bond credit rating agency
- Negotiable and nonnegotiable certificates of deposit from commercial banks and insured savings and loan associations
- State of Nevada Local Government Pooled Investment Fund
- Certain securities issued by local governments of the State of Nevada
- Certain bankers’ acceptances
- Certain short-term paper issued by a corporation organized and operating in the United States
- Other securities expressly provided by other statutes, including repurchase agreements
- Certain “AAA” rated mutual funds that invest in (1) securities issued by the Federal Government or agencies of the Federal Government, (2) Master, bank notes or other short-term commercial paper rates as “A-1” or “P-1” issued by a corporation or depository institution organized, licensed and operating in the 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 either “due to/from other funds” or “advances to/from other funds. Advances are amounts not expected to be collected or paid within one year. Any residual balances outstanding between the governmental activities and business-type actives are reported in the government-wide financial statements as “internal balances.”

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

\$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.

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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.”

Beginning with fiscal year 2011, the City implemented GASB Statement 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of constraints placed on the City’s fund balances more transparent.

The following classifications have been implemented by the City:

- Nonspendable fund balance – These items are legally or contractually required to be maintained intact or are not in a spendable form, such as inventories and prepaids.
- Restricted fund balance – These amounts are constrained to being used for specific purposes by external parties, constitutional provisions or enabling legislation, such as debt service.
- Committed fund balance – These amounts can only be used for specific purposes as set forth by the City Council, the City’s highest level of decision making authority. The Council must take formal action, prior to the end of the reporting period, in

CITY OF FERNLEY, NEVADA
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order to establish an ending fund balance commitment for any specific purpose. Formal action is also required to modify or rescind an established commitment.

- Assigned fund balance – Assignments are neither restrictions nor commitments and represent the City’s intent to use funds for a specific purpose. These assignments, however, are not legally binding and are meant to reflect intended future use of the City’s ending fund balance. The City Manager has the responsibility of assigning amounts of ending fund balance.
- Unassigned fund balance – The residual classification of the General Fund that is available to spend.

When an expenditure is incurred and both restricted and unrestricted resources are available, the portion of the fund balance that was restricted for those purposes shall be reduced first. If no restricted resources exist, then the unrestricted fund balance shall be reduced. Furthermore, when an expenditure is incurred for purposes which amounts of committed, assigned, or unassigned are considered to have been spent, and any of these unrestricted fund balance classifications could be used, they are considered to be spent in the above order.

The following amounts are restricted for future development as reported in the General Fund:

<u>Developer/Development</u>	<u>Balance at June 30, 2011</u>	<u>Project Description</u>
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
Total	\$ <u>327,747</u>	

CITY OF FERNLEY, NEVADA
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NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A. Budgetary Information:

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

1. On or before April 15, the City Manager submits to the Fernley City Council a tentative budget for the fiscal year commencing the following July 1, to be filed with the Nevada Department of Taxation.
2. Public hearings on the tentative budget are held on the third Tuesday in May to obtain taxpayer comments.
3. Prior to June 1, at a public hearing, the Council indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members 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.
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. Such amendments included augmentations for prior obligations, as well as supplemental appropriations needed for grants, contingencies, and other uses.

CITY OF FERNLEY, NEVADA
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B. Excess of Expenditures/Expenses Over Appropriations:

The City conformed to all significant statutory constraints on its financial administration during the year.

C. Other Compliance Matters:

- It appears specific criteria set forth in NRS 354.6118 as clarified by NAC 354.290, requiring public hearing at which the following be determined: sufficient money was available and unrestricted in the Capital Projects Fund, an acknowledgement that the interfund loan would not comprise the economic viability of the Capital Projects Fund, the amount of time the money would be on loan, the terms and conditions of repayment, and the rate of interest if any, to be charged, were not followed in relation to the following interfund loan:
 - At June 30, 2011, the Grants Special Revenue Fund owed the Capital Projects Fund \$505,000 as evidenced by the line item Advance to Other Funds on the Capital Projects Fund Statement of Net Assets. The advance was made in fiscal year for the purpose of funding anticipated expenditures related to the FEMA disaster of January 5th, 2008.

This appears to be an apparent violation of NRS 354.6118 as clarified by NAC 354.290 (with an effective date of December 16, 2010).

- The City completed a physical inventory over capital assets during the fiscal year ended June 30, 2010. However the assets were not assigned an identifying number nor labeled as belonging to the City as of June 30, 2011.

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

- Actions were taken by the City Council to augment its final budget June 30, 2011. One action occurred subsequent to June 30, 2011. Neither augmentation was submitted to the Department of Taxation in a timely manner.

The above appears to be a violation of NRS 354.598005.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2011, is as follows:

<u>Cash and Investment Balances Held by:</u>	
Governmental Funds	\$ 3,320,446
Fiduciary Funds	11,618
Proprietary Funds:	
Unrestricted	12,346,191
Restricted	576,310*
Total Cash and Investments	<u>\$ 16,254,565</u>

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

<u>Balances Classified by:</u>	
Cash:	
On hand	\$ 1,000
Wells Fargo Bank:	
Checking	1,010,968
Investments:	
NVEST	12,076,608
State of Nevada Local Government Investment Pool	3,165,989
Total Cash and Investments	<u>\$ 16,254,565</u>

As of June 30, 2011, the City of Fernley had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
NVEST:					
U.S. Treasuries	\$ 6,316,447	\$ 5,482,430	\$ 834,017	\$ -	\$ -
U.S. Agencies	950,894	750,806	200,088	-	-
Mortgage-Backed	2,309,667	58,512	34,408	1,418,248	798,499
Corporate Bonds	2,432,983	52,250	2,082,088	298,645	-
Money Market Fund	66,617	66,617	-	-	-
State of Nevada:					
Local Government Investment Pool	3,165,989	3,165,989*	-	-	-
Total	<u>\$15,242,597</u>	<u>\$9,576,604</u>	<u>\$3,150,601</u>	<u>\$1,716,893</u>	<u>\$798,499</u>

* average weighted maturity of 69 days.

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

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

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation and is a function of the credit quality ratings of its investments. As of June 30, 2011, the City's investments in Mortgage-Backed securities were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. Of the City's investments in corporate bonds, \$2,380,733 was rated AAA/Aaa, and \$52,250 has a withdrawn rating. The State of Nevada Local Government Investment Pool is an unrated external investment pool. As noted above, the City does not have a formal investment policy that specifies minimum acceptable credit ratings beyond those specified in statute.

As of June 30, 2011, more than 5% of the City's investments are in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 11%, and 5%, respectively, of the total investments.

As of June 30, 2011, the City was holding \$200,000 par value security of Lehman Brothers Holdings. Although rated as "A", Lehman Brothers filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code on September 18, 2008. At fiscal year end, the value of the investment was written down to \$52,250; which was the market value as determined by the City's investment custodian.

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

CITY OF FERNLEY, NEVADA
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NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2011
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 3,909,626	\$ -	\$ -	\$ 3,909,626
Construction in progress	203,926	122,960	(307,107)	19,779
Total capital assets, not being depreciated	<u>4,113,552</u>	<u>122,960</u>	<u>(307,107)</u>	<u>3,929,405</u>
Capital assets, being depreciated				
Buildings	8,599,098	-	-	8,599,098
Improvements other than buildings	8,865,909	61,207	(3,515)	8,923,601
Machinery and Equipment	1,203,383	245,900	-	1,449,283
Infrastructure	28,460,228	1,533,877	-	29,994,105
Total capital assets, being depreciated	<u>47,128,618</u>	<u>1,840,984</u>	<u>(3,515)</u>	<u>48,966,087</u>
Less accumulated depreciation for:				
Buildings	(1,580,831)	(343,636)	-	(1,924,467)
Improvements other than buildings	(1,968,725)	(665,662)	-	(2,634,387)
Machinery and Equipment	(945,845)	(139,440)	-	(1,085,285)
Infrastructure	(3,743,167)	(690,426)	-	(4,433,593)
Total accumulated depreciation	<u>(8,238,568)</u>	<u>(1,839,164)</u>	<u>-</u>	<u>(10,077,732)</u>
Total capital assets, being depreciated, net	<u>38,890,050</u>	<u>1,820</u>	<u>(3,515)</u>	<u>38,888,355</u>
Governmental activities capital assets, net	<u>\$ 43,003,602</u>	<u>\$ 124,780</u>	<u>\$ (310,622)</u>	<u>\$ 42,817,760</u>

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

	Balance July 1, 2010 (Restated)	Additions or Transfers In	Deletions or Transfers Out	Balance June 30, 2011
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 1,195,948	\$ -	\$ -	\$ 1,195,948
Water rights	37,634,374	1,065,070	-	38,699,444
Construction in progress	4,331,806	188,150	(4,450,699)	69,257
Total capital assets, not being depreciated	<u>43,162,128</u>	<u>1,253,220</u>	<u>(4,450,699)</u>	<u>39,964,649</u>
Capital assets, being depreciated				
Buildings	17,530	-	-	17,530
Improvements other than buildings	145,291,795	5,062,622	-	150,354,417
Machinery and Equipment	1,723,466	208,819	(19,896)	1,912,389
Other capital assets	1,671,630	-	-	1,671,630
Total capital assets, being depreciated	<u>148,704,421</u>	<u>5,271,441</u>	<u>(19,896)</u>	<u>153,955,966</u>
Less accumulated depreciation for:				
Buildings	(16,867)	(662)	-	(17,529)
Improvements other than buildings	(17,008,979)	(3,977,463)	-	(20,986,442)
Machinery and Equipment	(1,242,767)	(216,422)	18,577	(1,440,612)
Other capital assets	(722,706)	(81,458)	-	(804,164)
Total accumulated depreciation	<u>(18,991,319)</u>	<u>(4,276,005)</u>	<u>18,577</u>	<u>(23,248,747)</u>
Total capital assets, being depreciated, net	<u>129,713,102</u>	<u>995,436</u>	<u>(1,319)</u>	<u>130,707,219</u>
Business-type activities capital assets, net	<u>\$ 172,875,230</u>	<u>\$ 2,248,656</u>	<u>\$ (4,452,018)</u>	<u>\$ 170,671,868</u>

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General government	\$ 348,835
Public works	1,347,206
Culture and recreation	127,401
Health	12,375
Community development	3,347
Total depreciation expense – governmental activities	\$ 1,839,164

Business-type Activities:

Water	\$ 3,207,491
Sewer	1,068,514
Total depreciation expense – business-type activities	\$ 4,276,005

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:

Fiscal Year	Contribution Rate ER	Contribution Rate ER/EE	Total Contribution
2010-2011	21.50%	11.25%	\$621,221
2009-2010	21.50%	11.25%	\$566,677
2008-2009	20.50%	10.50%	\$506,212

CITY OF FERNLEY, NEVADA
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NOTE 6 – INTERFUND BALANCES AND ACTIVITY:

The outstanding balances between funds result mainly from the time lag between the dates the (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
Capital Projects Fund	Grants Fund	\$ 505,000

The amounts payable to the Capital Projects Fund relates to an advance made to the Grants Fund in fiscal year 2008 for the purpose of funding anticipated expenditures related to the Federal Emergency Management Agency disaster of January 5th, 2008.

Transfers are shown as other financing sources or uses as appropriate in all Governmental Fund types and as transfers in (out) in the Proprietary Fund types.

Transfers between funds during the year ended June 30, 2011, are as follows:

Governmental Activities	Transfers In	Transfers Out
Capital Projects Fund	\$ -	\$ (10,000)
Grants Fund	60,000	-
Nonmajor Governmental Fund:		
Residential Construction Tax District #2 Fund	-	(50,000)
Total Governmental Funds	\$ 60,000	\$ (60,000)

The principal purpose of the interfund transfers between the governmental funds is for providing matching funds related to a Land and Water Conservation Fund Grant administered by the State of Nevada, Division of Parks. The State grant requires a 50/50 match.

NOTE 7 – LONG-TERM DEBT:

The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2011.

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

	Issue Date	Interest Rate	Maturity Date	Authorized and Issued	Outstanding July 1, 2010	Additions	(Deletions)	Outstanding June 30, 2011	Due in 2011-2012
Governmental Activities:									
Compensated absences payable	-	-	-	\$ -	\$ 111,795	\$ -	\$ (34,475)	\$ 77,320	\$ 25,000
City Hall Expansion Bonds	12/29/05	4.49%	12/01/2025	\$ 5,000,000	4,323,000	-	(189,000)	4,134,000	198,000
Total Governmental Activities					<u>4,434,795</u>	<u>-</u>	<u>(223,475)</u>	<u>4,211,320</u>	<u>223,000</u>
Business-type Activities:									
State Water Pollution Control Revolving Fund	10/28/92	4.00%	6/30/2012	\$ 2,000,000	369,772	-	(143,531)	226,241	149,329
2007 Water/Sewer Bonds	3/28/07	4% - 5%	2/01/2037	\$50,000,000	48,320,000	-	(895,000)	47,425,000	940,000
2008 Water/Sewer Bonds	4/01/08	3.25% - 5%	2/01/2038	\$32,600,000	31,960,000	-	(660,000)	31,300,000	675,000
					<u>80,649,772</u>	<u>-</u>	<u>(1,698,531)</u>	<u>78,951,241</u>	<u>1,764,329</u>
Unamortized Bond Discount/(Premium)					38,995	12,319	-	51,314	2,484
Compensated absences payable					54,020	65,036	(40,000)	79,056	59,704
Total Business-type Activities					<u>80,742,787</u>	<u>77,355</u>	<u>(1,738,531)</u>	<u>79,081,611</u>	<u>1,826,517</u>
Total Long-Term Debt					<u>\$ 85,177,582</u>	<u>\$ 77,355</u>	<u>\$ (1,962,006)</u>	<u>\$ 83,292,931</u>	<u>\$ 2,049,517</u>

CITY OF FERNLEY, NEVADA
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The following schedule reflects debt service requirements to maturity of the City's long-term debt:

Fiscal Year	Debt Supported by General Obligation		Debt Supported by Sewer Fund Revenues		Debt Supported by Water Fund Revenues		Total Requirements to Maturity	
	Principal	Interest	Principal*	Interest*	Principal*	Interest*	Principal	Interest
2012	198,000	181,172	304,493	354,377	1,459,836	3,256,950	1,958,912	3,717,836
2013	207,000	172,079	238,010	342,526	1,513,902	3,203,231	1,961,000	3,643,277
2014	216,000	162,583	168,131	334,810	1,576,869	3,145,884	2,046,000	3,567,129
2015	226,000	152,660	175,548	328,359	1,644,452	3,086,110	2,136,000	3,486,732
2016	236,000	142,288	183,516	321,550	1,716,484	3,022,894	2,136,000	3,486,732
2017-2021	1,355,000	538,329	1,051,037	1,465,334	9,793,963	13,794,978	12,200,000	15,798,641
2022-2026	1,696,000	197,201	1,322,390	1,192,974	12,272,610	11,286,508	15,291,000	12,676,683
2027-2031	-	-	1,672,515	865,758	15,482,485	8,218,429	17,155,000	9,084,187
2032-2036	-	-	2,100,131	435,590	19,429,869	4,187,147	21,530,000	4,622,737
2037-2041	-	-	627,527	36,216	6,217,473	379,184	6,845,000	415,400
Total	\$ 4,134,000	\$ 1,546,312	\$ 7,843,298	\$ 5,677,494	\$ 71,107,943	\$ 53,581,315	\$ 83,258,912	\$ 60,499,354

* Exclusive of unamortized premium and issuance costs.

CITY OF FERNLEY, NEVADA
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NOTE 8 – POSTEMPLOYMENT RETIREMENT HEALTH INSURANCE BENEFIT:

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

Benefit provisions for the COFEHBP are established pursuant to NRS 287.023 and amended through negotiations between the City and the respective associations. NRS 288.150 assigns the authority to establish benefit provisions to the Board of Commissioners. The plan provides healthcare insurance for eligible retirees and their beneficiaries through the City's group health insurance plan, which covers both active and retired members. Under NRS 287.023, eligible retirees are able to participate in the plan with blended rates, thereby benefitting from an implicit subsidy. Retirees are required to pay 100% of their premiums under the plan. As of June 30, 2011, no retirees were using this plan. The COFEHBP does not issue a publicly available financial report.

Benefit provisions for the PEBP are administered by the State of Nevada. NRS 287.043 assigns the authority to establish and amend benefit provisions to the PEBP nine-member board of trustees. City employees who met the eligibility requirements effective September 1, 2008 for retirement within the Nevada Public Employee Retirement System had the option upon retirement to enroll in coverage under the PEBP. NRS 287.023 sunsetted the option to join PEBP for City employees who retired from the City after November 29, 2008. Local governments are required to pay the same portion of the cost of coverage for their retirees joining PEBP that the State of Nevada pays for state retirees participating in the plan. As of June 30, 2011, seven City retirees were utilizing this benefit.

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

For the PEBP, NRS 287.046 establishes the subsidies to be contributed toward the premium costs of the eligible retired City employees. The contribution requirements of plan members and the City may be amended by the PEBP board. Premium rates determined by PEBP are the same for all participating members. Plan members receiving benefits have their monthly contribution deducted from their pension checks based on the health plan chosen by the retiree, as reduced by the amount of the subsidy; therefore, their contributions are not available. For the plan year ended June 30, 2011, City retirees qualified for a subsidy of \$105 at five years of service and \$575 at twenty years of service, with incremental increases for years of service in between. As a participating employer, the City is billed for the subsidy on a monthly basis and is legally required to provide for it. For fiscal year 2011, the City contributed \$17,049 to the plan, equal to required contributions. The City did not prefund future benefits.

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations, by plan, for fiscal years 2010-11 and 2009-10 were as follows:

	Fiscal Year End	Annual OPEB Cost (Entry Age Normal Cost Method)	Employer Contributions	Percentage of Annual OPEB Contributed	Net OPEB Obligation
COFEHBP	June 30, 2011	\$ 102,281	\$ -	0%	\$ 197,094
PEBP	June 30, 2011	<u>24,056</u>	<u>17,049</u>	71%	<u>12,220</u>
		<u>\$ 126,337</u>	<u>\$ 17,049</u>		<u>\$ 209,314</u>
COFEHBP	June 30, 2010	\$ 94,813	\$ -	0%	\$ 94,813
PEBP	June 30, 2010	<u>23,826</u>	<u>18,613</u>	78%	<u>5,213</u>
		<u>\$ 118,639</u>	<u>\$ 18,613</u>		<u>\$ 100,026</u>

The net OPEB obligation (NOPEBO) as of June 30, 2011, was calculated as follows:

	COFEHBP	PEBP	Total
Annual Required Contribution (ARC)	\$ 102,368	\$ 24,155	\$ 126,523
Interest on net OPEB obligation	3,793	208	4,001
Adjustment to annual required contribution	<u>(3,880)</u>	<u>(307)</u>	<u>(4,187)</u>
Annual OPEB Cost	102,281	24,056	126,337
Less: Contributions made	<u>-</u>	<u>17,049</u>	<u>17,049</u>
Increase in net OPEB obligation	102,281	7,007	109,288
Net OPEB obligation – beginning of the year	<u>94,813</u>	<u>5,213</u>	<u>100,026</u>
Net OPEB obligation – end of year	<u>\$ 197,094</u>	<u>\$ 12,220</u>	<u>\$ 209,314</u>

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Funded Status and Funding Progress: The funded status of the plans as of June 30, 2011 were as follows:

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

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

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Significant methods and assumptions used in the June 30, 2011 actuarial valuation were as follows:

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

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

NOTE 9 – RISK MANAGEMENT:

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

The City has joined together with similar public agencies (cities, counties and special districts) throughout the State of Nevada to create a pool under the Nevada Interlocal Cooperation Act. The Nevada Public Agency Insurance Pool (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).

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

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

At June 30, 2011, the City had two construction contracts in progress. Management has estimated that approximately \$72,472 will be billed for work completed over the next fiscal year.

NOTE 11 – PRIOR PERIOD ADJUSTMENT:

Management determined that intangible assets owned by the City had not been capitalized as required by Government Accounting Standards Board Statement No. 51 Basic Financial Statements. Accordingly, beginning water rights and beginning net assets in the Water Enterprise Fund were increased by \$696,150.

NOTE 12 – SUBSEQUENT EVENTS:

On July 2, 2011, the City entered into a Settlement Agreement and Mutual Release with Truckee Carson Irrigation District. The terms of the agreement settle all claims arising from the break of the Truckee Canal on January 5, 2008. The settlement is in the amount of \$200,000, not in cash, but by offsetting any consideration mutually agreed upon by the parties.

The City Council awarded several contracts after year end. The most significant of these contracts include the following:

- Construction contracts to A&K Earthmovers, Inc. in amounts not to exceed \$3,017,020.
- A legal contract to Taggart & Taggart, LTD in the amount not to exceed \$212,376.

CITY OF FERNLEY, NEVADA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
(Page 1 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
REVENUES					
Taxes:					
Ad valorem	\$ 1,462,048	\$ 1,462,048	\$ 1,449,538	\$ -	\$ (12,510)
Licenses and permits:					
Business licenses	200,000	200,000	202,452	-	2,452
Franchise fees	920,000	920,000	951,760	-	31,760
Liquor licenses	30,000	30,000	26,128	-	(3,872)
City gaming licenses	90,000	90,000	99,439	-	9,439
Building permits and fees	120,000	120,000	130,527	-	10,527
Planning and zoning permits and fees	15,000	15,000	19,120	-	4,120
Public works fees	46,000	46,000	13,048	-	(32,952)
Other permits	11,000	11,000	12,631	-	1,631
	<u>1,432,000</u>	<u>1,432,000</u>	<u>1,455,105</u>	<u>-</u>	<u>23,105</u>
Intergovernmental revenues:					
Consolidated tax distribution	150,000	150,000	130,215	-	(19,785)
Motor vehicle fuel tax	264,797	264,797	282,617	-	17,820
RTC shared revenue	519,500	319,500	33,224	(200,000)	(286,276)
Fernley park agreement	60,000	60,000	60,000	-	-
	<u>994,297</u>	<u>794,297</u>	<u>506,056</u>	<u>(200,000)</u>	<u>(288,241)</u>
Fines and forfeits:					
Community service fee	-	-	700	-	700
Municipal court fines	174,200	174,200	145,335	-	(28,865)
Municipal court fees	16,800	16,800	11,603	-	(5,197)
	<u>191,000</u>	<u>191,000</u>	<u>157,638</u>	<u>-</u>	<u>(33,362)</u>
Miscellaneous:					
Interest	12,800	12,800	7,809	-	(4,991)
Park development	-	-	525	-	525
Miscellaneous	43,600	43,600	81,306	-	37,706
	<u>56,400</u>	<u>56,400</u>	<u>89,640</u>	<u>-</u>	<u>33,240</u>
Total Revenues	<u>4,135,745</u>	<u>3,935,745</u>	<u>3,657,977</u>	<u>(200,000)</u>	<u>(277,768)</u>
EXPENDITURES					
General government:					
Finance:					
Salaries and wages	70,405	70,405	72,359	-	(1,954)
Employee benefits	30,040	30,040	28,582	-	1,458
Services and supplies	36,910	61,910	54,906	25,000	7,004
Contingency	45,727	-	-	(45,727)	-
Total Finance	<u>183,082</u>	<u>162,355</u>	<u>155,847</u>	<u>(20,727)</u>	<u>6,508</u>
Information Technology:					
Salaries and wages	51,208	51,208	56,078	-	(4,870)
Employee benefits	21,434	21,434	20,171	-	1,263
Services and supplies	(1,500)	23,500	17,039	25,000	6,461
Total Information Technology	<u>71,142</u>	<u>96,142</u>	<u>93,288</u>	<u>25,000</u>	<u>2,854</u>

CITY OF FERNLEY, NEVADA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
(Page 2 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
Office of the City Clerk:					
Salaries and wages	\$ 141,672	\$ 141,672	\$ 150,457	\$ -	\$ (8,785)
Employee benefits	53,283	53,283	56,186	-	(2,903)
Services and supplies	23,600	23,600	11,839	-	11,761
Total City Clerk	<u>218,555</u>	<u>218,555</u>	<u>218,482</u>	<u>-</u>	<u>73</u>
Office of the City Manager:					
Salaries and wages	198,780	198,780	203,721	-	(4,941)
Employee benefits	91,666	91,666	61,555	-	30,111
Services and supplies	28,750	28,750	52,830	-	(24,080)
Total City Manager	<u>319,196</u>	<u>319,196</u>	<u>318,106</u>	<u>-</u>	<u>1,090</u>
Office of the City Attorney:					
Salaries and wages	149,956	149,956	147,773	-	2,183
Employee benefits	62,218	62,218	52,514	-	9,704
Services and supplies	20,540	20,540	22,407	-	(1,867)
Total City Attorney	<u>232,714</u>	<u>232,714</u>	<u>222,694</u>	<u>-</u>	<u>10,020</u>
Mayor/City Council:					
Salaries and wages	71,931	71,931	71,366	-	565
Employee benefits	16,263	16,263	14,190	-	2,073
Services and supplies	37,278	37,278	35,829	-	1,449
Total Mayor/City Council	<u>125,472</u>	<u>125,472</u>	<u>121,385</u>	<u>-</u>	<u>4,087</u>
Streets & Public Works					
Salaries and wages	189,676	189,676	193,895	-	(4,219)
Employee benefits	81,882	81,882	72,178	-	9,704
Services and supplies	246,600	246,600	265,943	-	(19,343)
Capital outlay	400,000	100,000	72,733	(300,000)	27,267
Total Streets & Public Works	<u>918,158</u>	<u>618,158</u>	<u>604,749</u>	<u>(300,000)</u>	<u>13,409</u>
Total General Government	<u>2,068,319</u>	<u>1,772,592</u>	<u>1,734,551</u>	<u>(295,727)</u>	<u>38,041</u>
Judicial:					
Municipal court:					
Salaries and wages	107,627	107,627	106,332	-	1,295
Employee benefits	54,970	54,970	46,247	-	8,723
Services and supplies	42,850	42,850	38,153	-	4,697
Total Judicial	<u>205,447</u>	<u>205,447</u>	<u>190,732</u>	<u>-</u>	<u>14,715</u>

CITY OF FERNLEY, NEVADA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

(Page 3 of 3)

	BUDGET		ACTUAL	VARIANCE WITH	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
Culture and Recreation:					
Parks:					
Salaries and wages	\$ 251,739	\$ 251,739	\$ 247,933	\$ -	\$ 3,806
Employee benefits	104,343	104,343	69,249	-	35,094
Services and supplies	297,450	297,450	295,499	-	1,951
Total Culture and Recreation	<u>653,532</u>	<u>653,532</u>	<u>612,681</u>	<u>-</u>	<u>40,851</u>
Community development:					
Building:					
Salaries and wages	160,316	160,316	138,942	-	21,374
Employee benefits	69,266	64,993	49,316	(4,273)	15,677
Services and supplies	24,525	24,525	16,007	-	8,518
Total Building	<u>254,107</u>	<u>249,834</u>	<u>204,265</u>	<u>(4,273)</u>	<u>45,569</u>
Planning:					
Salaries and wages	239,817	239,817	226,166	-	13,651
Employee benefits	105,276	105,276	74,684	-	30,592
Services and supplies	54,850	54,850	85,692	-	(30,842)
Total Planning	<u>399,943</u>	<u>399,943</u>	<u>386,542</u>	<u>-</u>	<u>13,401</u>
Total Community Development	<u>654,050</u>	<u>649,777</u>	<u>590,807</u>	<u>(4,273)</u>	<u>58,970</u>
Health:					
Animal control:					
Salaries and wages	37,294	37,294	40,702	-	(3,408)
Employee benefits	22,314	22,314	17,553	-	4,761
Services and supplies	7,950	7,950	8,336	-	(386)
Total Animal Control	<u>67,558</u>	<u>67,558</u>	<u>66,591</u>	<u>-</u>	<u>967</u>
Vector control:					
Salaries and wages	50,836	50,836	55,021	-	(4,185)
Employee benefits	17,677	17,677	14,782	-	2,895
Services and supplies	43,950	43,950	40,094	-	3,856
Total Vector Control	<u>112,463</u>	<u>112,463</u>	<u>109,897</u>	<u>-</u>	<u>2,566</u>
Total Health	<u>180,021</u>	<u>180,021</u>	<u>176,488</u>	<u>-</u>	<u>3,533</u>
Debt service:					
Principal	189,000	189,000	189,000	-	-
Interest	189,860	189,860	189,836	-	24
Total Debt Service	<u>378,860</u>	<u>378,860</u>	<u>378,836</u>	<u>-</u>	<u>24</u>
Total Expenditures	<u>4,140,229</u>	<u>3,840,229</u>	<u>3,684,095</u>	<u>(300,000)</u>	<u>156,134</u>
Excess of Revenues Over Expenditures	(4,484)	95,516	(26,118)	100,000	(121,634)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	<u>531,588</u>	<u>791,178</u>	<u>791,178</u>	<u>259,590</u>	<u>-</u>
Net Change in Fund Balance	527,104	886,694	765,060	359,590	(121,634)
FUND BALANCE, July 1	<u>907,448</u>	<u>814,316</u>	<u>814,316</u>	<u>(93,132)</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 1,434,552</u>	<u>\$ 1,701,010</u>	<u>\$ 1,579,376</u>	<u>\$ 266,458</u>	<u>\$ (121,634)</u>

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE GENERAL FUND (BUDGETARY BASIS) TO THE GENERAL FUND (GAAP BASIS)
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND (BUDGETARY BASIS)	INTERNALLY REPORTED FUNDS			GENERAL FUND AS REPORTED ON STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (GAAP BASIS)
		STREETS AND STORM DRAINS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	
REVENUES					
Taxes	\$ 1,449,538	\$ -	\$ -	\$ -	\$ 1,449,538
Licenses and permits	1,455,105	-	-	-	1,455,105
Intergovernmental	506,056	-	-	-	506,056
Fines and forfeits	157,638	-	-	-	157,638
Miscellaneous	89,640	-	61	74	89,775
Total Revenues	3,657,977	-	61	74	3,658,112
EXPENDITURES					
Current					
General government	1,661,818	-	-	-	1,661,818
Judicial	190,732	-	-	-	190,732
Culture and recreation	612,681	-	-	-	612,681
Community development	590,807	-	-	-	590,807
Health	176,488	-	-	-	176,488
Total Current	3,232,526	-	-	-	3,232,526
Debt service:					
Principal	189,000	-	-	-	189,000
Interest	189,836	-	-	-	189,836
Total Debt Service	378,836	-	-	-	378,836
Capital outlay:					
General government	72,733	-	-	-	72,733
Culture and recreation	-	-	-	14,261	14,261
Total Capital Outlay	72,733	-	-	14,261	86,994
Total Expenditures	3,684,095	-	-	14,261	3,698,356
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,118)	-	61	(14,187)	(40,244)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	791,178	(791,178)	-	-	-
Net Change in Fund Balance	765,060	(791,178)	61	(14,187)	(40,244)
FUND BALANCE, JULY 1	814,316	791,178	13,514	15,265	1,634,273
FUND BALANCE, JUNE 30	\$ 1,579,376	\$ -	\$ 13,575	\$ 1,078	\$ 1,594,029

See accompanying notes to required supplementary information.

**CITY OF FERNLEY, NEVADA
GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL TO FINAL</u>	<u>FINAL TO ACTUAL</u>
REVENUES					
Intergovernmental:					
Grant	\$ 4,489,487	\$ 4,489,487	\$ 2,119,615	\$ -	\$ (2,369,872)
Miscellaneous:					
Interest earnings	3,500	3,500	1,448	-	(2,052)
Total Revenues	<u>4,492,987</u>	<u>4,492,987</u>	<u>2,121,063</u>	<u>-</u>	<u>(2,371,924)</u>
EXPENDITURES					
Community Development:					
Salaries and wages	-	-	62,186	-	(62,186)
Employee benefits	-	-	24,930	-	(24,930)
Services and supplies	4,358,256	4,358,256	2,074,420	-	2,283,836
Total Expenditures	<u>4,358,256</u>	<u>4,358,256</u>	<u>2,161,536</u>	<u>-</u>	<u>2,196,720</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	134,731	134,731	(40,473)	-	(175,204)
OTHER FINANCING SOURCES					
Transfers in (out)	-	60,000	60,000	60,000	-
Net Change in Fund Balance	134,731	194,731	19,527	60,000	(175,204)
FUND BALANCE, July 1	<u>107,344</u>	<u>98,606</u>	<u>98,606</u>	<u>(8,738)</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 242,075</u>	<u>\$ 293,337</u>	<u>\$ 118,133</u>	<u>\$ 51,262</u>	<u>\$ (175,204)</u>

CITY OF FERNLEY, NEVADA
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFIT PLANS
FOR THE YEAR ENDED JUNE 30, 2011

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

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

* The option to join the State plan was sunsetted for City Employees effective November 29, 2008.

CITY OF FERNLEY, NEVADA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

The accompanying Reconciliation of the General Fund (Budgetary Basis) to the General Fund (GAAP Basis) presents balances combined for external reporting purposes.

Budget to actual comparisons are presented for all funds of the City, as required by Nevada Revised Statutes. Such budget comparisons are required to be presented using the budget as adopted, and approved by the State of Nevada Department of Taxation. However, guidance provided in governmental accounting standards specify that three of these internally reported funds of the City of Fernley, not meeting the definition of special revenue funds, do not qualify to be separately presented for external reporting purposes.

These internally reported funds of the City (Streets and Storm Drains Fund, Private Sector Community Support Fund, and Residential Construction Tax District #1 Fund) are combined with the General Fund for external reporting purposes.

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE GENERAL FUND (BUDGETARY BASIS) TO THE GENERAL FUND (GAAP BASIS)
COMBINING BALANCE SHEET
JUNE 30, 2011

	GENERAL FUND (BUDGETARY BASIS)	INTERNALLY REPORTED			GENERAL FUND AS REPORTED ON BALANCE SHEET (GAAP BASIS)
		STREETS AND STORM DRAINS FUND	PRIVATE SECTOR COMMUNITY SUPPORT FUND	RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND	
ASSETS					
Cash and investments	\$ 1,736,979	\$ -	\$ 13,557	\$ 15,318	\$ 1,765,854
Interest receivable	2,194	-	18	20	2,232
Taxes receivable	68,329	-	-	-	68,329
Accounts receivable	214,609	-	-	-	214,609
Due from other governments	23,816	-	-	-	23,816
Prepays	22,375	-	-	-	22,375
Total Assets	<u>\$ 2,068,302</u>	<u>\$ -</u>	<u>\$ 13,575</u>	<u>\$ 15,338</u>	<u>\$ 2,097,215</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	208,431	\$ -	\$ -	\$ 14,260	\$ 222,691
Due to developers	218,577	-	-	-	218,577
Due to other governments	3,952	-	-	-	3,952
Deferred revenue	57,966	-	-	-	57,966
Total Liabilities	<u>488,926</u>	<u>-</u>	<u>-</u>	<u>14,260</u>	<u>503,186</u>
Fund Balance:					
Nonspendable	22,375	-	-	-	22,375
Restricted:					
Future development	327,747	-	-	-	327,747
Specified purpose	-	-	13,575	-	13,575
Capital projects	-	-	-	1,078	1,078
Assigned	5,582	-	-	-	5,582
Unassigned	1,223,672	-	-	-	1,223,672
Total Fund Balance	<u>1,579,376</u>	<u>-</u>	<u>13,575</u>	<u>1,078</u>	<u>1,594,029</u>
Total Liabilities and Fund Balance	<u>\$ 2,068,302</u>	<u>\$ -</u>	<u>\$ 13,575</u>	<u>\$ 15,338</u>	<u>\$ 2,097,215</u>

**CITY OF FERNLEY, NEVADA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	NONMAJOR SPECIAL REVENUE FUNDS	NONMAJOR CAPITAL PROJECTS FUND	TOTAL
ASSETS			
Cash and investments	\$ 448,518	\$ 36,884	\$ 485,402
Interest receivable	576	48	624
Accounts receivable	3,850	-	3,850
Due from other governments	30,183	-	30,183
Total Assets	\$ 483,127	\$ 36,932	\$ 520,059
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable and accrued liabilities	\$ 7,979	\$ -	\$ 7,979
Fund Balance:			
Restricted:			
Court administration and graffiti abatment - NRS 268.4085	37,313	-	37,313
Court fees - NRS 176.0611	76,316	-	76,316
Convention center	132,588	-	132,588
Capital projects	143,470	36,932	180,402
Assigned	85,461	-	85,461
Total Fund Balance	475,148	36,932	512,080
Total Liabilities and Fund Balance	\$ 483,127	\$ 36,932	\$ 520,059

CITY OF FERNLEY, NEVADA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	NONMAJOR SPECIAL REVENUE FUNDS	NONMAJOR CAPITAL PROJECTS FUND	TOTAL
REVENUES			
Taxes:			
Residential construction tax	\$ 2,000	\$ -	\$ 2,000
Transient lodging tax	198,628	-	198,628
Ad Valorem	-	8,216	8,216
	<u>200,628</u>	<u>8,216</u>	<u>208,844</u>
Fines and forfeits:			
Municipal administrative fees	<u>39,759</u>	-	<u>39,759</u>
Miscellaneous:			
Interest earnings	1,751	155	1,906
Developer fees	111,000	-	111,000
	<u>112,751</u>	<u>155</u>	<u>112,906</u>
Total Revenues	<u>353,138</u>	<u>8,371</u>	<u>361,509</u>
EXPENDITURES			
Judicial:			
Services and supplies	10,330	-	10,330
Culture and recreation:			
Services and supplies	42	-	42
Community development:			
Services and supplies	43,823	-	43,823
Capital outlay	5,521	-	5,521
	<u>49,344</u>	-	<u>49,344</u>
Total Expenditures	<u>59,716</u>	-	<u>59,716</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	293,422	8,371	301,793
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(50,000)</u>	-	<u>(50,000)</u>
Net Change in Fund Balance	243,422	8,371	251,793
FUND BALANCE, JULY 1	<u>231,726</u>	<u>28,561</u>	<u>260,287</u>
FUND BALANCE, JUNE 30	<u>\$ 475,148</u>	<u>\$ 36,932</u>	<u>\$ 512,080</u>

**CITY OF FERNLEY, NEVADA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	<u>MUNICIPAL COURT ADMINISTRATIVE FEES FUND</u>	<u>MUNICIPAL COURT FACILITIES FEES FUND</u>	<u>RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND</u>	<u>TRANSIENT LODGING TAX FUND</u>	<u>TOTAL</u>
ASSETS					
Cash and investments	\$ 35,708	\$ 74,011	\$ 148,818	\$ 189,981	\$ 448,518
Interest receivable	44	93	193	246	576
Accounts receivable	1,638	2,212	-	-	3,850
Due from other governments	-	-	-	30,183	30,183
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 37,390</u>	<u>\$ 76,316</u>	<u>\$ 149,011</u>	<u>\$ 220,410</u>	<u>\$ 483,127</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 77	\$ -	\$ 5,541	\$ 2,361	\$ 7,979
Advance to other funds	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>77</u>	<u>-</u>	<u>5,541</u>	<u>2,361</u>	<u>7,979</u>
Fund Balance:					
Restricted:					
Court administration and graffiti abatement - NRS 268.4085	37,313	-	-	-	37,313
Court fees - NRS 176.0611	-	76,316	-	-	76,316
Grants	-	-	-	-	-
Convention center	-	-	-	132,588	132,588
Capital projects	-	-	143,470	-	143,470
Assigned	-	-	-	85,461	85,461
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>37,313</u>	<u>76,316</u>	<u>143,470</u>	<u>218,049</u>	<u>475,148</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 37,390</u>	<u>\$ 76,316</u>	<u>\$ 149,011</u>	<u>\$ 220,410</u>	<u>\$ 483,127</u>

CITY OF FERNLEY, NEVADA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>MUNICIPAL COURT ADMINISTRATIVE FEES FUND</u>	<u>MUNICIPAL COURT FACILITIES FEES FUND</u>	<u>RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND</u>	<u>TRANSIENT LODGING TAX FUND</u>	<u>TOTAL</u>
REVENUES					
Taxes:					
Residential construction tax	\$ -	\$ -	\$ 2,000	\$ -	\$ 2,000
Transient lodging tax	-	-	-	198,628	198,628
	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>198,628</u>	<u>200,628</u>
Fines and forfeits:					
Municipal administrative fees	16,864	22,895	-	-	39,759
Miscellaneous:					
Interest earnings	144	288	803	516	1,751
Developer fees	-	-	111,000	-	111,000
	<u>144</u>	<u>288</u>	<u>111,803</u>	<u>516</u>	<u>112,751</u>
Total Revenues	<u>17,008</u>	<u>23,183</u>	<u>113,803</u>	<u>199,144</u>	<u>353,138</u>
EXPENDITURES					
Judicial:					
Services and supplies	10,330	-	-	-	10,330
Culture and recreation:					
Services and supplies	-	-	42	-	42
Community development:					
Services and supplies	-	-	-	43,823	43,823
Capital outlay	-	-	5,521	-	5,521
	<u>-</u>	<u>-</u>	<u>5,521</u>	<u>43,823</u>	<u>49,344</u>
Total Expenditures	<u>10,330</u>	<u>-</u>	<u>5,563</u>	<u>43,823</u>	<u>59,716</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,678	23,183	108,240	155,321	293,422
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	-	-	(50,000)	-	(50,000)
Net Change in Fund Balance	6,678	23,183	58,240	155,321	243,422
FUND BALANCE, JULY 1	<u>30,635</u>	<u>53,133</u>	<u>85,230</u>	<u>62,728</u>	<u>231,726</u>
FUND BALANCE, JUNE 30	<u>\$ 37,313</u>	<u>\$ 76,316</u>	<u>\$ 143,470</u>	<u>\$ 218,049</u>	<u>\$ 475,148</u>

**CITY OF FERNLEY, NEVADA
MUNICIPAL COURT ADMINISTRATIVE FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Fines and forfeits:			
Municipal administrative fees	\$ 12,000	\$ 16,864	\$ 4,864
Miscellaneous:			
Interest earnings	<u>250</u>	<u>144</u>	<u>(106)</u>
Total Revenues	12,250	17,008	4,758
EXPENDITURES			
Judicial:			
Services and supplies	<u>15,000</u>	<u>10,330</u>	<u>4,670</u>
Net Change in Fund Balance	(2,750)	6,678	9,428
FUND BALANCE, July 1	<u>30,431</u>	<u>30,635</u>	<u>204</u>
FUND BALANCE, June 30	<u>\$ 27,681</u>	<u>\$ 37,313</u>	<u>\$ 9,632</u>

**CITY OF FERNLEY, NEVADA
MUNICIPAL COURT FACILITY FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Fines and forfeits:			
Municipal administrative fees	\$ 17,000	\$ 22,895	\$ 5,895
Miscellaneous:			
Interest earnings	<u>400</u>	<u>288</u>	<u>(112)</u>
Net Change in Fund Balance	17,400	23,183	5,783
FUND BALANCE, July 1	<u>53,133</u>	<u>53,133</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 70,533</u>	<u>\$ 76,316</u>	<u>\$ 5,783</u>

CITY OF FERNLEY, NEVADA
RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Taxes:			
Residential construction tax	\$ 2,000	\$ 2,000	\$ -
Miscellaneous:			
Developer fees	-	111,000	111,000
Interest earnings	750	803	53
	<u>2,750</u>	<u>113,803</u>	<u>111,053</u>
Total Revenues			
EXPENDITURES			
Culture and recreation:			
Services and supplies	46	42	4
Capital outlay	161,000	5,521	155,479
	<u>161,046</u>	<u>5,563</u>	<u>155,483</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	(158,296)	108,240	266,536
OTHER FINANCING SOURCES			
Transfers in (out)	(50,000)	(50,000)	-
	<u>(208,296)</u>	<u>58,240</u>	<u>266,536</u>
Net Change in Fund Balance			
FUND BALANCE, July 1	<u>85,230</u>	<u>85,230</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ (123,066)</u>	<u>\$ 143,470</u>	<u>\$ 266,536</u>

**CITY OF FERNLEY, NEVADA
 TRANSIENT LODGING TAX FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Taxes:			
Transient lodging tax	\$ 150,000	\$ 198,628	\$ 48,628
Miscellaneous:			
Interest earnings	<u>70</u>	<u>516</u>	<u>446</u>
Total Revenues	150,070	199,144	49,074
EXPENDITURES			
Culture and recreation:			
Services and supplies	<u>50,000</u>	<u>43,823</u>	<u>6,177</u>
Net Change in Fund Balance	100,070	155,321	55,251
FUND BALANCE, July 1	<u>-</u>	<u>62,728</u>	<u>62,728</u>
FUND BALANCE, June 30	<u>\$ 100,070</u>	<u>\$ 218,049</u>	<u>\$ 117,979</u>

**CITY OF FERNLEY, NEVADA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest earnings	\$ 2,400	\$ 2,623	\$ 223
EXPENDITURES			
Community development:			
Services and supplies	-	126	(126)
Capital outlay	147,400	30,445	116,955
Total Expenditures	<u>147,400</u>	<u>30,571</u>	<u>116,829</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(145,000)	(27,948)	(116,606)
OTHER FINANCING SOURCES			
Transfers in (out)	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net Change in Fund Balance	(155,000)	(37,948)	(116,606)
FUND BALANCE, July 1	<u>1,056,856</u>	<u>1,056,856</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 901,856</u>	<u>\$ 1,018,908</u>	<u>\$ (116,606)</u>

**CITY OF FERNLEY, NEVADA
NONMAJOR CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes:			
Ad Valorem	\$ 8,029	\$ 8,216	\$ 187
Miscellaneous:			
Interest earnings	(50)	155	205
Net Change in Fund Balance	7,979	8,371	392
FUND BALANCE, July 1	-	28,561	28,561
FUND BALANCE, June 30	\$ 7,979	\$ 36,932	\$ 28,953

**CITY OF FERNLEY, NEVADA
WATER UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
User fees	\$ 5,010,000	\$ 4,580,081	\$ (429,919)
Operating Grant	-	4,893	4,893
	<u>5,010,000</u>	<u>4,584,974</u>	<u>(425,026)</u>
OPERATING EXPENSES			
Salaries and wages	800,203	850,082	(49,879)
Employee benefits	372,223	355,206	17,017
Services and supplies	1,889,280	1,526,874	362,406
Depreciation	3,149,500	3,207,491	(57,991)
	<u>6,211,206</u>	<u>5,939,653</u>	<u>271,553</u>
Total Operating Expenses	<u>6,211,206</u>	<u>5,939,653</u>	<u>271,553</u>
Operating Income (Loss)	<u>(1,201,206)</u>	<u>(1,354,679)</u>	<u>(153,473)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	100,000	29,619	(70,381)
In lieu of water rights fees	5,000	5,690	690
Miscellaneous	200,000	149,039	(50,961)
Interest expense	(3,308,617)	(3,331,698)	(23,081)
	<u>(3,003,617)</u>	<u>(3,147,350)</u>	<u>(143,733)</u>
Total Nonoperating Revenue (Expense)	<u>(3,003,617)</u>	<u>(3,147,350)</u>	<u>(143,733)</u>
Income (Loss) Before Capital Contributions	<u>(4,204,823)</u>	<u>(4,502,029)</u>	<u>(297,206)</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	50,000	40,157	(9,843)
Developer agreements	-	4,303	4,303
Developer contributed infrastructure	250,000	707,520	457,520
Developer contributed water rights	10,000	1,065,070	1,055,070
	<u>310,000</u>	<u>1,817,050</u>	<u>1,507,050</u>
Total Capital Contributions	<u>310,000</u>	<u>1,817,050</u>	<u>1,507,050</u>
Change in Net Assets	<u>(3,894,823)</u>	<u>(2,684,979)</u>	<u>1,209,844</u>
Net Assets July 1, as previously reported	76,490,685	75,794,535	(696,150)
Prior period adjustment	-	696,150	696,150
Net Assets July 1, as previously reported	<u>76,490,685</u>	<u>76,490,685</u>	<u>-</u>
Net Assets, June 30	<u>\$ 72,595,862</u>	<u>\$ 73,805,706</u>	<u>\$ 1,209,844</u>

**CITY OF FERNLEY, NEVADA
SEWER UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUES			
User fees	\$ 1,920,000	\$ 1,865,202	\$ (54,798)
OPERATING EXPENSES			
Salaries and wages	338,644	373,712	(35,068)
Employee benefits	172,081	161,035	11,046
Services and supplies	665,150	556,688	108,462
Depreciation	1,011,000	1,068,514	(57,514)
Total Operating Expenses	<u>2,186,875</u>	<u>2,159,949</u>	<u>26,926</u>
Operating Income (Loss)	<u>(266,875)</u>	<u>(294,747)</u>	<u>(27,872)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned on investments	125,000	38,598	(86,402)
Miscellaneous	1,000	5	(995)
Interest expense	<u>(365,759)</u>	<u>(365,009)</u>	<u>750</u>
Total Nonoperating Revenue (Expense)	<u>(239,759)</u>	<u>(326,406)</u>	<u>(86,647)</u>
Income (Loss) Before Capital Contributions	<u>(506,634)</u>	<u>(621,153)</u>	<u>(114,519)</u>
CAPITAL CONTRIBUTIONS			
Customer connection fees	30,000	31,178	1,178
Developer contributed infrastructure	<u>100,000</u>	<u>49,140</u>	<u>(50,860)</u>
Total Capital Contributions	<u>130,000</u>	<u>80,318</u>	<u>(49,682)</u>
Change in Net Assets	(376,634)	(540,835)	(164,201)
NET ASSETS, July 1	<u>30,463,145</u>	<u>30,463,145</u>	<u>-</u>
NET ASSETS, June 30	<u>\$ 30,086,511</u>	<u>\$ 29,922,310</u>	<u>\$ (164,201)</u>

CITY OF FERNLEY, NEVADA
FIDUCIARY FUND - MUNICIPAL TRUST FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>BALANCE</u> <u>JULY 1, 2010</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2011</u>
ASSETS				
Cash and investments	\$ 16,450	\$ -	\$ 4,832	\$ 11,618
LIABILITIES				
Bail bond deposits held for others	\$ 15,739	\$ -	\$ 4,121	\$ 11,618
Other liabilities	711	-	711	-
Total Liabilities	\$ 16,450	\$ -	\$ 4,832	\$ 11,618

**CITY OF FERNLEY, NEVADA
STREETS AND STORM DRAINS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	BUDGET	ACTUAL	FINAL VARIANCE
REVENUES			
Licenses and permits:			
Public works fees	\$ -	\$ -	\$ -
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	(791,178)	(791,178)	-
Net Change in Fund Balance	(791,178)	(791,178)	-
FUND BALANCE, July 1	791,178	791,178	-
FUND BALANCE, June 30	\$ -	\$ -	\$ -

**CITY OF FERNLEY, NEVADA
PRIVATE SECTOR COMMUNITY SUPPORT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Miscellaneous:			
Interest earnings	\$ 100	\$ 61	\$ (39)
Other	13,000	-	(13,000)
Total Revenues	13,100	61	(13,039)
EXPENDITURES			
Culture and recreation:			
Services and supplies	13,000	-	13,000
Net Change in Fund Balance	100	61	(39)
FUND BALANCE, July 1	-	13,514	13,514
FUND BALANCE, June 30	\$ 100	\$ 13,575	\$ 13,475

CITY OF FERNLEY, NEVADA
RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Miscellaneous:			
Interest	\$ 65	\$ 74	\$ 9
EXPENDITURES			
Culture and recreation:			
Capital outlay	15,326	14,261	1,065
Total Expenditures	15,326	14,261	1,065
Net Change in Fund Balance	(15,261)	(14,187)	1,074
FUND BALANCE, July 1	15,265	15,265	-
FUND BALANCE, June 30	<u>\$ 4</u>	<u>\$ 1,078</u>	<u>\$ 1,074</u>

**CITY OF FERNLEY, NEVADA
STATISTICAL SECTION**

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

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

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

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

	FISCAL YEAR ENDED JUNE 30,							
	2004	2005	2006	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES								
Invested in capital assets, net of related debt	\$ 11,913,896	\$ 15,883,001	\$ 24,608,748	\$ 30,721,447	\$ 35,677,010	\$ 39,652,258	\$ 38,680,602	\$ 38,683,760
Restricted	-	-	-	-	362,289	391,600	363,602	1,886,533
Unrestricted	3,927,329	5,884,904	5,535,323	4,549,063	2,395,580	2,276,380	2,554,609	1,218,963
Total Governmental Activities Net Assets	<u>\$ 15,841,225</u>	<u>\$ 21,767,905</u>	<u>\$ 30,144,071</u>	<u>\$ 35,270,510</u>	<u>\$ 38,434,879</u>	<u>\$ 42,320,238</u>	<u>\$ 41,598,813</u>	<u>\$ 41,789,256</u>
BUSINESS-TYPE ACTIVITIES								
Invested in capital assets, net of related debt	\$ 32,471,737	\$ 39,238,863	\$ 57,581,522	\$ 35,352,177	\$ 77,070,390	\$ 95,281,505	\$ 92,141,040	\$ 91,669,313
Restricted	-	535,237	579,560	-	-	-	-	-
Unrestricted	12,780,664	16,901,342	17,939,851	60,502,722	25,025,399	14,523,972	14,812,790	12,058,703
Total Business-type Activities Net Assets	<u>\$ 45,252,401</u>	<u>\$ 56,675,442</u>	<u>\$ 76,100,933</u>	<u>\$ 95,854,899</u>	<u>\$ 102,095,789</u>	<u>\$ 109,805,477</u>	<u>\$ 106,953,830</u>	<u>\$ 103,728,016</u>
PRIMARY GOVERNMENT								
Invested in capital assets, net of related debt	\$ 44,385,633	\$ 55,121,864	\$ 82,190,270	\$ 66,073,624	\$ 112,747,400	\$ 134,933,763	\$ 130,821,642	\$ 130,353,073
Restricted	-	535,237	579,560	-	362,289	391,600	363,602	1,886,533
Unrestricted	16,707,993	22,786,246	23,475,174	65,051,785	27,420,979	16,800,352	17,367,399	13,277,666
Total Primary Government Net Assets	<u>\$ 61,093,626</u>	<u>\$ 78,443,347</u>	<u>\$ 106,245,004</u>	<u>\$ 131,125,409</u>	<u>\$ 140,530,668</u>	<u>\$ 152,125,715</u>	<u>\$ 148,552,643</u>	<u>\$ 145,517,272</u>

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

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

	FISCAL YEAR ENDED JUNE 30,							
	2004	2005	2006	2007	2008	2009	2010	2011
EXPENSES								
Governmental Activities:								
General government	\$ 587,873	\$ 595,912	\$ 796,403	\$ 1,173,360	\$ 1,572,115	\$ 1,626,115	\$ 1,762,449	\$ 1,499,967
Judicial	156,796	173,804	170,479	194,353	252,189	243,889	265,515	204,071
Public works	463,188	642,480	729,919	1,326,718	783,565	1,778,649	1,824,412	1,871,798
Culture and recreation	362,983	458,828	646,259	838,674	689,281	685,706	622,998	734,553
Community development	434,627	861,555	875,056	848,010	1,977,586	811,701	1,247,018	2,817,551
Health	50,560	102,768	263,919	295,413	280,743	252,320	262,865	193,303
Debt Service:								
Interest and fiscal charges	-	-	224,500	221,032	214,326	206,092	198,144	189,836
Total Governmental Activities Expenses	<u>2,056,027</u>	<u>2,835,347</u>	<u>3,706,535</u>	<u>4,897,560</u>	<u>5,769,805</u>	<u>5,604,472</u>	<u>6,183,401</u>	<u>7,511,079</u>
Business-type Activities:								
Water	2,035,646	2,134,429	2,422,583	3,058,553	3,152,845	4,127,466	9,420,709	9,271,351
Sewer	1,347,388	1,509,433	1,530,898	1,812,583	2,012,862	2,581,981	2,641,510	2,524,958
Other	-	-	700	9,340	212,651	-	-	-
Total Business-type Activities Expenses	<u>3,383,034</u>	<u>3,643,862</u>	<u>3,954,181</u>	<u>4,880,476</u>	<u>5,378,358</u>	<u>6,709,447</u>	<u>12,062,219</u>	<u>11,796,309</u>
Total Primary Government Expenses	<u>\$ 5,439,061</u>	<u>\$ 6,479,209</u>	<u>\$ 7,660,716</u>	<u>\$ 9,778,036</u>	<u>\$ 11,148,163</u>	<u>\$ 12,313,919</u>	<u>\$ 18,245,620</u>	<u>\$ 19,307,388</u>

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

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

	FISCAL YEAR ENDED JUNE 30,							
	2004	2005	2006	2007	2008	2009	2010	2011
PROGRAM REVENUES								
Governmental Activities:								
Charges for Services:								
General government	\$ 731,510	\$ 887,827	\$ 1,008,662	\$ 1,137,510	\$ 1,030,613	\$ 1,243,230	\$ 1,267,670	\$ 1,209,522
Judicial	170,835	423,178	196,249	89,248	162,416	161,819	196,886	197,395
Public works	10,901	31,278	40,071	29,754	23,021	65,129	116,619	-
Culture and recreation	16,950	13,400	8,150	48,355	1,600	200	25	525
Community development	1,422,438	1,804,978	1,123,508	679,608	509,440	258,801	232,719	149,647
Health	1,766	1,611	2,341	4,318	4,650	3,819	3,296	3,578
Operating Grants and Contributions	276,701	268,632	348,627	60,000	60,000	60,383	61,500	133,460
Capital Grants and Contributions	8,112,137	4,232,398	7,531,080	6,052,749	4,869,410	5,613,270	1,538,400	3,933,102
Total Governmental Activities Program Revenues	<u>10,743,238</u>	<u>7,663,302</u>	<u>10,258,688</u>	<u>8,101,542</u>	<u>6,661,150</u>	<u>7,406,651</u>	<u>3,417,115</u>	<u>5,627,229</u>
Business-type Activities:								
Charges for Services:								
Water	1,794,430	1,975,451	2,201,916	2,306,193	3,273,625	3,833,095	4,774,366	4,580,081
Sewer	1,187,212	1,441,455	1,686,101	1,754,820	1,829,736	1,830,814	1,883,702	1,865,202
Other	-	131,300	-	-	1,055	-	-	-
Operating Grants and Contributions	-	-	-	-	424,671	562,372	441,742	4,893
Capital Grants and Contributions:	10,829,870	11,157,733	18,729,430	19,015,856	4,579,348	7,146,143	908,392	1,897,368
Total Business-type Activities Program Revenues	<u>13,811,512</u>	<u>14,705,939</u>	<u>22,617,447</u>	<u>23,076,869</u>	<u>10,108,435</u>	<u>13,372,424</u>	<u>8,008,202</u>	<u>8,347,544</u>
Total Primary Government Program Revenue	<u>\$ 24,554,750</u>	<u>\$ 22,369,241</u>	<u>\$ 32,876,135</u>	<u>\$ 31,178,411</u>	<u>\$ 16,769,585</u>	<u>\$ 20,779,075</u>	<u>\$ 11,425,317</u>	<u>\$ 13,974,773</u>
NET (EXPENSE)/REVENUE								
Governmental Activities	\$ 8,687,211	\$ 4,827,956	\$ 6,552,153	\$ 3,203,982	\$ 891,345	\$ 1,802,179	\$ (2,766,286)	\$ (1,883,850)
Business-type Activities	10,428,478	11,062,077	18,663,266	18,196,393	4,730,077	6,662,977	(4,054,017)	(3,448,765)
Total Primary Government Net (Expense)/Revenue	<u>\$ 19,115,689</u>	<u>\$ 15,890,033</u>	<u>\$ 25,215,419</u>	<u>\$ 21,400,375</u>	<u>\$ 5,621,422</u>	<u>\$ 8,465,156</u>	<u>\$ (6,820,303)</u>	<u>\$ (5,332,615)</u>

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

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

	FISCAL YEAR ENDED JUNE 30,							
	2004	2005	2006	2007	2008	2009	2010	2011
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS								
Governmental Activities:								
Taxes:								
Property	\$ 427,738	\$ 496,207	\$ 591,082	\$ 925,297	\$ 1,074,726	\$ 1,381,621	\$ 1,410,347	\$ 1,473,876
Consolidated	137,610	163,429	189,158	188,128	197,040	202,188	170,186	130,215
Fuel	216,736	233,448	227,691	259,603	304,718	309,896	294,645	282,617
Unrestricted gaming licenses	75,015	71,271	97,121	98,753	96,021	92,211	96,598	99,439
Unrestricted interest income	22,441	97,729	329,341	361,301	175,866	41,085	26,847	13,921
Miscellaneous revenue	35,660	36,640	389,619	89,378	424,649	56,179	46,238	74,225
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>	<u>2,044,861</u>	<u>2,074,293</u>
Business-type Activities:								
Unrestricted interest income	86,972	295,730	702,781	1,511,286	1,126,258	477,258	261,988	68,217
Miscellaneous revenue	37,142	65,234	59,441	46,287	384,555	569,452	244,232	154,734
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>	<u>506,220</u>	<u>222,951</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>	<u>\$ 2,551,081</u>	<u>\$ 2,297,244</u>
CHANGE IN NET ASSETS								
Governmental activities	\$ 9,602,411	\$ 5,926,680	\$ 8,376,165	\$ 5,126,439	\$ 3,164,365	\$ 3,885,359	\$ (721,425)	\$ 190,443
Business-type activities	<u>10,552,592</u>	<u>11,423,041</u>	<u>19,425,488</u>	<u>19,753,966</u>	<u>6,240,890</u>	<u>7,709,687</u>	<u>(3,547,797)</u>	<u>(3,225,814)</u>
Total Primary Government Change in Net Assets	<u>\$ 20,155,003</u>	<u>\$ 17,349,721</u>	<u>\$ 27,801,653</u>	<u>\$ 24,880,405</u>	<u>\$ 9,405,255</u>	<u>\$ 11,595,046</u>	<u>\$ (4,269,222)</u>	<u>\$ (3,035,371)</u>

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

SCHEDULE 3

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

	FISCAL YEAR ENDED JUNE 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
General fund										
Reserved	\$ 2,478	\$ 287,018	\$ 1,330	\$ 5,205	\$ 6,239	\$ 6,709	\$ 366,424	\$ 394,251	\$ 332,238	\$ -
Unreserved	774,938	725,358	790,990	869,817	938,757	582,237	279,443	294,617	482,078	-
Nonspendable	-	-	-	-	-	-	-	-	-	22,375
Restricted	-	-	-	-	-	-	-	-	-	342,400
Assigned	-	-	-	-	-	-	-	-	-	5,582
Unassigned	-	-	-	-	-	-	-	-	-	1,223,672
Total general fund	<u>\$ 777,416</u>	<u>\$ 1,012,376</u>	<u>\$ 792,320</u>	<u>\$ 875,022</u>	<u>\$ 944,996</u>	<u>\$ 588,946</u>	<u>\$ 645,867</u>	<u>\$ 688,868</u>	<u>\$ 814,316</u>	<u>\$ 1,594,029</u>
All other governmental funds										
Reserved - Transient Lodging Tax Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,364	\$ -
Unreserved, reported in:										
Special revenue fund	17,234	309,399	1,688,126	2,302,972	1,398,315	1,568,588	971,544	787,928	1,118,925	-
Capital projects fund	-	728,195	1,499,182	2,502,129	8,032,479	2,397,510	1,160,893	1,145,372	1,085,417	-
Restricted	-	-	-	-	-	-	-	-	-	1,544,133
Assigned	-	-	-	-	-	-	-	-	-	104,988
Total all other governmental funds	<u>\$ 17,234</u>	<u>\$ 1,037,594</u>	<u>\$ 3,187,308</u>	<u>\$ 4,805,101</u>	<u>\$ 9,430,794</u>	<u>\$ 3,966,098</u>	<u>\$ 2,132,437</u>	<u>\$ 1,933,300</u>	<u>\$ 2,235,706</u>	<u>\$ 1,649,121</u>

* Due to implementation of GASB 54 fund balance classifications changed in fiscal year 2011.

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

	FISCAL YEAR ENDED JUNE 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES										
Taxes	\$ 359,112	\$ 585,458	\$ 1,190,598	\$ 1,316,826	\$ 1,787,949	\$ 988,056	\$ 1,077,545	\$ 1,316,879	\$ 1,599,284	\$ 1,658,382
Licenses and permits	936,421	1,724,743	2,241,629	2,796,965	2,271,703	1,949,947	1,663,745	1,663,184	1,643,381	1,455,105
Intergovernmental	494,110	772,510	1,415,460	1,354,521	1,231,732	2,333,333	2,117,309	1,631,060	1,868,532	2,625,671
Fines and forfeits	17,643	104,330	170,836	175,167	228,424	234,353	207,465	161,820	222,566	197,397
Miscellaneous	40,306	55,149	199,081	192,613	794,352	581,833	610,883	138,018	88,765	95,752
Developer fees	-	-	-	-	-	-	-	-	-	111,000
Total revenues	<u>1,847,592</u>	<u>3,242,190</u>	<u>5,217,604</u>	<u>5,836,092</u>	<u>6,314,160</u>	<u>6,087,522</u>	<u>5,676,947</u>	<u>4,910,961</u>	<u>5,422,528</u>	<u>6,143,307</u>
EXPENDITURES										
General government	480,143	475,065	528,906	595,297	717,355	1,025,295	1,238,982	1,290,272	1,402,434	1,661,818
Judicial	61,567	144,797	154,514	171,868	169,163	194,518	251,829	244,714	257,983	201,062
Public works	297,293	517,855	331,318	420,500	376,571	515,394	428,988	457,243	448,224	-
Culture and recreation	221,460	337,677	324,629	381,962	508,797	647,542	522,392	546,492	482,871	612,723
Community development	240,811	301,269	405,298	669,105	810,965	834,503	1,226,149	787,056	1,332,123	2,796,292
Health	10,036	40,828	48,395	96,876	256,738	275,905	262,526	232,843	242,279	176,488
Debt service:										
Principal	84,000	90,314	-	-	-	158,000	165,000	173,000	181,000	189,000
Interest	10,822	5,117	-	-	94,789	221,032	214,326	206,092	198,144	189,836
Capital outlay	-	73,948	1,499,163	1,799,989	3,684,115	8,097,529	3,143,509	1,129,385	457,600	122,960
Total expenditures	<u>1,406,132</u>	<u>1,986,870</u>	<u>3,292,223</u>	<u>4,135,597</u>	<u>6,618,493</u>	<u>11,969,718</u>	<u>7,453,701</u>	<u>5,067,097</u>	<u>5,002,658</u>	<u>5,950,179</u>
Excess (deficiency) of revenues over expenditures	<u>441,460</u>	<u>1,255,320</u>	<u>1,925,381</u>	<u>1,700,495</u>	<u>(304,333)</u>	<u>(5,882,196)</u>	<u>(1,776,754)</u>	<u>(156,136)</u>	<u>419,870</u>	<u>193,128</u>
OTHER FINANCING SOURCES (USES)										
Transfers out	-	(950,000)	(1,931,030)	(1,690,000)	(1,050,000)	(711,712)	(20,000)	(26,000)	-	60,000
Transfers in	-	950,000	1,931,030	1,690,000	1,050,000	711,712	20,000	26,000	-	(60,000)
General obligations bonds issued	-	-	-	-	5,000,000	-	-	-	-	-
Proceeds from disposal of capital assets	-	-	4,277	-	-	61,450	-	-	7,984	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>4,277</u>	<u>-</u>	<u>5,000,000</u>	<u>61,450</u>	<u>-</u>	<u>-</u>	<u>7,984</u>	<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>	<u>\$ 427,854</u>	<u>\$ 193,128</u>
Debt service as a percentage of noncapital expenditures	7.2%	5.3%	0.0%	0.0%	3.3%	10.9%	9.6%	10.7%	9.1%	7.0%

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

Fiscal Year	Real and Personal Property		Ratio of Total Assessed To Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	
2002	\$ 233,552,164	\$ 667,291,897	35.0
2003	246,640,476	704,687,074	35.0
2004	279,452,986	798,437,103	35.0
2005	303,180,006	866,228,589	35.0
2006	377,743,200	1,079,266,286	35.0
2007	511,154,623	1,460,441,780	35.0
2008	679,959,918	1,942,742,623	35.0
2009	755,529,070	2,158,654,486	35.0
2010	632,953,139	1,808,437,540	35.0
2011	448,105,998	1,280,302,851	35.0

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

CITY OF FERNLEY, NEVADA

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

LAST TEN FISCAL YEARS

Fiscal Year	City of Fernley	State of Nevada	School District	County	Special Districts	Total
2002	0.1528	0.1500	1.3367	0.7577	0.3431	2.7403
2003	0.1528	0.1500	1.3367	0.7839	0.3544	2.7778
2004	0.1528	0.1700	1.3367	0.8350	0.3627	2.8572
2005	0.1528	0.1700	1.3367	0.8644	0.3726	2.8965
2006	0.1528	0.1700	1.3367	0.8644	0.3736	2.8975
2007	0.3481	0.1700	1.3367	0.8644	0.0274	2.7466
2008	0.3505	0.1700	1.3367	0.8644	0.3772	3.0988
2009	0.3515	0.1700	1.3367	0.8644	0.3782	3.1008
2010	0.3510	0.1700	1.3367	0.8644	0.3788	3.1009
2011	0.3510	0.1700	1.3367	0.8644	0.4395	3.1616

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

SCHEDULE 7

CITY OF FERNLEY, NEVADA
 PRINCIPAL PROPERTY OWNERS
 June 30, 2011

Taxpayer	Product/Service	Taxable		Approximate Percentage of Taxable Assessed Valuation
		Estimated Appraised Value (1)	Taxable Assessed Value	
NV Energy	Utility	\$ 157,887,477	\$ 55,260,617	12.332%
BMO Leasing US, Inc. (Quebecor)	Printing	44,253,963	15,488,887	3.457%
Southwest Gas Corp.	Utility	39,250,260	13,737,591	3.066%
TREX Company, Inc.	Wood Product Manufacturer	35,045,271	12,265,845	2.737%
1600 East Newlands Dr., LLC	Developer	25,513,837	8,929,843	1.993%
Sherwin-Williams Acceptance Corp	Paint Manufacturer	23,057,626	8,070,169	1.801%
Sonterra Development Co. Inc.	Developer	21,683,657	7,589,280	1.694%
Peri & Peri/ Desert Pearl Farms	Agriculture	20,683,843	7,239,345	1.616%
Amazon.com	Retail Distributor	20,404,366	7,141,528	1.594%
MSC Industrial Direct Co. Inc.	Industrial Distributor	19,526,246	6,834,186	1.525%
Totals		<u>\$ 407,306,546</u>	<u>\$ 142,557,291</u>	<u>12.958%</u>

Source: Lyon County Assessor's Office

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

**CITY OF FERNLEY, NEVADA
WATER USER FEES
LAST TEN FISCAL YEARS**

	FISCAL YEAR ENDED JUNE 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
WATER UTILITY										
Number of Customers	3309	3,966	4,980	6,083	6,634	6,816	7,170	7,371	7,061	7,103
Annual Average Day Demand per customer	750	750	750	750	750	750	750	750	750	750
Gallons of water used (in thousands)	905,839	1,085,693	1,363,275	1,665,221	1,816,058	1,865,880	1,954,754	1,488,674	1,317,721	1,183,382
Direct rate per 1000 gallons	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 0.95	\$ 1.11	\$ 1.50	\$ 2.02	\$ 2.02

Source: City of Fernley

SCHEDULE 9

CITY OF FERNLEY, NEVADA
PRINCIPLE WATER USERS

Employer	JUNE 30,		2004*	
	2011			
	User Fees	Rank	User Fees	Rank
World Color Fernley	\$ 95,296	1	\$ -	-
Trex Manufacturing Company	66,226	2	42,141	1
Veteran's Cemetery	52,524	3	15,059	4
Fernley High School	40,107	4	11,081	7
City of Fernley 10 Acre Park	28,612	5	-	-
Hollywood Investments	27,195	6	18,076	3
Larsen Properties	26,785	7	-	-
Sherwin Williams	24,483	8	-	-
Fernley Intermediate School	21,932	9	6,318	9
Blue Beacon Wash	21,269	10	7,413	8

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 TEN FISCAL YEARS**

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds		Water Bonds	Sewer Bonds			
2002	\$ 90,314		\$ -	\$ -	\$ 90,314	0.04%	\$ 9
2003	-		-	-	-	0.00%	-
2004	-		-	-	-	0.00%	-
2005	-		-	-	-	0.00%	-
2006	5,000,000		670,000	890,282	6,560,282	1.64%	401
2007	4,842,000		45,015,000	6,267,780	56,124,780	12.20%	2,977
2008	4,677,000		74,954,997	8,640,332	88,272,329	17.12%	4,507
2009	4,504,000		74,055,200	8,417,529	86,976,729	16.90%	4,436
2010	4,323,000		72,538,029	8,150,738	85,011,767	16.10%	4,491
2011	4,134,000		71,107,943	7,843,297	83,085,240	15.71%	4,290

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
(1) See Schedule 15 of Demographic Statistics on page 77 for personal income and population data.

SCHEDULE 11

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

Fiscal Year	General Obligation Bonds	Business Type Activities	Total	Percentage of Actual Property Value (1)	Per Capita (2)
2002	\$ 90,314	\$ 1,341,684	\$ 1,431,998	0.21%	\$ 150.28
2003	-	1,219,713	1,219,713	0.17%	116.83
2004	-	1,108,830	1,108,830	0.14%	94.63
2005	-	1,008,027	1,008,027	0.12%	73.18
2006	5,000,000	1,560,282	6,560,282	0.61%	401.07
2007	4,842,000	51,282,780	56,124,780	3.84%	2,977.44
2008	4,677,000	83,595,329	88,272,329	4.54%	4,507.14
2009	4,504,000	82,472,729	86,976,729	4.03%	4,435.55
2010	4,323,000	80,688,767	85,011,767	4.70%	4,491.09
2011	4,134,000	78,951,240	83,085,240	6.49%	4,289.82

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

(2) Population information may be found on Schedule 15 - Demographic Statistics on page 77

CITY OF FERNLEY, NEVADA
COMPUTATION OF GENERAL OBLIGATION DIRECT AND OVERLAPPING DEBT
June 30, 2011

	Total General Obligation Debt	Presently Self-Supporting General Obligation Debt	Net Debt Outstanding	% Applicable	Applicable Net Debt
Direct:					
City of Fernley	\$ 83,085,240	\$ 78,951,240	\$ 4,134,000	100.00%	<u>\$ 4,134,000</u>
Overlapping:					
State of Nevada (1)	1,374,695,000	-	1,374,695,000	0.44%	6,048,658
Lyon County (2)	13,966,874	13,966,874	-	37%	-
Lyon County School (3) District	82,265,000	-	82,265,000	37%	<u>30,444,998</u>
Total Overlapping Debt					<u>36,493,656</u>
Total Direct and Overlapping Debt					<u><u>\$ 40,627,656</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, 2011

Estimated Assessed Value	\$448,105,998
Debt Limit - 30 Percent of Total Assessed Value	134,431,799
Total Amount of Debt Applicable to Debt Limit	<u>83,085,240</u>
Legal Debt Margin	<u><u>\$51,346,559</u></u>

Note: Legal debt margin as set forth in NRS 266.600

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

Fiscal Year	Operating Revenue	Operating Expenses(1)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002	\$ 2,201,361	\$ 1,645,441	\$ 555,920	\$ 283,405	\$ 107,847	\$ 391,252	142%
2003	2,501,125	1,815,858	685,267	243,778	97,428	341,206	201%
2004	2,981,642	2,096,056	885,586	248,173	84,152	332,325	266%
2005	3,416,906	2,338,729	1,078,177	262,745	72,580	335,325	322%
2006	3,888,017	2,647,912	1,240,105	277,502	60,323	337,825	367%
2007	4,061,013	2,873,207	1,187,806	287,451	620,879	908,330	131%
2008	5,528,032	3,420,207	2,107,825	1,122,600	3,531,002	4,653,602	45%
2009	5,975,722	4,168,048	1,807,674	1,122,600	3,773,565	4,896,165	37%
2010	7,099,810	4,836,862	2,262,948	1,822,957	3,738,999	5,561,956	41%
2011	6,450,173	3,758,965	2,691,208	1,698,531	3,674,376	5,372,907	50%

Note: (1) Total operating expenses exclusive of depreciation

CITY OF FERNLEY, NEVADA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Total Personal Income	Per Capita Personal Income (2)	Unemployment Rate (3)
2002	9,529	\$ 217,089,678	\$ 22,782	5.60%
2003	10,440	243,617,400	23,335	5.40%
2004	11,718	285,380,172	24,354	5.20%
2005	13,775	336,110,000	24,400	5.00%
2006	16,357	399,110,800	24,400	4.70%
2007	18,850	459,940,000	24,400	7.30%
2008	19,585	515,555,540	26,324	8.90%
2009	19,609	514,677,423	26,247	15.30%
2010	18,929	527,967,668	27,892	19.20%
2011	19,368	528,746,400	27,300	17.70%

Sources:

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

**CITY OF FERNLEY, NEVADA
MAJOR EMPLOYERS
JUNE 30,**

Employer	2011			2005*		
	Employees	Rank	Percentage of Total County Employment (1)	Employees	Rank	Percentage of Total County Employment (1)
Lyon County School District	1000-1499	1	8.93%	-	-	-
Amazon.com	600-699	2	5.36%	700-799	1	6.14%
Lyon County	400-499	3	3.57%	-	-	-
Wal-Mart	200-299	4	1.79%			
MSC Industrial Supply Co.	200-299	5	1.79%	100-199	3	1.23%
World Color Printing USA Corp	100-199	6	0.89%	-	-	-
South Lyon Medical Center	100-199	7	0.89%	-	-	-
TREX Company	100-199	8	0.89%	100-199	4	1.23%
Nevada Automotive Testing Center	100-199	9	0.89%	-	-	-
Rite of Passage	100-199	10	0.89%	-	-	-

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 GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
FUNCTION/PROGRAM										
General government	11.9	14.3	14.7	15.5	12.1	18.6	22.3	9.3	13.0	16.0
Judicial	1.7	1.7	1.9	1.9	2.0	1.9	1.9	3.0	2.4	2.4
Public works	1.2	1.2	1.3	1.3	2.0	1.5	1.8	2.5	5.5	10.0
Culture and recreation	3.5	4.5	4.5	7.5	7.5	10.9	11.5	4.8	6.0	4.0
Community development	4.5	7.0	7.0	12.0	15.5	16.0	14.0	8.1	8.0	6.0
Health	-	-	-	2.0	3.9	2.9	2.5	3.0	2.0	2.0
Water	5.4	5.4	5.6	5.9	8.6	6.8	8.1	15.3	16.5	13.0
Sewer	5.4	5.4	5.6	5.9	9.1	6.8	8.1	9.2	4.5	4.0
Total	<u>33.6</u>	<u>39.5</u>	<u>40.6</u>	<u>51.9</u>	<u>60.7</u>	<u>65.4</u>	<u>70.1</u>	<u>55.2</u>	<u>57.9</u>	<u>57.4</u>

Sources: City of Fernley, Nevada FY 2010/2011 Annual Budget

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

Function/Program	FISCAL YEAR ENDED JUNE 30,								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Judicial:									
Municipal Court Cases Filed:									
Drug	55	33	34	68	35	28	25	39	20
Driving Under Influence	82	71	75	91	81	83	68	79	59
Domestic Violence	37	48	65	45	5	3	1	3	0
Traffic	1,979	2,132	2,410	2,530	1,829	1,668	1,260	2,206	2002
Non-Traffic	160	309	314	326	319	397	326	307	175
Other	5	0	1	0	0	3	3	3	0
Public Safety:									
Calls for Service:									
Criminal	2,292	2,760	3,072	3,382	3,866	3,633	2,791	2,679	2,407
Non-Criminal	948	828	924	1,028	1,180	1,129	1,889	2,144	2,523
Domestic Violence	312	432	684	678	866	889	463	414	352
Follow-up	1,044	1,488	1,404	1,630	1,439	1,624	1,599	1,920	2,497
Traffic Stops	1,080	672	876	1,026	1,450	1,639	2,067	1,999	1,626
Civil Papers	2,028	1,596	2,028	2,232	2,136	2,601	2,359	2,568	2,418
Animal	132	192	168	102	156	204	337	377	252
Death/Coroner	36	36	36	42	33	45	42	29	41
Public Service	1,536	1,440	1,044	1,250	927	1,191	1,111	1,195	1,337
Assist other Agencies	612	600	684	732	625	1,112	1,024	851	791
Alarms	216	252	276	346	383	377	517	494	492
Property Damage Accident	72	120	132	92	120	98	115	108	87
Injury Accident	12	12	24	24	20	5	15	9	17
Private Property Accident	60	48	48	48	73	81	65	52	57
Administrative	2,016	2,316	2,196	2,304	2,761	3,113	3,204	4,715	7,911
Total Calls for Service	<u>12,372</u>	<u>12,792</u>	<u>13,572</u>	<u>15,076</u>	<u>16,035</u>	<u>17,741</u>	<u>17,598</u>	<u>19,554</u>	<u>22,808</u>
Total Reports Written	<u>1,788</u>	<u>1,740</u>	<u>1,704</u>	<u>1,756</u>	<u>2,298</u>	<u>2,130</u>	<u>1,947</u>	<u>2,326</u>	<u>2,023</u>
Arrests:									
Felony	84	72	60	90	123	76	95	122	133
Gross Misdemeanor	12	12	24	16	17	27	44	34	27
Misdemeanor	192	168	120	112	143	146	121	160	135
Driving Under the Influence	48	48	36	48	84	90	76	111	57
Domestic Violence	48	48	72	52	71	53	73	61	67
Mental Health	12	12	12	8	12	11	4	5	4
Total Arrests	<u>396</u>	<u>360</u>	<u>312</u>	<u>326</u>	<u>450</u>	<u>403</u>	<u>413</u>	<u>493</u>	<u>423</u>
Citations:									
Traffic	444	240	228	274	593	464	557	535	409
Non-Traffic	240	132	168	162	209	234	328	339	287
Total Citation	<u>684</u>	<u>372</u>	<u>408</u>	<u>436</u>	<u>802</u>	<u>698</u>	<u>885</u>	<u>874</u>	<u>696</u>
Water Utility									
Customer Count	3,966	4,980	6,083	6,634	6,816	6,896	6,876	6,693	6,736
New Connections	657	1,014	1,103	551	182	80	15	12	12
Sewer Utility									
Customer Count	3,950	4,957	6,049	6,600	6,782	6,862	6,312	6,140	6,174
New Connections	649	1,007	1,092	551	182	80	14	12	7
Building									
Number of Permits Issued	868	1,492	1,445	897	500	352	221	217	228
Number of Inspection Performed	7,042	15,929	19,108	13,302	5,838	3,107	1,894	929	803
Planning									
Number of applications processed	144	195	211	238	223	150	93	52	32

Sources: City of Fernley

*Information presented for fiscal years as available

SCHEDULE 19

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

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Streets										
Public Road Mileage	89.5	92.03	95.45	104.12	106.64	116.96	125.36	126.79	126.79	126.79
Parks and Recreation:										
Parks and Open Space Acreage	56.9	68	68.3	85.3	150	155	155	155	155	155
Developed Parks	5	7	7	8	11	11	11	11	11	11
Tennis Courts	1	1	1	1	1	1	1	1	1	1
Rodeo Arena	1	1	1	1	2	2	2	2	2	2
Playing Fields	6	6	7	8	10	19	19	19	19	19
Pavilions	1	1	1	2	2	2	3	3	7	7
Skate Park	1	1	1	1	1	1	1	1	1	1
Water Utility:										
Water lines (miles)	73.5	79.4	85.8	92.6	105	115.2	124.7	148.9	152.1	152.01
Fire Hydrants	700	775	850	925	1,000	1,033	1,083	1,102	1,102	1,102
Sewer Utility:										
Sanitary Sewer lines (miles)	63.0	68.0	73.4	79.3	90.0	93.6	101.3	124.2	124.2	124.2
Sanitary Sewer Manhole Count	615	864	1,113	1,362	1,510	1,600	2,126	2,227	2,227	2,227

Sources: City of Fernley



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
Members of the City Council
of the City of Fernley, Nevada

We have audited the financial statements of the City of Fernley, Nevada, (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Fernley, in a separate letter dated February 9, 2012.

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.

Kapury, Armstrong & Co.

Fallon, Nevada
February 9, 2012



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

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

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

Compliance

We have audited the City of Fernley, Nevada's, (the "City"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

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

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

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

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.

Kapury. Armstrong & Co.

Fallon, Nevada
February 9, 2012

**CITY OF FERNLEY, NEVADA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL-GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROJECT/ PASS-THROUGH CFDA NUMBER	FEDERAL EXPENDITURES
<u>Department of the Interior:</u>			
Direct Programs:			
Bureau of Reclamation			
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	R09AP20010	\$ 928,824
<u>Department of Transportation:</u>			
Passed through the State of Nevada:			
Department of Transportation			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	PR259-10-63	44,319
Highway Planning and Construction	20.205	P352-09-802	20,484
Highway Planning and Construction	20.205	PR714-05-056	43,552
Total Department of Transportation			108,355
<u>Department of Justice:</u>			
Direct Program:			
Bureau of Justice Assistance			
BJA FY 09 Congressionally Recommended Awards	16.753	2009-D1-BX-0070	26,927
<u>Department of Health and Human Services:</u>			
Passed through the State of Nevada:			
Department of Health and Human Services			
Social Services Block Grant	93.667	Title XX SSSBG T27001574	984,226
Total Expenditures of Federal Awards			\$ 2,048,332

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. The City's reporting entity is defined in Note 1 to its basic financial statements. All expenditures of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

B. BASIS OF ACCOUNTING:

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

C. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS:

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

Governmental Activities:	
Other Governmental Funds:	
Grants	<u>\$ 2,048,332</u>

**CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS:

Financial Statements

Type of auditor’s report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> X </u>	Yes	<u> </u> No
Significant deficiency(ies)?	<u> </u>	Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u> No

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u>	Yes	<u> X </u> No
Significant deficiency(ies)?	<u> </u>	Yes	<u> X </u> None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<u> </u>	Yes	<u> X </u> No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
CFDA 15.508	Providing Water to At-Risk Natural Desert Terminal Lakes
CFDA 93.667	Social Services Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000		
Auditee qualified as a low-risk auditee?	<u> </u>	Yes	<u> X </u> No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Finding 2011-1:

Material Weakness

Criteria: Internal controls should be in place to provide reasonable assurance that the City prepares its financial statements in accordance with generally accepted accounting principles.

Condition: Several audit adjustments were required to either record transactions or to correct transactions in order for the financial statements to be reported in accordance with generally accepted accounting principles.

Effect: The City’s financial statements were not completed in accordance with generally accepted accounting principles without audit adjustments.

Cause: The audit adjustments originated in five areas:

CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

- 1) Allowance estimates related to the collectability of Water and Sewer fund receivables were understated based on current payment performance. Audit adjustments totaling \$108,642 were made to increase allowance for doubtful accounts.
- 2) A revenue adjustment of \$111,000 was made to the Nonmajor Residential Construction Tax Fund #1 to record prior year developer fees received and deferred in a prior period but available to be used by the City for capital projects in accordance with NRS 278.497 and NRS 278.2987.
- 3) Other postemployment benefit liabilities were not updated to reflect the actuarial calculated net obligation at fiscal year end. Audit adjustments totaling \$109,288 were made to increase the year end obligation.
- 4) An audit adjustment of \$114,827 was made to correct a client prepared entry to remove the Bond Debt Assessment charge effective July 1, 2011 posted at year end.
- 5) Intangible assets are required to be reported as capital asset additions in accordance with Governmental Accounting Standards Board No. 41 *Accounting and Financial Reporting for Intangible Assets*. A prior period adjustment of \$696,150 was made to record water rights received by the City but not recorded as capital asset additions by the Finance department. In addition, an adjustment of \$1,021,920 was required in the current year to record water rights received but not recorded at year-end.

Recommendation: We recommend that the City establish internal controls procedures to provide reasonable assurance that the City records transactions in accordance with generally accepted accounting principles.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None reported.

**CITY OF FERNLEY, NEVADA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 10-1

U.S. Department of Interior

Joint Planning and Development for Water Systems, CFDA 15.508

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

Questioned Costs: \$12,170

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

Current status: The City started tracking the actual costs and applied for an indirect cost rate with the U.S. Department of Interior. On August 10, 2011, an indirect cost rate was approved for the years ending June 30, 2012 and 2013. The approved rate is 10.98%. An indirect rate of 4% was being used prior to the approval.

AUDITOR'S COMMENTS

June 30, 2011

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 disclosed no recommendation in the prior year.

Current Year Recommendations

Our audit disclosed a recommendation for the current year required to be included in the Schedule of Findings and Questioned Costs. See Finding 2011-1.

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, 2010	<u>\$ 183,952</u>
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Adjustment to Base:

Base year:

- | | | |
|--|--------------|--|
| 1. Percentage increase in population of the local
government | 2.32% | |
| 2. Percentage increase in the Consumer Price Index for
the year ending on December 31, next preceding the
year for which the limit is being calculated | <u>3.00%</u> | |

Adjusted Base at June 30, 2011	5.32%	193,738
Actual Revenue		<u>202,452</u>
Actual Amount over (under) Allowable Amount		<u>\$ 8,714</u>

Fee calculated on a Percentage of Gross Revenue:

Adjusted base at June 30, 2010		\$865,718
Percentage change in CPI		<u>1.03</u>
Adjusted base at June 30, 2011		891,689
Actual Revenue		<u>202,452</u>
Actual Amount over (under) Allowable Amount		<u>\$(689,237)</u>



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

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

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

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

- The identified funds are being used expressly for the purposes for which they were created,
- The funds are administered in accordance with accounting principles generally accepted in the United State of America
- The restricted fund balances/net asset in the funds were reasonable and necessary to carry out the purposes of the funds at June 30, 2011 (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, 2011 (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
February 9, 2012