

Comprehensive Annual Financial Report

City of Fernley, Nevada

For the Fiscal Year Ended
June 30, 2012

Prepared by:
Finance Department

**CITY OF FERNLEY, NEVADA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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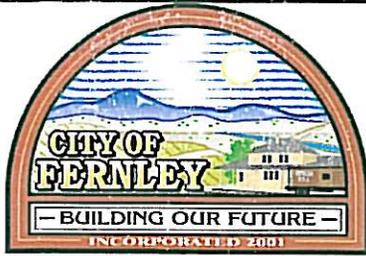
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City of Fernley
Finance
Department

Utility Billing
Accounting
Budgeting
Treasury

December 20, 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, 2012 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, 2012 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, 2012, 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 fifth 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, 2012, 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 January 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
- Improving parks and recreational facilities
- Improving City security
- Streamlining agenda processes
- Enhancing records management policies and developing records management systems
- Analyzing and financing the operation and maintenance costs of expanded services

The City of Fernley annually updates the Capital Improvement Plan required by state statutes and continues to prepare the necessary facilities plans for ultimate development of a more comprehensive Capital Improvement Plan. The City also established a Capital Improvements Advisory Committee to more thoroughly review facility plans and examine funding alternatives for both construction and operation and maintenance of needed facilities.

Cash Management Policies and Practices. Cash temporarily idle during the year was invested in the Local Government Pooled Long-Term Investment Account (NVEST) and the Nevada Local Government Investment Pool (LGIP). The average yield and interest rate on investments for fiscal year 2011-12 was approximately 1.54% for NVEST and .1216% for LGIP.

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

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

Pension Information: The City contributes to the Public Employees' Retirement System of Nevada ("PERS"), a cost sharing multiple-employer pension plan administered by the Retirement Board of PERS. The City has no obligation in connection with employee benefits offered through these plans beyond its annual contractual payments to PERS.

City of Fernley
Finance Department

Additional information regarding the City of Fernley defined benefits plan can be found in the notes to the financial statements.

The preparation of this report could not have been accomplished without the efficient and dedicated staff of the Finance Department. Our auditors, Kafoury, Armstrong & Co. provided the expert support and guidance that made the preparation of this report possible. I would also like to express my thanks to the City Manager, the department heads and employees of the City of Fernley, and the citizens of Fernley whose continued cooperation, support, and assistance have contributed greatly to the financial stability of the City of Fernley.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Fernley for its comprehensive annual financial report for the fiscal year ended June 30, 2011. 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 must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

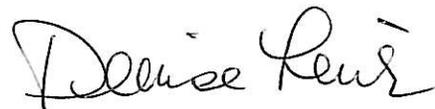
The management of the City of Fernley would like to acknowledge the efforts of the City's finance department and Kafoury, Armstrong & Co. for their effort and dedication in producing this document.

Respectfully submitted,



Daphne Hooper
Interim City Manager

Respectfully submitted,



Denise Lewis
City Treasurer
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fernley
Nevada

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



Christopher P. Moynell

President

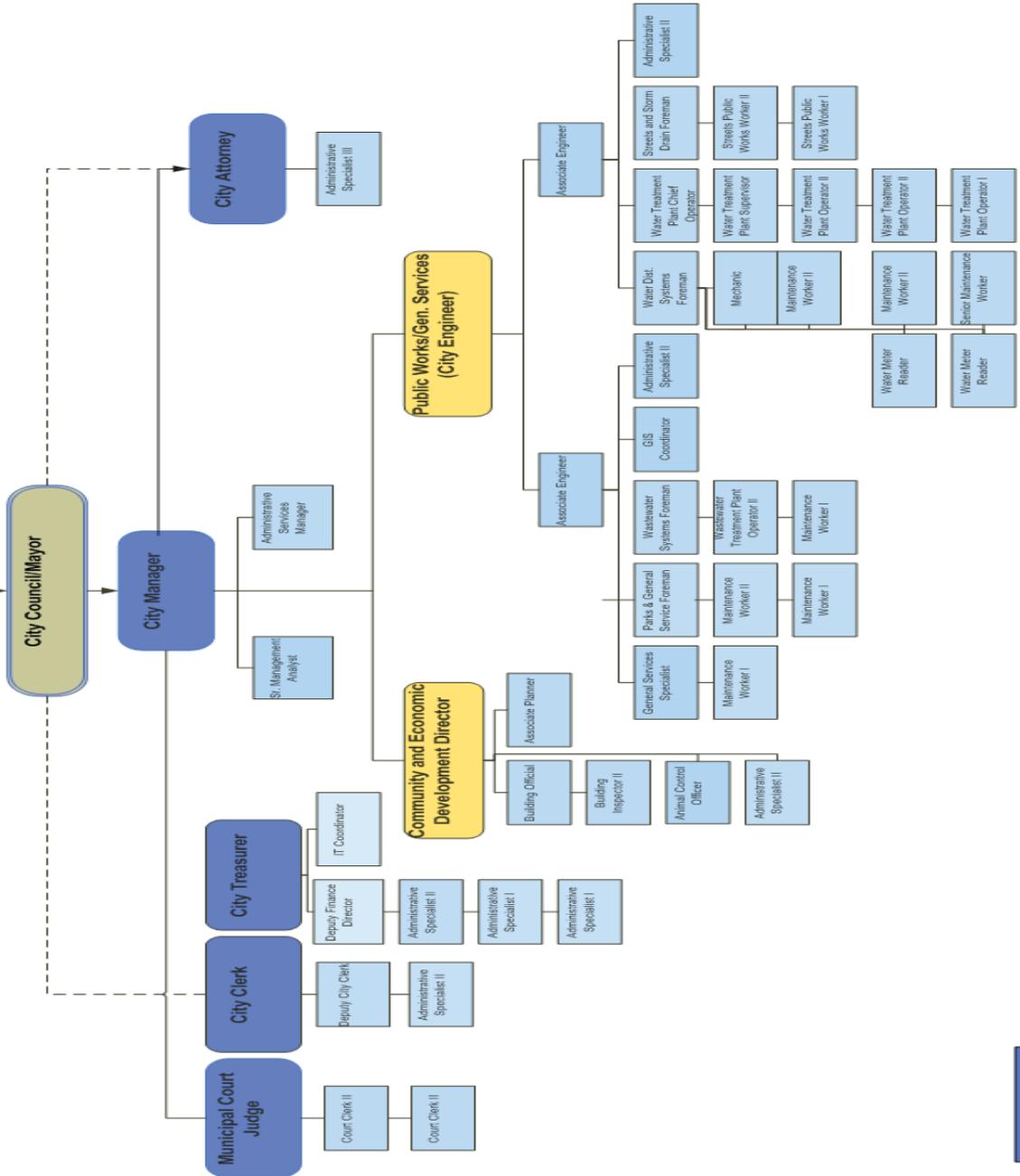
Jeffrey R. Egan

Executive Director

City of Fernley
Organizational Chart

Citizens of City of Fernley

Updated 06/27/2012



| |
|--|
| Salary positions and City Manager (orange) |
| Directors |
| City Staff |

City of Fernley
List of Principal Officials

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 | Daphne Hooper |
| City Attorney | Brandi Jensen |
| Sherriff | Allen Veil |
| Pro-tem Municipal Court Judge | Ed Johnson |
| Building Official | James Ball |
| Acting City Clerk | Kim Swanson |
| Community Development Director | Jeff Falk |
| Acting Director/City Treasurer | Kathy Orsley |
| 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, 2012, 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, 2012, and the respective changes in financial position and, where applicable, cash flows 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 December 20, 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 3M, the budgetary comparison information on pages 37 through 39, the reconciliation of the General Fund (budgetary

basis) to the General Fund (GAAP basis) on page 40, the schedule of funding progress-other postemployment benefit plans on page 42, and the notes to the required supplementary information on page 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 management's discussion and analysis, and the schedule of funding progress-other postemployment benefit plans, which consisted principally of inquiries of management regarding 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. The budgetary comparison information, the reconciliation of the General Fund (budgetary basis) to the General Fund (GAAP basis) and the notes to the required supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole.

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
December 20, 2012

Kofonek, Armstrong & Co.

Management's Discussion and Analysis

As management of the City of Fernley (City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial performance during the fiscal year ended June 30, 2012. This report provides financial information on the City as a whole and by fund. We encourage readers to consider the information presented here in conjunction with the City's letter of transmittal and the financial statements, which follow this section.

Financial Highlights

- The City's total net assets were \$144,512,753 at June 30, 2012.
- The City's total expenses were \$19,022,697 at June 30, 2012.
- The City's total revenue was \$18,018,178 at June 30, 2012.

- The government's total net assets decreased by \$1,004,519. The decrease is primarily attributable to the reduction in cash and investments used for 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's governmental funds reported combined ending fund balances of \$3,365,865, an increase of \$123,715 in comparison with the prior year. The increase is primarily the result of an increase in general fund revenue to include an increase in property tax revenue of \$418,973 over the prior year.

- At the end of the current fiscal year, fund balance for the general fund was \$1,791,330. This ending fund balance is 41% of general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) basic 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's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City'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 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 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 include general government, judicial, public works, culture and recreation, community development, and health. The business-type activities of the City are water and sewer operations.

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

Basic 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, 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 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 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 grants fund, which are considered major funds. Data for the remaining, non-major 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 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 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.

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'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 61 of this report.

Government-wide Financial Analysis

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The statement of activities reports information about the City's activities in a way that will help answer this question. The statement of net assets presents information on all of the City's assets and liabilities, with the difference 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 is improving or deteriorating. These two statements report the net assets of the City and the changes in them. However, considerations should also be given to other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation. At the close of the current fiscal year, the City's assets exceeded its liabilities by \$144,512,753.

A large portion of the City's net assets (90%) 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 | |
|------------------------------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
| | FY12 | FY11 | FY12 | FY11 | FY12 | FY11 |
| Current & other assets | \$4,548,978 | \$4,022,176 | \$13,213,147 | \$13,788,996 | 17,762,125 | \$17,811,172 |
| Noncurrent Assets | - | - | 553,895 | 576,000 | 553,895 | 576,000 |
| Capital | 44,775,626 | 42,817,760 | 166,604,210 | 170,671,868 | 211,379,836 | 213,489,628 |
| Total Assets | 49,324,604 | 46,839,936 | 180,371,252 | 185,036,864 | 229,695,856 | 231,876,800 |
| Long-term liabilities | 4,159,135 | 4,106,620 | 75,668,632 | 77,346,108 | 79,827,767 | 81,452,728 |
| Other liabilities | 1,262,300 | 944,060 | 4,093,036 | 3,962,740 | 5,355,336 | 4,906,800 |
| Total liabilities | 5,421,435 | 5,050,680 | 79,761,668 | 81,308,848 | 85,183,103 | 86,359,528 |
| Net assets: | | | | | | |
| Invested in capital assets, net of | | | | | | |
| Related debt | 40,765,626 | 38,683,760 | 89,367,958 | 91,669,313 | 130,133,584 | 130,353,073 |
| Restricted | 568,412 | 1,886,533 | - | - | 568,412 | 1,886,533 |
| Unrestricted | 2,569,131 | 1,218,963 | 11,241,626 | 12,058,703 | 13,810,757 | 13,277,666 |
| Total net assets | \$43,903,169 | \$41,789,256 | \$100,609,584 | \$103,728,016 | \$144,512,753 | \$145,517,272 |

A portion of the City's net assets (.39%) 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 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.

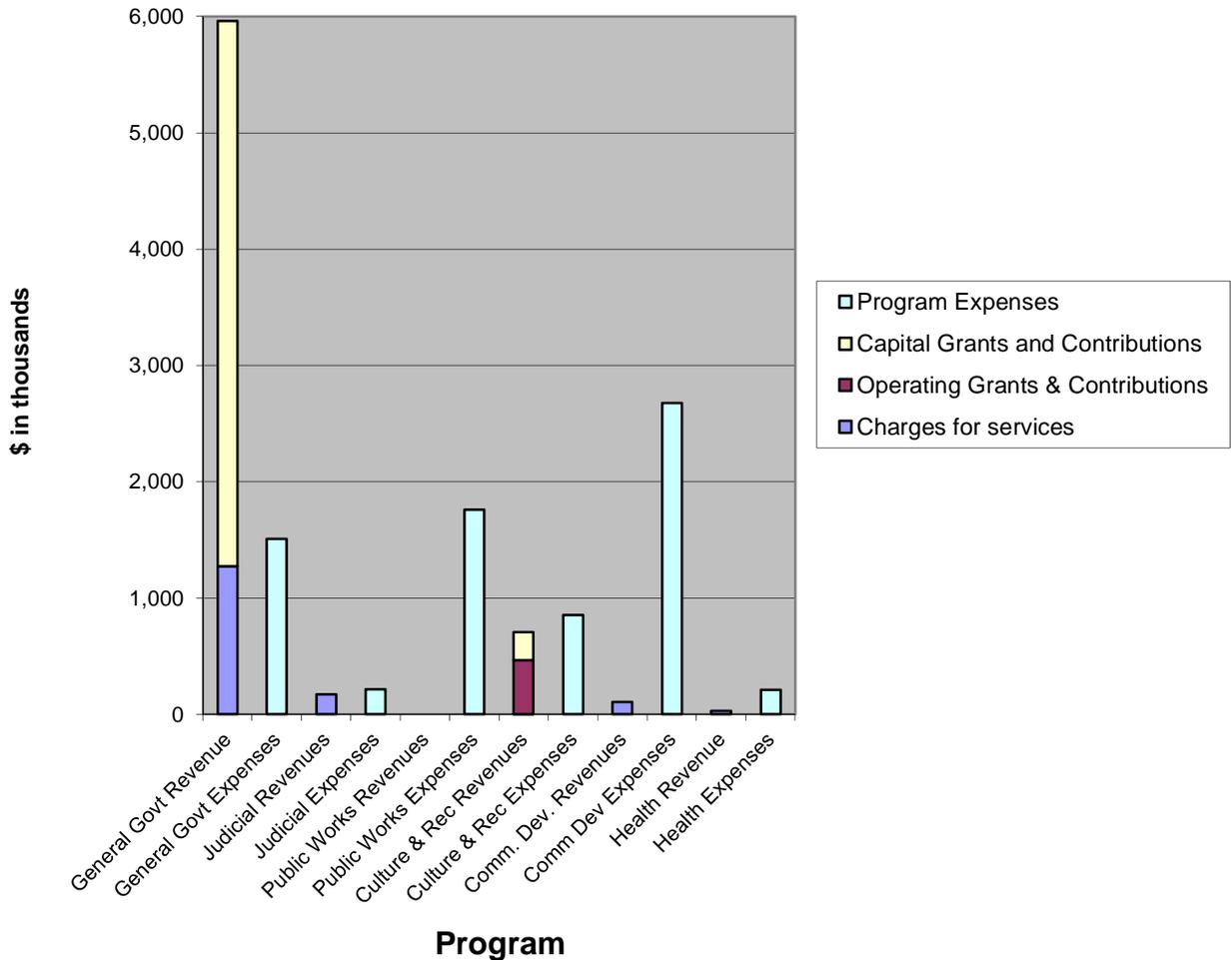
The government's net assets decreased \$1,004,519 during the current fiscal year. The decrease is primarily due the scheduled payment in the amount of \$5,218,756 for outstanding water and sewer debt service.

Governmental activities increased the City's net assets by \$2,113,913. *Business-type activities* decreased the City's net assets by \$3,118,432.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
| | FY12 | FY11 | FY12 | FY11 | FY12 | FY11 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$1,553,522 | \$1,560,667 | \$8,229,728 | \$6,445,283 | \$9,783,250 | \$8,005,950 |
| Operating grants and contributions | 466,388 | 133,460 | 97,966 | 4,893 | 564,354 | 138,353 |
| Capital grants and contributions | 4,925,916 | 3,933,102 | 8,134 | 1,897,368 | 4,934,050 | 5,830,470 |
| General revenues: | | | | | | |
| Property taxes | 1,850,971 | 1,473,876 | - | - | 1,850,971 | 1,473,876 |
| Shared revenues | 402,821 | 512,271 | - | - | 402,821 | 512,271 |
| Other revenues | 213,290 | 88,146 | 269,442 | 222,951 | 482,732 | 311,097 |
| Total revenues | 9,412,908 | 7,701,522 | 8,605,270 | 8,570,495 | 18,018,178 | 16,272,017 |
| Expenses: | | | | | | |
| General government | 1,506,563 | 1,499,967 | - | - | 1,506,563 | 1,499,967 |
| Judicial | 213,314 | 204,071 | - | - | 213,314 | 204,071 |
| Public works | 1,759,630 | 1,871,798 | - | - | 1,759,630 | 1,871,798 |
| Culture & recreation | 743,911 | 734,553 | - | - | 743,911 | 734,553 |
| Community develop. | 2,673,503 | 2,817,551 | - | - | 2,673,503 | 2,817,551 |
| Health | 207,672 | 193,303 | - | - | 207,672 | 193,303 |
| Water | - | - | 9,334,311 | 9,271,351 | 9,334,311 | 9,271,351 |
| Sewer | - | - | 2,389,391 | 2,524,958 | 2,389,391 | 2,524,958 |
| Interest and Fiscal | 194,402 | 189,836 | - | - | 194,402 | 189,836 |
| Total expenses | 7,298,995 | 7,511,079 | 11,723,702 | 11,796,309 | 19,022,697 | 19,307,388 |
| Increase in net assets | 2,113,913 | 190,443 | -3,118,432 | -3,225,814 | -1,004,519 | -3,035,371 |
| Net assets, July 1 | 41,789,256 | 41,598,813 | 103,728,016 | 106,257,680 | 145,517,272 | 147,856,493 |
| Net assets, June 30 | \$43,903,169 | \$41,789,256 | \$100,609,584 | \$103,728,016 | \$144,512,753 | \$145,517,272 |

FY12 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 the expenses for the Finance and Information Technology departments.

The sources of program revenue for judicial activities include fines and fees (unrestricted) as well as administrative assessment and court facility fees (restricted). The program expenses associated with judicial activities include expenses for the Judge, City Prosecutor, Public Defender, and direct court costs.

The major sources of program revenues for public works activities are dedications (non-cash transactions) of streets and storm drain systems from developers. However, there are none for the current fiscal year. The program expenses associated with public works activities are operating costs and depreciation related to streets and storm drain activities.

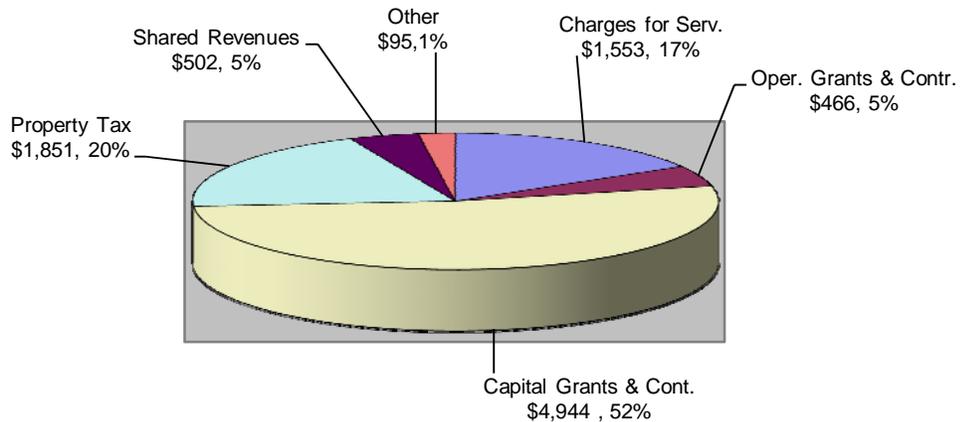
The major sources of program revenues for culture and recreation activities include grants and dedications of park property and improvements. The program expenses associated with culture and recreation activities include the operating costs in the general fund parks budget and depreciation related to two residential construction tax funds for which the Parks Department is responsible.

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.

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 program expenses associated with these activities are operational expenses in the respective budgets.

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.

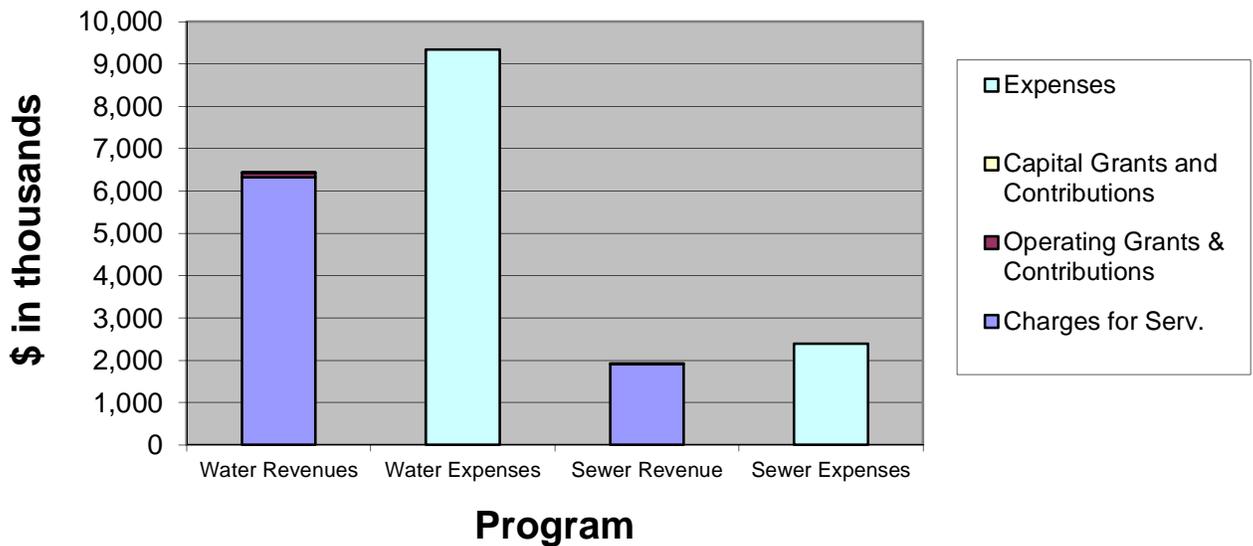
FY12 Revenues by Source - Governmental Activities (in thousands of \$)



Governmental activities. 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. Whereas tax revenue represents 20% of total revenue, Capital grants and contributions (dedicated) infrastructure represent the main portion of revenue at 52%.

FY12 Program Revenues and Expenses Business-type Activities

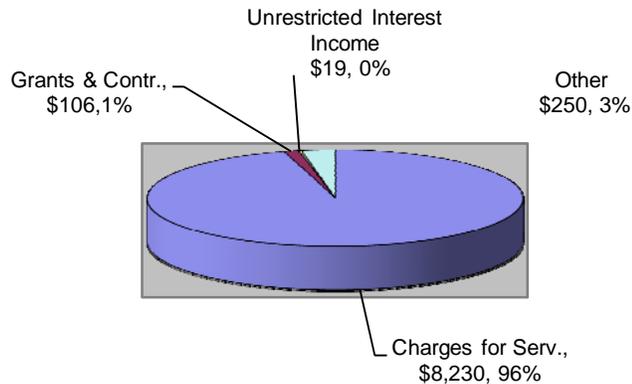


The major sources of program revenues for business-type activities include user fees and both cash and non-cash capital grants and contributions. Program expenses include operations expenses, depreciation and interest expense on debt.

Business-type activities net assets decreased by \$3,118,432. One of the key elements of this decrease is the recording of interest expense in the amount of \$3,596,256.

- Charges for services for business-type activities increased by \$1,784,445 or 28%. This is due to the water assessment fees imposed to assist with debt service for the water treatment plant.
- Capital grants and contributions decreased by \$1,889,234 primarily due to water rights (intangible assets) being reported for the first time in the prior year.
- Investment earnings continued to decrease due to lower interest rates and lower levels of cash available for investment.

**FY12 Revenue by Source
Business Type Activities
(in thousands of \$)**



Business-type activities. The main source of revenue for business-type activities is charges for services. This category includes water and sewer user fees and assessments and accounts for 96% of total revenue.

Financial Analysis of the Government's Funds

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

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

The City's major governmental funds are reported separately in the basic fund financial statements and include the general fund and the grants fund. All other non-major funds are reported under other governmental funds. As of the end of the current fiscal year, the City's governmental funds as a whole reported combined ending fund balances of \$3,365,865, an increase of \$122,715 in comparison with the prior year. The restricted fund balance, which includes amounts constrained for a specific purpose by external parties is \$568,412; the committed fund balance, which includes amounts constrained for a specific purpose by Council using its highest level of decision making authority (by ordinance) is \$1,200,065; the assigned fund balance, which includes amounts constrained for a specific purpose by Council or by a delegated official (by resolution) is \$1,597,388.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund's fund balance was \$1,791,330. This is an increase of \$197,301 compared to the prior year.

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 \$64,234. The majority of grants that the City has received are reimbursement grants with a small administrative fee (4%). The City has received an indirect rate which allows the City to receive an administrative fee of 10.98% for most federal grant awards.

Other governmental funds include those such as the Capital Projects Fund, which 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.

Proprietary funds. Whereas government funds measure and report available financial resources, *proprietary funds* measure and report economic resources. Proprietary funds are business-like funds and include the City's water and sewer enterprise funds.

Total net assets of the Water Fund at the end of the year amounted to \$71,159,207. Of that amount \$3,232,762 are unrestricted. Total net assets of the Sewer Fund amounted to \$29,450,377. Of that amount, \$8,094,924 are unrestricted. Unrestricted net assets is the portion of the excess of total assets over total liabilities that may be utilized at the discretion of Council. The total change in net assets for the Water Fund was a decrease of \$2,646,499 and the total change in net assets for the Sewer Fund was a decrease of \$471,933.

General Fund Budgetary Highlights

The City Council adopts an annual operating budget and a five-year capital budget following public budget workshops and a public hearing. The operating budget includes proposed expenses and the means of financing them. The City's budget remains in effect the entire year, but may be augmented by City Council prior to year end. Budget vs. actual financial reports are provided to management on a monthly basis and such are presented to City Council on a quarterly basis.

Actual general fund revenue indicates a negative variance of \$573,492. The shortfall is a result of the City receiving less franchise fees and less RTC shared revenue than anticipated. Actual general fund expenditures indicate a negative variance of \$4,039,629. This was mainly due to \$4,010,957 in debt service expenditures that resulted from bond debt refinancing for the administration building. Such expenditures had not been budgeted for, but are offset by unbudgeted other financing sources. Actual general fund other financing sources (uses) indicate a positive variance of \$4,873,000. This is a result of transfers out of the fund being less than anticipated and \$4,010,000 in bond proceeds from bond debt refinancing for the administration building that were not budgeted for. Actual general fund fund balance indicates a positive variance of \$259,896. Budgetary schedules can be found on pages 37 through 39 of this report.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to \$211,379,836 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure and other capital assets. The City's investment in capital assets (net of accumulated depreciation) for the current fiscal year decreased 1% due to depreciation. However, in total, the City's total capital assets increased by \$3,910,414. The majority of this increase is due to the completion of Nevada Pacific Parkway.

City of Fernley Capital Assets (net of depreciation)

| | Governmental activities | | Business-type activities | | Totals | |
|-----------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | FY12 | FY11 | FY12 | FY11 | FY12 | FY11 |
| Land | \$3,909,626 | \$3,909,626 | \$1,195,948 | \$1,195,948 | \$5,105,574 | \$5,105,574 |
| Water rights | -- | - | 38,701,604 | 38,699,444 | 38,701,604 | 38,699,444 |
| Construction in progress | 27,712 | 19,779 | 116,325 | 69,257 | 144,037 | 89,036 |
| Buildings | 8,599,098 | 8,599,098 | 17,530 | 17,530 | 8,616,628 | 8,616,628 |
| Improvements other than buildings | 12,543,634 | 8,923,601 | 150,476,042 | 150,354,417 | 163,019,676 | 159,278,018 |
| Machinery & Equipment | 1,490,213 | 1,449,283 | 1,983,054 | 1,912,389 | 3,473,267 | 3,361,672 |
| Infrastructure | 29,994,105 | 29,994,105 | - | - | 29,994,105 | 29,994,105 |
| Other capital assets | -- | -- | 1,671,630 | 1,671,630 | 1,671,630 | 1,671,630 |
| TOTAL | \$56,564,388 | \$52,895,492 | \$194,162,133 | \$193,920,615 | \$250,726,521 | \$246,816,107 |

Additional information on the City'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 had total bonded debt outstanding of \$77,186,912 and lease-purchase debt of \$4,010,000. All of the debt is backed by the full faith and credit of the government. In addition, the City's long-term liabilities also include estimated compensated absences of \$166,099 and other post employment benefits (OPEB) of \$332,780.

| | Governmental activities | | Business-type activities | | Totals | |
|----------------------------------|-------------------------|--------------------|--------------------------|---------------------|---------------------|---------------------|
| | 7/1/12 | 7/1/11 | 7/1/12 | 7/1/11 | 7/1/12 | 7/1/11 |
| General obligation/revenue bonds | -- | -- | \$77,186,912 | \$78,951,241 | \$77,186,912 | \$78,951,241 |
| Lease/Purchase Debt | \$4,010,000 | \$4,134,000 | | | \$4,010,000 | \$4,134,000 |
| Unamortized bond premium | -- | -- | \$49,340 | \$51,314 | \$49,340 | \$51,314 |
| Compensated absences | \$80,039 | \$77,320 | \$86,060 | \$79,056 | \$166,099 | \$156,376 |
| TOTAL | \$4,090,039 | \$4,211,320 | \$77,322,312 | \$79,081,611 | \$81,412,351 | \$83,292,931 |

The City's total debt decreased by \$1,888,329 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 is approximately \$137,496,488, which is significantly in excess of the City's outstanding general obligation debt of \$77,186,912.

Additional information of the City's long-term debt can be found in note 7 on pages 30 through 31 of this report.

Economic Factors and Next Year's Budget and Rates

The City of Fernley is at a crossroad from a suburban bedroom community to a manufacturing and warehousing hub of the west. Our challenge is the same as the past several years, providing basic services during this "great recession" up to today. As we move into the next budget year, we address several key issues:

- Continue to provide basic services with one of the smallest governments per capita in the State – 2.78 FTE per 1,000
- No reduction in key services levels throughout the City
- No proposed layoffs or furloughs
- Litigation for the City's fair share of consolidated tax
- Coverage of water bond debt

Even with the downturn in the economy, the City is growing and changing. The 2010 federal census has the City as the 6th largest in the State of Nevada. We must embrace and prepare for this evolution by funding what services are important to the residents and anticipating what services will or won't be needed in the future. This budget reflects the needs of the City now and going forward. Fernley remains one of the most potential areas for industrial growth in Nevada, and we will continue to provide the outstanding services our residents and businesses have come to expect as well as find ways to advance the City in the face of significant fiscal challenges.

The overall FY 2012/13 budget including the water enterprise fund, the wastewater enterprise fund, and the general fund is approximately \$13.8 million with \$3.4 million in grand fund expenditures. The water enterprise fund, waste water enterprise fund and the General Fund revenues are projected to be \$14.8 million. This represents an opportunity to fund capital projects and reserves of approximately \$1.4 million. The expenditure budgets for FY 12/13 reflect no merit increases or COLAs.

The budget document is a plan to help the City navigate difficult economic times by considering permanent changes in cost structure that will allow for long-term economic stability. The City should position itself to maximize opportunities that will accompany the economic upturn, which we anticipate will be sooner than later. It also reflects our values

and priorities in the Fernley Strategic Plan as adopted in December 2010 – reflecting where we want to invest our resources and where we think it makes sense to cut. Despite all the expense reductions we've made over the last four years, the impact to residents has been remarkably minor. This is, in part, because our innovative staff has found efficiencies throughout the organization and developed new ways to maintain services with fewer resources. As we move to improve services and deliver them in a more cost-effective and common sense approach.

Requests for Information

This financial report is designed to provide a general overview of the City'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, 2012**

| | <u>GOVERNMENTAL ACTIVITIES</u> | <u>BUSINESS- TYPE ACTIVITIES</u> | <u>TOTAL</u> |
|---|------------------------------------|--|-----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 2,778,597 | \$ 11,690,392 | \$ 14,468,989 |
| Restricted cash and investments | | | |
| Refundable deposits | - | 578,859 | 578,859 |
| Interest receivable | 2,116 | 7,221 | 9,337 |
| Taxes receivable | 49,037 | - | 49,037 |
| Accounts receivable, net | 237,484 | 819,480 | 1,056,964 |
| Due from other governments | 1,481,744 | - | 1,481,744 |
| Inventories | - | 117,195 | 117,195 |
| Total Current Assets | <u>4,548,978</u> | <u>13,213,147</u> | <u>17,762,125</u> |
| Noncurrent assets: | | | |
| Deferred charges | - | 553,895 | 553,895 |
| Capital assets: | | | |
| Land and construction in progress | 3,937,338 | 40,013,877 | 43,951,215 |
| Other capital assets, net of depreciation | 40,838,288 | 126,590,333 | 167,428,621 |
| Total Capital Assets | <u>44,775,626</u> | <u>166,604,210</u> | <u>211,379,836</u> |
| Total Noncurrent Assets | <u>44,775,626</u> | <u>167,158,105</u> | <u>211,933,731</u> |
| Total Assets | <u>49,324,604</u> | <u>180,371,252</u> | <u>229,695,856</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 974,924 | 1,717,227 | 2,692,151 |
| Payable from restricted assets: | | | |
| Refundable deposits | - | 578,859 | 578,859 |
| Unearned revenue | 11,353 | - | 11,353 |
| Due to developers | 152,166 | - | 152,166 |
| Due to other governments | 3,443 | - | 3,443 |
| Due within one year | 120,414 | 1,796,950 | 1,917,364 |
| Total Current Liabilities | <u>1,262,300</u> | <u>4,093,036</u> | <u>5,355,336</u> |
| Noncurrent liabilities: | | | |
| Other postemployment benefit liabilities | 189,510 | 143,270 | 332,780 |
| Due in more than one year | 3,969,625 | 75,525,362 | 79,494,987 |
| Total Noncurrent Liabilities | <u>4,159,135</u> | <u>75,668,632</u> | <u>79,827,767</u> |
| Total Liabilities | <u>5,421,435</u> | <u>79,761,668</u> | <u>85,183,103</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 40,765,626 | 89,367,958 | 130,133,584 |
| Restricted | 568,412 | - | 568,412 |
| Unrestricted | 2,569,131 | 11,241,626 | 13,810,757 |
| Total Net Assets | <u>\$ 43,903,169</u> | <u>\$ 100,609,584</u> | <u>\$ 144,512,753</u> |

See accompanying notes.

**CITY OF FERNLEY, NEVADA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

| 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 | 3,266,193 | \$ 1,274,989 | \$ - | \$ 4,685,052 | \$ 2,693,848 | \$ - | \$ 2,693,848 |
| Judicial | 213,314 | 169,630 | - | - | (43,684) | - | (43,684) |
| Culture and recreation | 743,911 | 10 | 466,388 | 240,864 | (36,649) | - | (36,649) |
| Community development | 2,673,503 | 105,925 | - | - | (2,567,578) | - | (2,567,578) |
| Health | 207,672 | 2,968 | - | - | (204,704) | - | (204,704) |
| Debt Service: | | | | | | | |
| Interest and fiscal charges | 194,402 | - | - | - | (194,402) | - | (194,402) |
| Total Governmental Activities | <u>7,298,995</u> | <u>1,553,522</u> | <u>466,388</u> | <u>4,925,916</u> | <u>(353,169)</u> | <u>-</u> | <u>(353,169)</u> |
| Business-type Activities: | | | | | | | |
| Water | 9,334,311 | 6,325,657 | 97,966 | 7,465 | - | (2,903,223) | (2,903,223) |
| Sewer | <u>2,389,391</u> | <u>1,904,071</u> | <u>-</u> | <u>669</u> | <u>-</u> | <u>(484,651)</u> | <u>(484,651)</u> |
| Total Business- type Activities | <u>11,723,702</u> | <u>8,229,728</u> | <u>97,966</u> | <u>8,134</u> | <u>-</u> | <u>(3,387,874)</u> | <u>(3,387,874)</u> |
| Total | <u>\$ 19,022,697</u> | <u>\$ 9,783,250</u> | <u>\$ 564,354</u> | <u>\$ 4,934,050</u> | <u>(353,169)</u> | <u>(3,387,874)</u> | <u>(3,741,043)</u> |
| General Revenues: | | | | | | | |
| Property taxes | | | | | 1,850,971 | - | 1,850,971 |
| Consolidated taxes | | | | | 131,372 | - | 131,372 |
| Fuel taxes | | | | | 271,449 | - | 271,449 |
| Unrestricted gaming licenses | | | | | 99,607 | - | 99,607 |
| Unrestricted interest income | | | | | 5,066 | 19,326 | 24,392 |
| Miscellaneous revenue | | | | | 108,617 | 250,116 | 358,733 |
| Total General Revenues | | | | | <u>2,467,082</u> | <u>269,442</u> | <u>2,736,524</u> |
| Change in Net Assets | | | | | 2,113,913 | (3,118,432) | (1,004,519) |
| Net Assets July 1 | | | | | <u>41,789,256</u> | <u>103,728,016</u> | <u>145,517,272</u> |
| Net Assets June 30 | | | | | <u>\$ 43,903,169</u> | <u>\$ 100,609,584</u> | <u>\$ 144,512,753</u> |

See accompanying notes.

**CITY OF FERNLEY, NEVADA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

| | GENERAL FUND | GRANTS FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|-------------------------|------------------------|---|---|
| ASSETS | | | | |
| Cash and investments | \$ 1,242,904 | \$ - | \$ 1,535,693 | \$ 2,778,597 |
| Interest receivable | 1,215 | - | 901 | 2,116 |
| Taxes receivable | 49,037 | - | - | 49,037 |
| Accounts receivable | 233,634 | - | 3,850 | 237,484 |
| Due from other governments | 21,595 | 1,428,830 | 31,319 | 1,481,744 |
| Due to other funds | 661,743 | - | - | 661,743 |
| | <u>661,743</u> | <u>-</u> | <u>-</u> | <u>661,743</u> |
| Total Assets | <u>\$ 2,210,128</u> | <u>\$ 1,428,830</u> | <u>\$ 1,571,763</u> | <u>\$ 5,210,721</u> |
| LIABILITIES AND FUND BALANCE | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 224,536 | \$ 691,500 | \$ 58,888 | \$ 974,924 |
| Due to developers | 152,166 | - | - | 152,166 |
| Due to other governments | 869 | - | 2,574 | 3,443 |
| Due from other funds | - | 661,743 | - | 661,743 |
| Deferred revenue | 41,227 | 11,353 | - | 52,580 |
| | <u>41,227</u> | <u>11,353</u> | <u>-</u> | <u>52,580</u> |
| Total Liabilities | <u>418,798</u> | <u>1,364,596</u> | <u>61,462</u> | <u>1,844,856</u> |
| Fund Balance: | | | | |
| Restricted: | | | | |
| Court administration and graffiti abatement - NRS 268.4085 | - | - | 33,356 | 33,356 |
| Court fees - NRS 176.0611 | - | - | 89,874 | 89,874 |
| Grants | - | 64,234 | - | 64,234 |
| Future development | 327,747 | - | - | 327,747 |
| Specified purpose | 13,576 | - | - | 13,576 |
| Capital projects | 800 | - | 38,825 | 39,625 |
| Committed | | | | |
| Convention center | - | - | 252,876 | 252,876 |
| Capital projects | - | - | 947,189 | 947,189 |
| Assigned | 1,449,207 | - | 148,181 | 1,597,388 |
| | <u>1,449,207</u> | <u>-</u> | <u>148,181</u> | <u>1,597,388</u> |
| Total Fund Balance | <u>1,791,330</u> | <u>64,234</u> | <u>1,510,301</u> | <u>3,365,865</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,210,128</u> | <u>\$ 1,428,830</u> | <u>\$ 1,571,763</u> | <u>\$ 5,210,721</u> |

See accompanying notes.

CITY OF FERNLEY, NEVADA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

| | | |
|--|-------------|-----------------------------|
| Total Fund Balances - Governmental Funds | | \$ 3,365,865 |
| 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 | 56,564,388 | |
| Less: Accumulated depreciation | 11,788,762 | 44,775,626 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund. | | |
| | | 41,227 |
| Certain liabilities are not reported in the governmental funds because they are not due and payable in the current period: | | |
| Other postemployment benefits liability | (189,510) | |
| Bonds payable | (4,010,000) | |
| Compensated absences | (80,039) | (4,279,549) |
| Total Net Assets - Governmental Activities | | <u>\$ 43,903,169</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, 2012

| | GENERAL FUND | GRANTS FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------------|------------------------|---|---|
| REVENUES | | | | |
| Taxes | \$ 1,868,511 | \$ - | \$ 240,065 | \$ 2,108,576 |
| Licenses and permits | 1,483,489 | - | - | 1,483,489 |
| Intergovernmental | 869,209 | 4,686,503 | - | 5,555,712 |
| Fines and forfeits | 147,010 | - | 22,620 | 169,630 |
| Miscellaneous | 91,422 | 18,473 | 2,351 | 112,246 |
| Total Revenues | <u>4,459,641</u> | <u>4,704,976</u> | <u>265,036</u> | <u>9,429,653</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,629,090 | - | - | 1,629,090 |
| Judicial | 200,220 | - | 12,994 | 213,214 |
| Culture and recreation | 617,960 | - | - | 617,960 |
| Community development | 434,379 | 4,758,875 | 116,535 | 5,309,789 |
| Health | 200,427 | - | - | 200,427 |
| Total Current | <u>3,082,076</u> | <u>4,758,875</u> | <u>129,529</u> | <u>7,970,480</u> |
| Debt service: | | | | |
| Principal | 4,134,000 | - | - | 4,134,000 |
| Interest | 194,402 | - | - | 194,402 |
| Bond issuance costs | 61,727 | - | - | 61,727 |
| Total Debt Service | <u>4,390,129</u> | <u>-</u> | <u>-</u> | <u>4,390,129</u> |
| Capital outlay: | | | | |
| General government | 799,262 | - | - | 799,262 |
| Culture and recreation | 1,078 | - | 155,989 | 157,067 |
| Total Capital Outlay | <u>800,340</u> | <u>-</u> | <u>155,989</u> | <u>956,329</u> |
| Total Expenditures | <u>8,272,545</u> | <u>4,758,875</u> | <u>285,518</u> | <u>13,316,938</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | (3,812,904) | (53,899) | (20,482) | (3,887,285) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | 205 | - | (205) | - |
| Proceeds from bond issuance | 4,010,000 | - | - | 4,010,000 |
| Total Other Financing Sources (Uses) | <u>4,010,205</u> | <u>-</u> | <u>(205)</u> | <u>4,010,000</u> |
| Net Change in Fund Balance | 197,301 | (53,899) | (20,687) | 122,715 |
| FUND BALANCE, JULY 1 | <u>1,594,029</u> | <u>118,133</u> | <u>1,530,988</u> | <u>3,243,150</u> |
| FUND BALANCE, JUNE 30 | <u>\$ 1,791,330</u> | <u>\$ 64,234</u> | <u>\$ 1,510,301</u> | <u>\$ 3,365,865</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, 2012

| | | |
|---|-------------|-------------------------|
| Net Change if Fund Balances - Governmental Funds | \$ | 122,715 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>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.</p> | | |
| Expenditures for capital assets | 3,668,896 | |
| Less: Current year depreciation | (1,711,030) | 1,957,866 |
| <p>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.</p> | | |
| | | (16,829) |
| <p>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 position. This amount is the net effect of these differences in the treatment of long-term debt and related transactions.</p> | | |
| | | 124,000 |
| <p>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.</p> | | |
| Change in other postemployment benefit liability | | (71,120) |
| <p>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:</p> | | |
| Change in long-term compensated absences payable | | (2,719) |
| Change in Net Assets - Governmental Activities | \$ | <u>2,113,913</u> |

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | |
|---|--|-----------------------------------|---------------------------------------|
| | WATER UTILITY FUND | SEWER UTILITY FUND | TOTAL ENTERPRISE FUNDS |
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 3,613,947 | \$ 8,076,445 | \$ 11,690,392 |
| Restricted cash and investments: | | | |
| Refundable deposits | 288,008 | 290,851 | 578,859 |
| Interest receivable | 2,303 | 4,918 | 7,221 |
| Accounts receivable, net | 633,840 | 185,640 | 819,480 |
| Inventories | 115,068 | 2,127 | 117,195 |
| Total Current Assets | <u>4,653,166</u> | <u>8,559,981</u> | <u>13,213,147</u> |
| Noncurrent assets: | | | |
| Deferred charges | 499,450 | 54,445 | 553,895 |
| Capital assets: | | | |
| Not being depreciated | 39,806,462 | 207,414 | 40,013,876 |
| Depreciable assets | 115,727,193 | 38,421,064 | 154,148,257 |
| | 155,533,655 | 38,628,478 | 194,162,133 |
| Less: Accumulated depreciation | 17,863,104 | 9,694,819 | 27,557,923 |
| Total Capital Assets | <u>137,670,551</u> | <u>28,933,659</u> | <u>166,604,210</u> |
| Total Noncurrent Assets | <u>138,170,001</u> | <u>28,988,104</u> | <u>167,158,105</u> |
| Total Assets | <u>142,823,167</u> | <u>37,548,085</u> | <u>180,371,252</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 1,536,141 | 181,086 | 1,717,227 |
| Payable from restricted assets: | | | |
| Refundable deposits | 288,008 | 290,851 | 578,859 |
| Debt due within one year | 1,545,873 | 251,077 | 1,796,950 |
| Total Current Liabilities | <u>3,370,022</u> | <u>723,014</u> | <u>4,093,036</u> |
| Noncurrent liabilities: | | | |
| Other postemployment benefits | 95,705 | 47,565 | 143,270 |
| Bonds payable, due after one year | 68,198,233 | 7,327,129 | 75,525,362 |
| Total Noncurrent Liabilities | <u>68,293,938</u> | <u>7,374,694</u> | <u>75,668,632</u> |
| Total Liabilities | <u>71,663,960</u> | <u>8,097,708</u> | <u>79,761,668</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 67,926,445 | 21,355,453 | 89,281,898 |
| Unrestricted | 3,232,762 | 8,094,924 | 11,327,686 |
| Total Net Assets | <u>\$ 71,159,207</u> | <u>\$ 29,450,377</u> | <u>\$ 100,609,584</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, 2012**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | |
|--|--|-----------------------------------|---------------------------------------|
| | WATER UTILITY FUND | SEWER UTILITY FUND | TOTAL ENTERPRISE FUNDS |
| OPERATING REVENUES | | | |
| User fees | \$ 6,325,663 | \$ 1,904,073 | \$ 8,229,736 |
| Operating grants | 97,966 | - | 97,966 |
| Total Operating Revenues | <u>6,423,629</u> | <u>1,904,073</u> | <u>8,327,702</u> |
| OPERATING EXPENSES | | | |
| Salaries and wages | 858,238 | 313,760 | 1,171,998 |
| Employee benefits | 373,844 | 165,018 | 538,862 |
| Services and supplies | 1,596,547 | 494,053 | 2,090,600 |
| Depreciation | 3,246,418 | 1,062,758 | 4,309,176 |
| Total Operating Expenses | <u>6,075,047</u> | <u>2,035,589</u> | <u>8,110,636</u> |
| Operating Income (Loss) | <u>348,582</u> | <u>(131,516)</u> | <u>217,066</u> |
| NONOPERATING REVENUE (EXPENSE) | | | |
| Interest earned on investments | 6,631 | 12,695 | 19,326 |
| Miscellaneous revenue | 250,095 | 21 | 250,116 |
| Miscellaneous expense | (16,810) | - | (16,810) |
| Interest expense | (3,242,454) | (353,802) | (3,596,256) |
| Total Nonoperating Revenue (Expense) | <u>(3,002,538)</u> | <u>(341,086)</u> | <u>(3,343,624)</u> |
| Income (Loss) Before Capital Contributions | <u>(2,653,956)</u> | <u>(472,602)</u> | <u>(3,126,558)</u> |
| CAPITAL CONTRIBUTIONS | | | |
| Customer connection fees | 5,297 | 669 | 5,966 |
| Developer contributed water rights | 2,160 | - | 2,160 |
| Total Capital Contributions | <u>7,457</u> | <u>669</u> | <u>8,126</u> |
| Change in Net Assets | <u>(2,646,499)</u> | <u>(471,933)</u> | <u>(3,118,432)</u> |
| Net Assets July 1 | <u>73,805,706</u> | <u>29,922,310</u> | <u>103,728,016</u> |
| Net Assets, June 30 | <u>\$ 71,159,207</u> | <u>\$ 29,450,377</u> | <u>\$ 100,609,584</u> |

See accompanying notes.

**CITY OF FERNLEY, NEVADA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | |
|---|--|-----------------------------------|---------------------------------------|
| | WATER UTILITY FUND | SEWER UTILITY FUND | TOTAL ENTERPRISE FUNDS |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 6,330,346 | \$ 1,892,078 | \$ 8,222,424 |
| Cash received from other funds for services | 129,874 | - | 129,874 |
| Cash received from others | 97,966 | - | 97,966 |
| Cash paid for employees services | (1,157,433) | (494,030) | (1,651,463) |
| Cash paid to vendors for services and supplies | (1,411,741) | (460,180) | (1,871,921) |
| Net Cash Provided (Used) by Operating Activities | <u>3,989,012</u> | <u>937,868</u> | <u>4,926,880</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Principal payments on debt | (1,459,836) | (304,493) | (1,764,329) |
| Interest paid on debt | (3,256,951) | (354,376) | (3,611,327) |
| Acquisition of capital assets | (185,653) | (53,700) | (239,353) |
| Connection fees | 5,297 | 669 | 5,966 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(4,897,143)</u> | <u>(711,900)</u> | <u>(5,609,043)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest received on investments | <u>10,585</u> | <u>18,328</u> | <u>28,913</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (897,546) | 244,296 | (653,250) |
| CASH AND CASH EQUIVALENTS, July 1 | <u>4,799,501</u> | <u>8,123,000</u> | <u>12,922,501</u> |
| CASH AND CASH EQUIVALENTS, June 30 | <u>\$ 3,901,955</u> | <u>\$ 8,367,296</u> | <u>\$ 12,269,251</u> |
| REPRESENTED BY: | | | |
| Cash and cash equivalents | \$ 3,613,947 | \$ 8,076,445 | \$ 11,690,392 |
| Cash - refundable deposits | <u>288,008</u> | <u>290,851</u> | <u>578,859</u> |
| | <u>\$ 3,901,955</u> | <u>\$ 8,367,296</u> | <u>\$ 12,269,251</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ 348,582 | \$ (131,516) | \$ 217,066 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 3,246,418 | 1,062,758 | 4,309,176 |
| Miscellaneous revenues | 233,285 | 21 | 233,306 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable, net | (103,054) | (23,140) | (126,194) |
| Accounts receivable, other | - | 15,452 | 15,452 |
| Inventories | 1,130 | 22,619 | 23,749 |
| Increase (decrease) in: | | | |
| Accounts payable | 183,967 | 5,288 | 189,255 |
| Accrued liabilities | 65 | 3,196 | 3,261 |
| Compensated absences payable | 38,811 | (31,807) | 7,004 |
| Refundable deposits | 4,035 | (1,486) | 2,549 |
| Other postemployment benefit liability | 35,773 | 16,483 | 52,256 |
| Total Adjustments | <u>3,640,430</u> | <u>1,069,384</u> | <u>4,709,814</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 3,989,012</u> | <u>\$ 937,868</u> | <u>\$ 4,926,880</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Contribution of water rights | <u>\$ 2,160</u> | <u>\$ -</u> | <u>\$ 2,160</u> |

See accompanying notes.

CITY OF FERNLEY, NEVADA
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2012

| | <u>AGENCY FUND</u> |
|------------------------------------|------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 26,060 |
| | <hr/> |
| LIABILITIES | |
| Bail bond deposits held for others | \$ 25,047 |
| Other liabilities | 1,013 |
| | <hr/> |
| Total Liabilities | \$ 26,060 |
| | <hr/> |

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012

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, 2012

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 *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 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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

- 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 Statement 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.”

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
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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 Prepays:

Proprietary fund 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 \$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 intangible assets. 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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
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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 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.

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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 bond covenants.
- 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. An ordinance by the Council must be made, prior to the end of the reporting period, in 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 Council with the City Manager has the

CITY OF FERNLEY, NEVADA
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authority of assigning amounts of ending fund balance through other council actions.

- 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, 2012</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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, with the following potential exceptions to NRS 354.626:

- Total expenditures of the general government function in the General Fund exceeded appropriations by \$66,373.
- Total expenditures of the health function in the General Fund exceeded appropriations by \$529.
- Total expenditures of the culture and recreation function in the Residential Construction Tax District #2 Fund exceeded appropriations by \$97,335.
- Total operating and nonoperating expenses in the Water Fund exceeded appropriations by \$33,389.

The City augmented the budget in excess of available resources in the Grants Special Revenue Fund. This appears to be a violation to NAC 354.410.

NOTE 3 – CASH AND INVESTMENTS:

A summary schedule of cash and investments for the City of Fernley at June 30, 2012, is as follows:

Cash and Investment Balances Held by:

| | |
|----------------------------|---------------|
| Governmental Funds | \$ 2,778,597 |
| Fiduciary Funds | 26,060 |
| Proprietary Funds: | |
| Unrestricted | 11,690,404 |
| Restricted | 578,859 * |
| Total Cash and Investments | \$ 15,073,920 |

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

Balances Classified by:

| | |
|--|---------------|
| Cash: | |
| On hand | \$ 849 |
| Wells Fargo Bank: | |
| Checking | 3,197,801 |
| Investments: | |
| NVEST | 10,113,717 |
| State of Nevada Local Government Investment Pool | 1,761,541 |
| Total Cash and Investments | \$ 15,073,908 |

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

As of June 30, 2012, the City of Fernley had the following investments and maturities:

| Investment Type | Investment Maturities (in Years) | | | | |
|-------------------|----------------------------------|---------------------|---------------------|-------------------|-------------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| NVEST: | | | | | |
| U.S. Treasuries | \$ 5,195,475 | \$ 5,195,475 | \$ - | \$ - | \$ - |
| U.S. Agencies | 950,313 | 200,020 | 750,293 | - | - |
| Mortgage-Backed | 2,104,804 | 83,427 | 604,062 | 507,811 | 909,504 |
| Corporate Bonds | 1,835,100 | - | 1,686,608 | 148,492 | - |
| Money Market Fund | 28,025 | 28,025 | - | - | - |
| State of Nevada: | | | | | |
| Local Government | | | | | |
| Investment Pool | 1,761,541 | 1,761,541 * | - | - | - |
| Total | <u>\$ 11,875,258</u> | <u>\$ 7,268,488</u> | <u>\$ 3,040,963</u> | <u>\$ 656,303</u> | <u>\$ 909,504</u> |

* average weighted maturity of 114 days

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, 2012, the majority of the City's investments in Mortgage-Backed securities were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. Of the City's investments in corporate bonds, \$1,687,801 was rated AAA, and \$147,299 was deemed not applicable by Moody's. 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.

CITY OF FERNLEY, NEVADA
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As of June 30, 2012, more than 5% of the City's investments are in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 6%, and 9%, respectively, of the total investments.

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2012, was as follows:

| | <u>Balance July 1, 2011</u> | <u>Additions or Transfers In</u> | <u>Deletions or Transfers Out</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 3,909,626 | \$ - | \$ - | \$ 3,909,626 |
| Construction in progress | 19,779 | 3,668,896 | 3,660,963 | 27,712 |
| Total capital assets, not being depreciated | <u>3,929,405</u> | <u>3,668,896</u> | <u>3,660,963</u> | <u>3,937,338</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 8,599,098 | - | - | 8,599,098 |
| Improvements | 8,923,601 | 3,620,033 | - | 12,543,634 |
| Machinery and Equipment | 1,449,283 | 40,930 | - | 1,490,213 |
| Infrastructure | 29,994,105 | - | - | 29,994,105 |
| Total capital assets, being depreciated | <u>48,966,087</u> | <u>3,660,963</u> | <u>-</u> | <u>52,627,050</u> |
| Less accumulated depreciated for: | | | | |
| Buildings | (1,924,467) | (343,164) | - | (2,267,631) |
| Improvements | (2,634,387) | (526,793) | - | (3,161,180) |
| Machinery and Equipment | (1,085,285) | (113,669) | - | (1,198,954) |
| Infrastructure | (4,433,593) | (727,404) | - | (5,160,997) |
| Total accumulated depreciation: | <u>(10,077,732)</u> | <u>(1,711,030)</u> | <u>-</u> | <u>(11,788,762)</u> |
| Total capital assets, being depreciated, net | <u>38,888,355</u> | <u>1,949,933</u> | <u>-</u> | <u>40,838,288</u> |
| Governmental activities capital assets, net | <u>\$ 42,817,760</u> | <u>\$ 5,618,829</u> | <u>\$ 3,660,963</u> | <u>\$ 44,775,626</u> |

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

| | <u>Balance July 1, 2011</u> | <u>Additions or Transfers In</u> | <u>Deletions or Transfers Out</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| Business-Type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,195,948 | \$ - | \$ - | \$ 1,195,948 |
| Water rights | 38,699,444 | 2,160 | - | 38,701,604 |
| Construction in progress | 69,257 | 150,644 | 103,576 | 116,325 |
| Total capital assets, not being depreciated | <u>39,964,649</u> | <u>152,804</u> | <u>103,576</u> | <u>40,013,877</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 17,530 | - | - | 17,530 |
| Improvements | 150,354,417 | 121,625 | - | 150,476,042 |
| Machinery and Equipment | 1,912,389 | 70,665 | - | 1,983,054 |
| Infrastructure | 1,671,630 | - | - | 1,671,630 |
| Total capital assets, being depreciated | <u>153,955,966</u> | <u>192,290</u> | <u>-</u> | <u>154,148,256</u> |
| Less accumulated depreciated for: | | | | |
| Buildings | (17,529) | - | - | (17,529) |
| Improvements | (20,986,442) | (4,010,950) | - | (24,997,392) |
| Machinery and Equipment | (1,440,612) | (216,768) | - | (1,657,380) |
| Infrastructure | (804,164) | (81,458) | - | (885,622) |
| Total accumulated depreciation: | <u>(23,248,747)</u> | <u>(4,309,176)</u> | <u>-</u> | <u>(27,557,923)</u> |
| Total capital assets, being depreciated, net | <u>130,707,219</u> | <u>(4,116,886)</u> | <u>-</u> | <u>126,590,333</u> |
| Business-type activities capital assets, net | <u>\$ 170,671,868</u> | <u>\$ (3,964,082)</u> | <u>\$ 103,576</u> | <u>\$ 166,604,210</u> |

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Governmental Activities:

| | |
|--|--------------|
| General government | \$ 402,617 |
| Public works | 1,192,003, |
| Culture and recreation | 111,341 |
| Health | 2,556 |
| Community development | 2,513 |
| Total depreciation expense – governmental activities | \$ 1,711,030 |

Business-type Activities:

| | |
|---|--------------|
| Water | \$ 3,246,418 |
| Sewer | 1,062,758 |
| Total depreciation expense – business-type activities | \$ 4,309,176 |

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 |
|-------------|-------------------------|----------------------------|--------------------|
| 2011-2012 | 23.75% | 12.25% | \$628,641 |
| 2010-2011 | 21.50% | 11.25% | \$621,221 |
| 2009-2010 | 21.50% | 11.25% | \$566,677 |

CITY OF FERNLEY, NEVADA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

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.

Due to/from other funds:

| | | |
|-----------------|--------------|------------|
| Receivable Fund | Payable Fund | Amount |
| General Fund | Grants Fund | \$ 661,743 |

The amounts payable to the General Fund relates to an advance made to the Grants Fund in fiscal year 2012 for the purpose of funding expenditures related to federal grants. The City expects to be reimbursed for these expenditures and pay back the short-term borrowing when the reimbursement is received from the grantor, expected within the next fiscal year.

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, 2012, are as follows:

| Governmental Activities | Transfers In | Transfers Out |
|-----------------------------------|---------------------|----------------------|
| General Fund | \$ 205 | \$ - |
| Other Nonmajor Governmental Funds | - | (205) |
| Total Governmental Funds | \$ 205 | \$ (205) |

The transfer to the General Fund from Other Nonmajor Governmental Funds relates to normal business operations.

NOTE 7 – LONG-TERM DEBT:

The City was, in accordance with Nevada Revised Statutes, within the legal debt limit at June 30, 2012.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
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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, 2011 | Additions | (Deletions) | Outstanding June 30, 2012 | Due in 2012-2013 |
|---|------------|---------------|---------------|-----------------------|--------------------------|---------------------|-----------------------|---------------------------|---------------------|
| Governmental Activities: | | | | | | | | | |
| City Hall Expansion Bonds | 12/29/05 | 4.49% | 12/01/2025 | \$ 5,000,000 | \$ 4,134,000 | \$ - | \$ (4,134,000) | \$ - | \$ - |
| Refunding Installment Purchase Agreement | 6/29/12 | 2.38% | 12/01/2025 | \$ 4,010,000 | - | 4,010,000 | - | 4,010,000 | 84,000 |
| Compensated absences payable* | | | | | 77,320 | 39,133 | (36,414) | 80,039 | 36,414 |
| Total Governmental Activities | | | | | <u>4,211,320</u> | <u>4,049,133</u> | <u>(4,170,414)</u> | <u>4,090,039</u> | <u>120,414</u> |
| *Payments on the notes payable that pertain to the City's governmental activities are made by the General Fund. The compensated absence liability is paid from the fund responsible for the employee's compensation with significant liabilities payable from the General Fund. | | | | | | | | | |
| Business-type Activities: | | | | | | | | | |
| State Water Pollution Control Revolving Fund | 10/28/92 | 4.00% | 6/30/2012 | \$ 2,000,000 | 226,241 | - | (149,329) | 76,912 | 76,912 |
| 2007 Water/Sewer Bonds | 3/28/07 | 4% - 5% | 2/01/2037 | \$50,000,000 | 47,425,000 | - | (940,000) | 46,485,000 | 980,000 |
| 2008 Water/Sewer Bonds | 4/01/08 | 3.25% - 5% | 2/01/2038 | \$32,600,000 | 31,300,000 | - | (675,000) | 30,625,000 | 695,000 |
| Unamortized Bond Discount/(Premium) | | | | | 78,951,241 | - | (1,764,329) | 77,186,912 | 1,751,912 |
| Compensated absences payable | | | | | 51,314 | - | (1,974) | 49,340 | 2,485 |
| Total Business-type Activities | | | | | <u>79,081,611</u> | <u>49,557</u> | <u>(1,808,856)</u> | <u>77,322,312</u> | <u>1,796,950</u> |
| Total Long-Term Debt | | | | | <u>\$ 83,292,931</u> | <u>\$ 4,098,690</u> | <u>\$ (5,979,270)</u> | <u>\$ 81,412,351</u> | <u>\$ 1,917,364</u> |

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

| Debt Supported by General Obligation | | | Debt Supported by Sewer Fund Revenues | | Debt Supported by Water Fund Revenues | | Total Requirements to Maturity | |
|---|---------------------|-------------------|--|---------------------|--|----------------------|-----------------------------------|----------------------|
| Fiscal Year | Principal | Interest | Principal* | Interest* | Principal* | Interest* | Principal | Interest |
| 2013 | 84,000 | 87,015 | 238,009 | 342,526 | 1,513,902 | 3,203,231 | 1,835,911 | 3,632,772 |
| 2014 | 86,000 | 92,415 | 168,131 | 334,810 | 1,576,869 | 3,145,884 | 1,831,000 | 3,573,109 |
| 2015 | 280,000 | 88,060 | 175,548 | 328,359 | 1,644,452 | 3,086,110 | 2,100,000 | 3,502,529 |
| 2016 | 286,000 | 81,325 | 183,516 | 321,550 | 1,716,484 | 3,022,894 | 2,186,000 | 3,425,769 |
| 2017 | 293,000 | 74,435 | 191,483 | 312,374 | 1,788,517 | 2,937,070 | 2,273,000 | 3,323,879 |
| 2018-2022 | 1,577,000 | 262,645 | 1,099,991 | 1,415,095 | 10,240,010 | 13,333,130 | 12,917,001 | 15,010,870 |
| 2023-2027 | 1,404,000 | 67,782 | 1,385,461 | 1,133,193 | 12,849,539 | 10,729,113 | 15,639,000 | 11,930,088 |
| 2028-2032 | - | - | 1,752,338 | 787,421 | 16,217,662 | 7,484,036 | 17,970,000 | 8,271,457 |
| 2033-2037 | - | - | 2,196,706 | 340,408 | 20,323,294 | 3,294,030 | 22,520,000 | 3,634,438 |
| 2038-2042 | - | - | 147,623 | 7,381 | 1,777,377 | 88,869 | 1,925,000 | 96,250 |
| Total | \$ 4,010,000 | \$ 753,677 | \$ 7,538,806 | \$ 5,323,117 | \$ 69,648,106 | \$ 50,324,367 | \$ 81,196,912 | \$ 56,401,161 |

* Exclusive of unamortized premium and issuance costs.

The Refunding Installment Purchase Agreement Bonds, Series 2012 were issued on June 29, 2012 in the amount of \$4,010,000 to refund the City Hall Expansion Bonds originally issued in the aggregate principal amount of \$5,000,000. The new bonds bear interest of 2.38% per annum and are due in annual installments ranging from \$171,015 to \$367,320 through December 1, 2025. The new issue will reduce debt service payments for the City by \$537,462 with an economic gain of \$504,023.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, 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, 2012, 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, 2012, 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 2012, the City contributed \$11,048 to the plan, equal to required contributions. The City did not prefund future benefits.

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 2011-12, 2010-11, and 2009-10 were as follows:

| | <u>Fiscal Year End</u> | <u>Annual OPEB Cost (Entry Age Normal Cost Method)</u> | <u>Employer Contributions</u> | <u>Percentage of Annual OPEB Contributed</u> | <u>Net OPEB Obligation</u> |
|-----------------|----------------------------|--|-----------------------------------|--|--------------------------------|
| COFEHBP | June 30, 2012 | \$ 110,191 | \$ - | 0% | \$ 307,285 |
| COFEHBP | June 30, 2011 | 102,281 | - | 0% | 197,094 |
| COFEHBP | June 30, 2010 | 94,813 | - | 0% | 94,813 |
| PEBP | June 30, 2012 | 24,323 | 11,048 | 71% | 25,495 |
| PEBP | June 30, 2011 | 24,056 | 17,049 | 71% | 12,220 |
| PEBP | June 30, 2010 | 23,826 | 18,613 | 78% | 5,213 |
| Combined Totals | June 30, 2012 | 134,514 | 11,048 | - | 332,780 |
| Combined Totals | June 30, 2011 | 126,337 | 17,049 | - | 209,314 |
| Combined Totals | June 30, 2010 | 118,639 | 18,613 | - | 100,026 |

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The net OPEB obligation (NOPEBO) as of June 30, 2012, was calculated as follows:

| | <u>COFEHBP</u> | <u>PEBP</u> | <u>Total</u> |
|---|-------------------|------------------|-------------------|
| Annual Required Contribution (ARC) | \$ 110,622 | \$ 24,567 | \$ 135,189 |
| Interest on net OPEB obligation | 7,884 | 489 | 8,373 |
| Adjustment to annual required contribution | <u>(8,315)</u> | <u>(733)</u> | <u>(9,048)</u> |
| Annual OPEB Cost | 110,191 | 24,323 | 134,514 |
| Less: Contributions made | <u>-</u> | <u>11,048</u> | <u>11,048</u> |
| Increase in net OPEB obligation | 110,191 | 13,275 | 123,466 |
| Net OPEB obligation – beginning of the year | <u>197,094</u> | <u>12,220</u> | <u>209,314</u> |
| Net OPEB obligation – end of year | <u>\$ 307,285</u> | <u>\$ 25,495</u> | <u>\$ 332,780</u> |

Funded Status and Funding Progress: The funded status of the plans as the most recent actuarial valuation was 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) | <u>-</u> | <u>-</u> | <u>-</u> |
| 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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

Significant methods and assumptions used in the June 30, 2012 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: | | |
| Projected general inflation rate | 3% | 3% |
| Investment rate of return | 4% | 4% |
| Projected overall salary increase | 4% | 4% |
| Medical Healthcare inflation rate* | 9%-5% | 9 – 5% |

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

CITY OF FERNLEY, NEVADA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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).

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.

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, 2012
(Page 1 of 3)

| | BUDGET | | ACTUAL | VARIANCE WITH | |
|--------------------------------------|------------------|------------------|------------------|------------------------------|----------------------------|
| | ORIGINAL | FINAL | | ORIGINAL TO FINAL | FINAL TO ACTUAL |
| REVENUES | | | | | |
| Taxes: | | | | | |
| Ad valorem | \$ 1,893,074 | \$ 1,943,074 | \$ 1,867,711 | \$ 50,000 | \$ (75,363) |
| Licenses and permits: | | | | | |
| Business licenses | 200,000 | 200,000 | 201,821 | - | 1,821 |
| Franchise fees | 1,200,000 | 1,200,000 | 1,028,355 | - | (171,645) |
| Liquor licenses | 25,000 | 25,000 | 28,250 | - | 3,250 |
| City gaming licenses | 100,000 | 100,000 | 99,607 | - | (393) |
| Building permits and fees | 70,000 | 70,000 | 82,343 | - | 12,343 |
| Planning and zoning permits and fees | 15,000 | 15,000 | 23,582 | - | 8,582 |
| Public works fees | 6,200 | 6,200 | 8,514 | - | 2,314 |
| Other permits | 11,700 | 11,700 | 11,017 | - | (683) |
| | <u>1,627,900</u> | <u>1,627,900</u> | <u>1,483,489</u> | <u>-</u> | <u>(144,411)</u> |
| Intergovernmental revenues: | | | | | |
| Consolidated tax distribution | 133,000 | 133,000 | 131,372 | - | (1,628) |
| Motor vehicle fuel tax | 288,862 | 288,862 | 271,449 | - | (17,413) |
| RTC shared revenue | 720,196 | 720,196 | 406,388 | - | (313,808) |
| Fernley park agreement | 60,000 | 60,000 | 60,000 | - | - |
| | <u>1,202,058</u> | <u>1,202,058</u> | <u>869,209</u> | <u>-</u> | <u>(332,849)</u> |
| Fines and forfeits: | | | | | |
| Community service fee | 200 | 200 | 2,019 | - | 1,819 |
| Municipal court fines | 165,000 | 165,000 | 138,436 | - | (26,564) |
| Municipal court fees | 12,000 | 12,000 | 6,555 | - | (5,445) |
| | <u>177,200</u> | <u>177,200</u> | <u>147,010</u> | <u>-</u> | <u>(30,190)</u> |
| Miscellaneous: | | | | | |
| Interest | 7,500 | 7,500 | 2,768 | - | (4,732) |
| Park development | - | - | 10 | - | 10 |
| Miscellaneous | 124,601 | 74,601 | 88,644 | (50,000) | 14,043 |
| | <u>132,101</u> | <u>82,101</u> | <u>91,422</u> | <u>(50,000)</u> | <u>9,321</u> |
| Total Revenues | <u>5,032,333</u> | <u>5,032,333</u> | <u>4,458,841</u> | <u>-</u> | <u>(573,492)</u> |
| EXPENDITURES | | | | | |
| General government: | | | | | |
| Finance: | | | | | |
| Salaries and wages | 55,961 | 55,961 | 57,196 | - | (1,235) |
| Employee benefits | 28,772 | 28,772 | 27,391 | - | 1,381 |
| Services and supplies | 107,564 | 65,650 | 64,495 | (41,914) | 1,155 |
| Total Finance | <u>192,297</u> | <u>150,383</u> | <u>149,082</u> | <u>(41,914)</u> | <u>1,301</u> |
| Information Technology: | | | | | |
| Salaries and wages | 56,151 | 56,151 | 54,795 | - | 1,356 |
| Employee benefits | 20,714 | 20,714 | 21,271 | - | (557) |
| Services and supplies | 86,000 | 111,000 | 111,782 | 25,000 | (782) |
| Total Information Technology | <u>162,865</u> | <u>187,865</u> | <u>187,848</u> | <u>25,000</u> | <u>17</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, 2012
(Page 2 of 3)

| | BUDGET | | ACTUAL | VARIANCE WITH | |
|-----------------------------------|------------------|------------------|------------------|----------------------|--------------------|
| | ORIGINAL | FINAL | | ORIGINAL TO FINAL | FINAL TO ACTUAL |
| Office of the City Clerk: | | | | | |
| Salaries and wages | \$ 148,326 | \$ 148,326 | \$ 148,132 | \$ - | \$ 194 |
| Employee benefits | 54,928 | 54,928 | 58,685 | - | (3,757) |
| Services and supplies | 15,150 | 16,150 | 6,144 | 1,000 | 10,006 |
| Total City Clerk | <u>218,404</u> | <u>219,404</u> | <u>212,961</u> | <u>1,000</u> | <u>6,443</u> |
| Office of the City Manager: | | | | | |
| Salaries and wages | 62,569 | 62,569 | 60,077 | - | 2,492 |
| Employee benefits | 10,588 | 25,588 | 34,832 | 15,000 | (9,244) |
| Services and supplies | 30,400 | 81,414 | 71,513 | 51,014 | 9,901 |
| Total City Manager | <u>103,557</u> | <u>169,571</u> | <u>166,422</u> | <u>66,014</u> | <u>3,149</u> |
| Office of the City Attorney: | | | | | |
| Salaries and wages | 155,603 | 155,603 | 153,500 | - | 2,103 |
| Employee benefits | 60,680 | 60,680 | 60,362 | - | 318 |
| Services and supplies | 23,350 | 18,350 | 18,162 | (5,000) | 188 |
| Total City Attorney | <u>239,633</u> | <u>234,633</u> | <u>232,024</u> | <u>(5,000)</u> | <u>2,609</u> |
| Mayor/City Council: | | | | | |
| Salaries and wages | 70,247 | 70,247 | 69,806 | - | 441 |
| Employee benefits | 14,898 | 14,898 | 13,212 | - | 1,686 |
| Services and supplies | 31,250 | 28,750 | 29,981 | (2,500) | (1,231) |
| Total Mayor/City Council | <u>116,395</u> | <u>113,895</u> | <u>112,999</u> | <u>(2,500)</u> | <u>896</u> |
| Facilities (City Hall) & General: | | | | | |
| Services and supplies | - | - | 3,300 | - | (3,300) |
| Total City Hall | <u>-</u> | <u>-</u> | <u>3,300</u> | <u>-</u> | <u>(3,300)</u> |
| Streets & Public Works | | | | | |
| Salaries and wages | 203,141 | 203,141 | 193,810 | - | 9,331 |
| Employee benefits | 79,237 | 79,237 | 85,444 | - | (6,207) |
| Services and supplies | 281,250 | 281,250 | 285,200 | - | (3,950) |
| Capital outlay | 770,200 | 722,600 | 799,262 | (47,600) | (76,662) |
| Total Streets & Public Works | <u>1,333,828</u> | <u>1,286,228</u> | <u>1,363,716</u> | <u>(47,600)</u> | <u>(77,488)</u> |
| Total General Government | <u>2,366,979</u> | <u>2,361,979</u> | <u>2,428,352</u> | <u>(5,000)</u> | <u>(66,373)</u> |
| Judicial: | | | | | |
| Municipal court: | | | | | |
| Salaries and wages | 111,167 | 111,167 | 102,205 | - | 8,962 |
| Employee benefits | 53,982 | 53,982 | 48,488 | - | 5,494 |
| Services and supplies | 36,000 | 36,000 | 49,527 | - | (13,527) |
| Total Judicial | <u>201,149</u> | <u>201,149</u> | <u>200,220</u> | <u>-</u> | <u>929</u> |
| Culture and Recreation: | | | | | |
| Parks: | | | | | |
| Salaries and wages | 232,313 | 232,313 | 241,908 | - | (9,595) |
| Employee benefits | 94,777 | 94,777 | 86,104 | - | 8,673 |
| Services and supplies | 322,037 | 314,537 | 289,948 | (7,500) | 24,589 |
| Total Culture and Recreation | <u>649,127</u> | <u>641,627</u> | <u>617,960</u> | <u>(7,500)</u> | <u>23,667</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, 2012

(Page 3 of 3)

| | BUDGET | | ACTUAL | VARIANCE WITH | |
|---|---------------------|---------------------|---------------------|----------------------|--------------------|
| | ORIGINAL | FINAL | | TO FINAL | TO ACTUAL |
| Community development: | | | | | |
| Building: | | | | | |
| Salaries and wages | 111,481 | 111,481 | 113,800 | - | (2,319) |
| Employee benefits | 32,192 | 32,192 | 33,369 | - | (1,177) |
| Services and supplies | 15,896 | 10,896 | 7,382 | (5,000) | 3,514 |
| Total Building | <u>159,569</u> | <u>154,569</u> | <u>154,551</u> | <u>(5,000)</u> | <u>18</u> |
| Planning: | | | | | |
| Salaries and wages | 190,003 | 210,003 | 204,856 | 20,000 | 5,147 |
| Employee benefits | 67,245 | 67,245 | 67,112 | - | 133 |
| Services and supplies | 16,196 | 16,196 | 7,860 | - | 8,336 |
| Total Planning | <u>273,444</u> | <u>293,444</u> | <u>279,828</u> | <u>20,000</u> | <u>13,616</u> |
| Total Community Development | <u>433,013</u> | <u>448,013</u> | <u>434,379</u> | <u>15,000</u> | <u>13,634</u> |
| Health: | | | | | |
| Animal control: | | | | | |
| Salaries and wages | 39,549 | 39,549 | 39,601 | - | (52) |
| Employee benefits | 18,084 | 18,084 | 18,844 | - | (760) |
| Services and supplies | 10,950 | 8,450 | 6,784 | (2,500) | 1,666 |
| Total Animal Control | <u>68,583</u> | <u>66,083</u> | <u>65,229</u> | <u>(2,500)</u> | <u>854</u> |
| Vector control: | | | | | |
| Salaries and wages | 51,106 | 51,106 | 53,046 | - | (1,940) |
| Employee benefits | 13,309 | 13,309 | 14,269 | - | (960) |
| Services and supplies | 69,400 | 69,400 | 67,883 | - | 1,517 |
| Total Vector Control | <u>133,815</u> | <u>133,815</u> | <u>135,198</u> | <u>-</u> | <u>(1,383)</u> |
| Total Health | <u>202,398</u> | <u>199,898</u> | <u>200,427</u> | <u>(2,500)</u> | <u>(529)</u> |
| Debt service: | | | | | |
| Principal | 198,000 | 198,000 | 4,134,000 | - | (3,936,000) |
| Interest | 181,172 | 181,172 | 194,402 | - | (13,230) |
| Bond issuance cost | - | - | 61,727 | - | (61,727) |
| Total Debt Service | <u>379,172</u> | <u>379,172</u> | <u>4,390,129</u> | <u>-</u> | <u>(4,010,957)</u> |
| Total Expenditures | <u>4,231,838</u> | <u>4,231,838</u> | <u>8,271,467</u> | <u>-</u> | <u>(4,039,629)</u> |
| Excess of Revenues Over Expenditures | 800,495 | 800,495 | (3,812,626) | - | (4,613,121) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in (out) | (849,237) | (849,237) | 13,780 | - | 863,017 |
| Proceeds from bond issuance | - | - | 4,010,000 | - | 4,010,000 |
| Total Other Financing Sources | <u>(849,237)</u> | <u>(849,237)</u> | <u>4,023,780</u> | <u>-</u> | <u>4,873,017</u> |
| Net Change in Fund Balance | (48,742) | (48,742) | 211,154 | - | 259,896 |
| FUND BALANCE, July 1 | <u>1,830,840</u> | <u>1,579,376</u> | <u>1,579,376</u> | <u>(251,464)</u> | <u>-</u> |
| FUND BALANCE, June 30 | <u>\$ 1,782,098</u> | <u>\$ 1,530,634</u> | <u>\$ 1,790,530</u> | <u>\$ (251,464)</u> | <u>\$ 259,896</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, 2012

| | GENERAL FUND (BUDGETARY BASIS) | INTERNALLY REPORTED FUNDS | | GENERAL FUND AS REPORTED ON STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (GAAP BASIS) |
|--|---|--|--|--|
| | | PRIVATE SECTOR COMMUNITY SUPPORT FUND | RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND | |
| REVENUES | | | | |
| Taxes | \$ 1,867,711 | \$ - | \$ 800 | \$ 1,868,511 |
| Licenses and permits | 1,483,489 | - | - | 1,483,489 |
| Intergovernmental | 869,209 | - | - | 869,209 |
| Fines and forfeits | 147,010 | - | - | 147,010 |
| Miscellaneous | 91,422 | - | - | 91,422 |
| Total Revenues | 4,458,841 | - | 800 | 4,459,641 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 1,629,090 | - | - | 1,629,090 |
| Judicial | 200,220 | - | - | 200,220 |
| Culture and recreation | 617,960 | - | - | 617,960 |
| Community development | 434,379 | - | - | 434,379 |
| Health | 200,427 | - | - | 200,427 |
| Total Current | 3,082,076 | - | - | 3,082,076 |
| Debt service: | | | | |
| Principal | 4,134,000 | - | - | 4,134,000 |
| Interest | 194,402 | - | - | 194,402 |
| Bond issuance cost | 61,727 | - | - | 61,727 |
| Total Debt Service | 4,390,129 | - | - | 4,390,129 |
| Capital outlay: | | | | |
| General government | 799,262 | - | - | 799,262 |
| Culture and recreation | - | - | 1,078 | 1,078 |
| Total Capital Outlay | 799,262 | - | 1,078 | 800,340 |
| Total Expenditures | 8,271,467 | - | 1,078 | 8,272,545 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,812,626) | - | (278) | (3,812,904) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | 13,780 | (13,575) | - | 205 |
| Proceeds from bond issuance | 4,010,000 | - | - | 4,010,000 |
| Other Financing Sources (Uses) | 4,023,780 | (13,575) | - | 4,010,205 |
| Net Change in Fund Balance | 211,154 | (13,575) | (278) | 197,301 |
| FUND BALANCE, JULY 1 | 1,579,376 | 13,575 | 1,078 | 1,594,029 |
| FUND BALANCE, JUNE 30 | \$ 1,790,530 | \$ - | \$ 800 | \$ 1,791,330 |

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, 2012

| | <u>BUDGET</u> | | | <u>VARIANCE WITH</u> | |
|--|-------------------|-------------------|------------------|------------------------------|----------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL</u> | <u>ORIGINAL TO FINAL</u> | <u>FINAL TO ACTUAL</u> |
| REVENUES | | | | | |
| Intergovernmental: | | | | | |
| Grant | \$ 7,368,583 | \$ 7,368,583 | \$ 4,686,503 | \$ - | \$ (2,682,080) |
| Miscellaneous: | | | | | |
| Other | - | - | 18,525 | - | 18,525 |
| Interest earnings | 575 | 575 | (52) | - | (627) |
| Total Revenues | <u>7,369,158</u> | <u>7,369,158</u> | <u>4,704,976</u> | <u>-</u> | <u>(2,664,182)</u> |
| EXPENDITURES | | | | | |
| Community Development: | | | | | |
| Salaries and wages | 60,949 | 60,949 | 61,157 | - | (208) |
| Employee benefits | 26,301 | 26,301 | 26,546 | - | (245) |
| Services and supplies | 7,221,610 | 7,238,035 | 4,671,172 | (16,425) | 2,566,863 |
| Total Expenditures | <u>7,308,860</u> | <u>7,325,285</u> | <u>4,758,875</u> | <u>(16,425)</u> | <u>2,566,410</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 60,298 | 43,873 | (53,899) | 16,425 | (97,772) |
| FUND BALANCE, July 1 | <u>167,835</u> | <u>118,133</u> | <u>118,133</u> | <u>(49,702)</u> | <u>-</u> |
| FUND BALANCE, June 30 | <u>\$ 228,133</u> | <u>\$ 162,006</u> | <u>\$ 64,234</u> | <u>\$ (33,277)</u> | <u>\$ (97,772)</u> |

CITY OF FERNLEY, NEVADA
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFIT PLANS
FOR THE YEAR ENDED JUNE 30, 2012

| | 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, 2012

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 two 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 (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, 2012

| | GENERAL FUND (BUDGETARY BASIS) | INTERNALLY REPORTED FUNDS | | GENERAL FUND AS REPORTED ON BALANCE SHEET (GAAP BASIS) |
|---|---|--|--|--|
| | | PRIVATE SECTOR COMMUNITY SUPPORT FUND | RESIDENTIAL CONSTRUCTION TAX DISTRICT #1 FUND | |
| ASSETS | | | | |
| Cash and investments | \$ 1,242,104 | \$ - | \$ 800 | \$ 1,242,904 |
| Interest receivable | 1,215 | - | - | 1,215 |
| Taxes receivable | 49,037 | - | - | 49,037 |
| Accounts receivable | 233,634 | - | - | 233,634 |
| Due from other governments | 21,595 | - | - | 21,595 |
| Due to other funds | 661,743 | - | - | 661,743 |
| Total Assets | \$ 2,209,328 | \$ - | \$ 800 | \$ 2,210,128 |
| LIABILITIES AND FUND BALANCE | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 224,536 | \$ - | \$ - | \$ 224,536 |
| Due to developers | 152,166 | - | - | 152,166 |
| Due to other governments | 869 | - | - | 869 |
| Deferred revenue | 41,227 | - | - | 41,227 |
| Total Liabilities | 418,798 | - | - | 418,798 |
| Fund Balance: | | | | |
| Restricted: | | | | |
| Future development | 327,747 | - | - | 327,747 |
| Specified purpose | 13,576 | - | - | 13,576 |
| Capital projects | - | - | 800 | 800 |
| Assigned | 1,449,207 | - | - | 1,449,207 |
| Total Fund Balance | 1,790,530 | - | 800 | 1,791,330 |
| Total Liabilities and Fund Balance | \$ 2,209,328 | \$ - | \$ 800 | \$ 2,210,128 |

**CITY OF FERNLEY, NEVADA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

| | NONMAJOR SPECIAL REVENUE FUNDS | NONMAJOR CAPITAL PROJECTS FUND | TOTAL |
|---|---|---|--------------|
| ASSETS | | | |
| Cash and investments | \$ 496,414 | \$ 1,039,279 | \$ 1,535,693 |
| Interest receivable | 291 | 610 | 901 |
| Accounts receivable | 3,850 | - | 3,850 |
| Due from other governments | 31,319 | - | 31,319 |
| Total Assets | \$ 531,874 | \$ 1,039,889 | \$ 1,571,763 |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 5,013 | \$ 53,875 | \$ 58,888 |
| Due to other Governments | 2,574 | - | 2,574 |
| Total Liabilities | 7,587 | 53,875 | 61,462 |
| Fund Balance: | | | |
| Restricted: | | | |
| Court administration and graffiti abatement - NRS 268.4085 | 33,356 | - | 33,356 |
| Court fees - NRS 176.0611 | 89,874 | - | 89,874 |
| Capital projects | - | 38,825 | 38,825 |
| Committed: | | | |
| Convention center | 252,876 | - | 252,876 |
| Capital projects | - | 947,189 | 947,189 |
| Assigned | 148,181 | - | 148,181 |
| Total Fund Balance | 524,287 | 986,014 | 1,510,301 |
| Total Liabilities and Fund Balance | \$ 531,874 | \$ 1,039,889 | \$ 1,571,763 |

CITY OF FERNLEY, NEVADA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

| | NONMAJOR SPECIAL REVENUE FUNDS | NONMAJOR CAPITAL PROJECTS FUND | TOTAL |
|---|---|---|---------------------|
| REVENUES | | | |
| Taxes: | | | |
| Transient lodging tax | \$ 238,231 | \$ - | \$ 238,231 |
| Ad Valorem | - | 1,834 | 1,834 |
| | <u>238,231</u> | <u>1,834</u> | <u>240,065</u> |
| Fines and forfeits: | | | |
| Municipal administrative fees | 22,620 | - | 22,620 |
| Miscellaneous: | | | |
| Interest earnings | 688 | 1,663 | 2,351 |
| | <u>688</u> | <u>1,663</u> | <u>2,351</u> |
| Total Revenues | <u>261,539</u> | <u>3,497</u> | <u>265,036</u> |
| EXPENDITURES | | | |
| Judicial: | | | |
| Services and supplies | 12,994 | - | 12,994 |
| Community development: | | | |
| Services and supplies | 55,704 | 60,831 | 116,535 |
| Capital outlay | 143,497 | 12,492 | 155,989 |
| | <u>199,201</u> | <u>73,323</u> | <u>272,524</u> |
| Total Expenditures | <u>212,195</u> | <u>73,323</u> | <u>285,518</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 49,344 | (69,826) | (20,482) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in (out) | (205) | - | (205) |
| Net Change in Fund Balance | 49,139 | (69,826) | (20,687) |
| FUND BALANCE, JULY 1 | <u>475,148</u> | <u>1,055,840</u> | <u>1,530,988</u> |
| FUND BALANCE, JUNE 30 | <u>\$ 524,287</u> | <u>\$ 986,014</u> | <u>\$ 1,510,301</u> |

**CITY OF FERNLEY, NEVADA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

| | <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 | \$ 31,699 | \$ 87,611 | \$ - | \$ 377,104 | \$ 496,414 |
| Interest receivable | 19 | 51 | - | 221 | 291 |
| Accounts receivable | 1,638 | 2,212 | - | - | 3,850 |
| Due from other governments | - | - | - | 31,319 | 31,319 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>31,319</u> | <u>31,319</u> |
| Total Assets | <u>\$ 33,356</u> | <u>\$ 89,874</u> | <u>\$ -</u> | <u>\$ 408,644</u> | <u>\$ 531,874</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 5,013 | \$ 5,013 |
| Due to other Governments | - | - | - | 2,574 | 2,574 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,574</u> | <u>2,574</u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,587</u> | <u>7,587</u> |
| Fund Balance: | | | | | |
| Restricted: | | | | | |
| Court administration and graffiti abatement - NRS 268.4085 | 33,356 | - | - | - | 33,356 |
| Court fees - NRS 176.0611 | - | 89,874 | - | - | 89,874 |
| Committed - Convention Center | - | - | - | 252,876 | 252,876 |
| Assigned | - | - | - | 148,181 | 148,181 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>148,181</u> | <u>148,181</u> |
| Total Fund Balance | <u>33,356</u> | <u>89,874</u> | <u>-</u> | <u>401,057</u> | <u>524,287</u> |
| Total Liabilities and Fund Balance | <u>\$ 33,356</u> | <u>\$ 89,874</u> | <u>\$ -</u> | <u>\$ 408,644</u> | <u>\$ 531,874</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, 2012

| | MUNICIPAL COURT ADMINISTRATIVE FEES FUND | MUNICIPAL COURT FACILITIES FEES FUND | RESIDENTIAL CONSTRUCTION TAX DISTRICT #2 FUND | TRANSIENT LODGING TAX FUND | TOTAL |
|--|---|---|--|---|--------------|
| REVENUES | | | | | |
| Taxes: | | | | | |
| Transient lodging tax | \$ - | \$ - | \$ - | \$ 238,231 | \$ 238,231 |
| Fines and forfeits: | | | | | |
| Municipal administrative fees | 9,188 | 13,432 | - | - | 22,620 |
| Miscellaneous: | | | | | |
| Interest earnings | 54 | 126 | 27 | 481 | 688 |
| Total Revenues | 9,242 | 13,558 | 27 | 238,712 | 261,539 |
| EXPENDITURES | | | | | |
| Judicial: | | | | | |
| Services and supplies | 12,994 | - | - | - | 12,994 |
| Community development: | | | | | |
| Services and supplies | - | - | - | 55,704 | 55,704 |
| Capital outlay | - | - | 143,497 | - | 143,497 |
| | - | - | 143,497 | 55,704 | 199,201 |
| Total Expenditures | 12,994 | - | 143,497 | 55,704 | 212,195 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,752) | 13,558 | (143,470) | 183,008 | 49,344 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers out | (205) | - | - | - | (205) |
| Net Change in Fund Balance | (3,957) | 13,558 | (143,470) | 183,008 | 49,139 |
| FUND BALANCE, JULY 1 | 37,313 | 76,316 | 143,470 | 218,049 | 475,148 |
| FUND BALANCE, JUNE 30 | \$ 33,356 | \$ 89,874 | \$ - | \$ 401,057 | \$ 524,287 |

**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, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---------------------------------------|------------------|------------------|-----------------|
| REVENUES | | | |
| Fines and forfeits: | | | |
| Municipal administrative fees | \$ 16,000 | \$ 9,190 | \$ (6,810) |
| Miscellaneous: | | | |
| Interest earnings | <u>130</u> | <u>52</u> | <u>(78)</u> |
| Total Revenues | 16,130 | 9,242 | (6,888) |
| EXPENDITURES | | | |
| Judicial: | | | |
| Services and supplies | <u>25,000</u> | <u>12,994</u> | <u>12,006</u> |
| Net Change in Fund Balance | (8,870) | (3,752) | 5,118 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | <u>(205)</u> | <u>(205)</u> | <u>-</u> |
| Net Change in Fund Balance | (9,075) | (3,957) | 5,118 |
| FUND BALANCE, July 1 | <u>37,109</u> | <u>37,313</u> | <u>204</u> |
| FUND BALANCE, June 30 | <u>\$ 28,034</u> | <u>\$ 33,356</u> | <u>\$ 5,322</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, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|-------------------------------|------------------|------------------|-------------------|
| REVENUES | | | |
| Fines and forfeits: | | | |
| Municipal administrative fees | \$ 22,000 | \$ 13,431 | \$ (8,569) |
| Miscellaneous: | | | |
| Interest earnings | <u>-</u> | <u>127</u> | <u>127</u> |
| Net Change in Fund Balance | 22,000 | 13,558 | (8,442) |
| FUND BALANCE, July 1 | <u>76,316</u> | <u>76,316</u> | <u>-</u> |
| FUND BALANCE, June 30 | <u>\$ 98,316</u> | <u>\$ 89,874</u> | <u>\$ (8,442)</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, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|------------------|----------------|--------------------|
| REVENUES | | | |
| Taxes: | | | |
| Residential construction tax | \$ - | \$ - | \$ - |
| Miscellaneous: | | | |
| Interest earnings | - | 27 | 27 |
| Total Revenues | <u>-</u> | <u>27</u> | <u>27</u> |
| EXPENDITURES | | | |
| Culture and recreation: | | | |
| Capital outlay | <u>46,162</u> | <u>143,497</u> | <u>(97,335)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (46,162) | (143,470) | (97,308) |
| FUND BALANCE, July 1 | <u>143,470</u> | <u>143,470</u> | <u>-</u> |
| FUND BALANCE, June 30 | <u>\$ 97,308</u> | <u>\$ -</u> | <u>\$ (97,308)</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, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|------------------------------|------------------|-------------------|-------------------|
| REVENUES | | | |
| Taxes: | | | |
| Transient lodging tax | \$ 175,000 | \$ 238,231 | \$ 63,231 |
| Miscellaneous: | | | |
| Interest earnings | <u>-</u> | <u>481</u> | <u>481</u> |
| Total Revenues | 175,000 | 238,712 | 63,712 |
| EXPENDITURES | | | |
| Culture and recreation: | | | |
| Services and supplies | <u>78,500</u> | <u>55,704</u> | <u>22,796</u> |
| Net Change in Fund Balance | 96,500 | 183,008 | 86,508 |
| FUND BALANCE, July 1 | <u>-</u> | <u>218,049</u> | <u>218,049</u> |
| FUND BALANCE, June 30 | <u>\$ 96,500</u> | <u>\$ 401,057</u> | <u>\$ 304,557</u> |

**CITY OF FERNLEY, NEVADA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

| | <u>CAPITAL PROJECTS FUND</u> | <u>CAPITAL IMPROVEMENT FUND</u> | <u>TOTAL</u> |
|--|--------------------------------------|---|---------------------|
| ASSETS | | | |
| Cash and investments | \$ 1,000,477 | \$ 38,802 | \$ 1,039,279 |
| Interest receivable | <u>587</u> | <u>23</u> | <u>610</u> |
| Total Assets | <u>\$ 1,001,064</u> | <u>\$ 38,825</u> | <u>\$ 1,039,889</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | <u>\$ 53,875</u> | <u>\$ -</u> | <u>\$ 53,875</u> |
| Fund Balance: | | | |
| Restricted: | | | |
| Capital projects | - | 38,825 | 38,825 |
| Committed | <u>947,189</u> | <u>-</u> | <u>947,189</u> |
| Total Fund Balance | <u>947,189</u> | <u>38,825</u> | <u>986,014</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,001,064</u> | <u>\$ 38,825</u> | <u>\$ 1,039,889</u> |

CITY OF FERNLEY, NEVADA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

| | CAPITAL PROJECTS FUND | CAPITAL IMPROVEMENT FUND | TOTAL |
|-------------------------------|--------------------------------------|---|--------------|
| REVENUES | | | |
| Taxes: | | | |
| Ad Valorem | \$ - | \$ 1,834 | \$ 1,834 |
| Interest earnings | 1,604 | 59 | 1,663 |
| Total Revenues | 1,604 | 1,893 | 3,497 |
| EXPENDITURES | | | |
| Community development: | | | |
| Services and supplies | 60,831 | - | 60,831 |
| Capital outlay | 12,492 | - | 12,492 |
| Total Expenditures | 73,323 | - | 73,323 |
| Net Change in Fund Balance | (71,719) | 1,893 | (69,826) |
| FUND BALANCE, JULY 1 | 1,018,908 | 36,932 | 1,055,840 |
| FUND BALANCE, JUNE 30 | \$ 947,189 | \$ 38,825 | \$ 986,014 |

**CITY OF FERNLEY, NEVADA
NONMAJOR CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|------------------------------|-------------------|-------------------|------------------|
| REVENUES | | | |
| Miscellaneous: | | | |
| Interest earnings | \$ 2,700 | \$ 1,604 | \$ (1,096) |
| EXPENDITURES | | | |
| Community development: | | | |
| Services and supplies | - | 60,831 | (60,831) |
| Capital outlay | 85,550 | 12,492 | 73,058 |
| Total Expenditures | <u>85,550</u> | <u>73,323</u> | <u>12,227</u> |
| Net Change in Fund Balance | (82,850) | (71,719) | 11,131 |
| FUND BALANCE, July 1 | <u>1,018,908</u> | <u>1,018,908</u> | <u>-</u> |
| FUND BALANCE, June 30 | <u>\$ 936,058</u> | <u>\$ 947,189</u> | <u>\$ 11,131</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, 2012**

| | BUDGET | ACTUAL | VARIANCE |
|------------------------------|---------------|---------------|-----------------|
| REVENUES | | | |
| Taxes: | | | |
| Ad Valorem | \$ 9,300 | \$ 1,834 | \$ (7,466) |
| Miscellaneous: | | | |
| Interest earnings | (75) | 59 | 134 |
| Total Revenues | 9,225 | 1,893 | (7,332) |
| FUND BALANCE, July 1 | - | 36,932 | 36,932 |
| FUND BALANCE, June 30 | \$ 9,225 | \$ 38,825 | \$ 29,600 |

**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, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|----------------------|----------------------|------------------|
| OPERATING REVENUES | | | |
| User fees | \$ 6,330,600 | \$ 6,325,663 | \$ (4,937) |
| Operating Grant | - | 97,966 | 97,966 |
| | <u>6,330,600</u> | <u>6,423,629</u> | <u>93,029</u> |
| OPERATING EXPENSES | | | |
| Salaries and wages | 834,771 | 858,238 | (23,467) |
| Employee benefits | 327,875 | 373,844 | (45,969) |
| Services and supplies | 1,731,326 | 1,596,547 | 134,779 |
| Depreciation | 3,150,000 | 3,246,418 | (96,418) |
| | <u>6,043,972</u> | <u>6,075,047</u> | <u>(31,075)</u> |
| Total Operating Expenses | <u>6,043,972</u> | <u>6,075,047</u> | <u>(31,075)</u> |
| Operating Income (Loss) | <u>286,628</u> | <u>348,582</u> | <u>61,954</u> |
| NONOPERATING REVENUE (EXPENSE) | | | |
| Interest earned on investments | 17,000 | 6,631 | (10,369) |
| In lieu of water rights fees | 5,000 | - | (5,000) |
| Miscellaneous revenue | 200,000 | 250,095 | 50,095 |
| Miscellaneous expense | - | (16,810) | (16,810) |
| Interest expense | (3,256,950) | (3,242,454) | 14,496 |
| | <u>(3,034,950)</u> | <u>(3,002,538)</u> | <u>32,412</u> |
| Total Nonoperating Revenue (Expense) | <u>(3,034,950)</u> | <u>(3,002,538)</u> | <u>32,412</u> |
| Income (Loss) Before Capital Contributions | <u>(2,748,322)</u> | <u>(2,653,956)</u> | <u>94,366</u> |
| CAPITAL CONTRIBUTIONS | | | |
| Customer connection fees | 25,000 | 5,297 | (19,703) |
| Developer contributed water rights | - | 2,160 | 2,160 |
| | <u>25,000</u> | <u>7,457</u> | <u>(17,543)</u> |
| Total Capital Contributions | <u>25,000</u> | <u>7,457</u> | <u>(17,543)</u> |
| Change in Net Assets | (2,723,322) | (2,646,499) | 76,823 |
| Net Assets July 1 | <u>73,805,706</u> | <u>73,805,706</u> | <u>-</u> |
| Net Assets, June 30 | <u>\$ 71,082,384</u> | <u>\$ 71,159,207</u> | <u>\$ 76,823</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, 2012**

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|----------------------|----------------------|-------------------|
| OPERATING REVENUES | | | |
| User fees | \$ 1,890,000 | \$ 1,904,073 | \$ 14,073 |
| OPERATING EXPENSES | | | |
| Salaries and wages | 328,381 | 313,760 | 14,621 |
| Employee benefits | 148,110 | 165,018 | (16,908) |
| Services and supplies | 1,147,602 | 494,053 | 653,549 |
| Depreciation | 1,020,000 | 1,062,758 | (42,758) |
| Total Operating Expenses | <u>2,644,093</u> | <u>2,035,589</u> | <u>608,504</u> |
| Operating Income (Loss) | <u>(754,093)</u> | <u>(131,516)</u> | <u>622,577</u> |
| NONOPERATING REVENUE (EXPENSE) | | | |
| Interest earned on investments | 40,000 | 12,695 | (27,305) |
| Miscellaneous | - | 21 | 21 |
| Interest expense | <u>(354,377)</u> | <u>(353,802)</u> | <u>575</u> |
| Total Nonoperating Revenue (Expense) | <u>(314,377)</u> | <u>(341,086)</u> | <u>(26,709)</u> |
| Income (Loss) Before Capital Contributions | (1,068,470) | (472,602) | 595,868 |
| CAPITAL CONTRIBUTIONS | | | |
| Customer connection fees | <u>-</u> | <u>669</u> | <u>669</u> |
| Change in Net Assets | (1,068,470) | (471,933) | 596,537 |
| NET ASSETS, July 1 | <u>29,922,310</u> | <u>29,922,310</u> | <u>-</u> |
| NET ASSETS, June 30 | <u>\$ 28,853,840</u> | <u>\$ 29,450,377</u> | <u>\$ 596,537</u> |

CITY OF FERNLEY, NEVADA
FIDUCIARY FUND - MUNICIPAL TRUST FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>BALANCE</u> <u>JULY 1, 2011</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>JUNE 30, 2012</u> |
|------------------------------------|---------------------------------------|------------------|------------------|--|
| ASSETS | | | | |
| Cash and investments | \$ 11,618 | \$ 14,442 | \$ - | \$ 26,060 |
| LIABILITIES | | | | |
| Bail bond deposits held for others | \$ 11,618 | \$ 13,429 | \$ - | \$ 25,047 |
| Other liabilities | - | 1,013 | - | 1,013 |
| Total Liabilities | \$ 11,618 | \$ 14,442 | \$ - | \$ 26,060 |

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, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---------------------------------------|--------------------|---------------|------------------|
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in (out) | \$ (13,559) | \$ (13,575) | \$ (16) |
| Net Change in Fund Balance | (13,559) | (13,575) | (16) |
| FUND BALANCE, July 1 | <u>-</u> | <u>13,575</u> | <u>13,575</u> |
| FUND BALANCE, June 30 | <u>\$ (13,559)</u> | <u>\$ -</u> | <u>\$ 13,559</u> |

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, 2012

| | BUDGET | ACTUAL | VARIANCE |
|------------------------------|---------------|---------------|-----------------|
| REVENUES | | | |
| Taxes: | | | |
| Residential construction tax | \$ - | \$ 800 | \$ 800 |
| EXPENDITURES | | | |
| Culture and recreation: | | | |
| Capital outlay | 2,297 | 1,078 | 1,219 |
| Net Change in Fund Balance | (2,297) | (278) | 2,019 |
| FUND BALANCE, July 1 | 1,078 | 1,078 | - |
| FUND BALANCE, June 30 | \$ (1,219) | \$ 800 | \$ 2,019 |

**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 NINE FISCAL YEARS**

| | FISCAL YEAR ENDED JUNE 30, | | | | | | | | |
|---|-----------------------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 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 | \$ 40,765,626 |
| Restricted | - | - | - | - | 362,289 | 391,600 | 363,602 | 1,886,533 | 568,412 |
| 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 | 2,569,131 |
| 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> | <u>\$ 43,903,169</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 | \$ 89,367,958 |
| 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 | 11,241,626 |
| 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> | <u>\$ 100,609,584</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 | \$ 130,133,584 |
| Restricted | - | 535,237 | 579,560 | - | 362,289 | 391,600 | 363,602 | 1,886,533 | 568,412 |
| 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 | 13,810,757 |
| 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> | <u>\$ 144,512,753</u> |

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

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

| | FISCAL YEAR ENDED JUNE 30, | | | | | | | | |
|---|-----------------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 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 | \$ 3,266,193 |
| Judicial | 156,796 | 173,804 | 170,479 | 194,353 | 252,189 | 243,889 | 265,515 | 204,071 | 213,314 |
| 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 | 81,120,000 | 458,828 | 646,259 | 838,674 | 689,281 | 685,706 | 622,998 | 734,553 | 743,911 |
| Community development | 434,627 | 861,555 | 875,056 | 848,010 | 1,977,586 | 811,701 | 1,247,018 | 2,817,551 | 2,673,503 |
| Health | 50,560 | 102,768 | 263,919 | 295,413 | 280,743 | 252,320 | 262,865 | 193,303 | 207,672 |
| Debt Service: | | | | | | | | | |
| Interest and fiscal charges | - | - | 224,500 | 221,032 | 214,326 | 206,092 | 198,144 | 189,836 | 194,402 |
| Total Governmental Activities Expenses | <u>82,813,044</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> | <u>7,298,995</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 | 9,334,311 |
| 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 | 2,389,391 |
| 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> | <u>11,723,702</u> |
| Total Primary Government Expenses | <u>\$ 86,196,078</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> | <u>\$ 19,022,697</u> |

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

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

| | FISCAL YEAR ENDED JUNE 30, | | | | | | | | |
|---|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 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 | \$ 1,274,989 |
| Judicial | 170,835 | 423,178 | 196,249 | 89,248 | 162,416 | 161,819 | 196,886 | 197,395 | 169,630 |
| 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 | 10 |
| Community development | 1,422,438 | 1,804,978 | 1,123,508 | 679,608 | 509,440 | 258,801 | 232,719 | 149,647 | 105,925 |
| Health | 1,766 | 1,611 | 2,341 | 4,318 | 4,650 | 3,819 | 3,296 | 3,578 | 2,968 |
| Operating Grants and Contributions | 276,701 | 268,632 | 348,627 | 60,000 | 60,000 | 60,383 | 61,500 | 133,460 | 466,388 |
| 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 | 4,925,916 |
| 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> | <u>6,945,826</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 | 6,325,657 |
| Sewer | 1,187,212 | 1,441,455 | 1,686,101 | 1,754,820 | 1,829,736 | 1,830,814 | 1,883,702 | | 1,904,071 |
| 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 | 106,100 |
| 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>6,482,342</u> | <u>8,335,828</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>\$ 12,109,571</u> | <u>\$ 15,281,654</u> |
| NET (EXPENSE)/REVENUE | | | | | | | | | |
| Governmental Activities | \$ (72,069,806) | \$ 4,827,956 | \$ 6,552,153 | \$ 3,203,982 | \$ 891,345 | \$ 1,802,179 | \$ (2,766,286) | \$ (1,883,850) | \$ (353,169) |
| Business-type Activities | 10,428,478 | 11,062,077 | 18,663,266 | 18,196,393 | 4,730,077 | 6,662,977 | (4,054,017) | (5,313,967) | (3,387,874) |
| Total Primary Government Net (Expense)/Revenue | <u>\$ (61,641,328)</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>\$ (7,197,817)</u> | <u>\$ (3,741,043)</u> |

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

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

| | FISCAL YEAR ENDED JUNE 30, | | | | | | | | |
|---|-----------------------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 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 | \$ 1,850,971 |
| Consolidated | 137,610 | 163,429 | 189,158 | 188,128 | 197,040 | 202,188 | 170,186 | 130,215 | 131,372 |
| Fuel | 216,736 | 233,448 | 227,691 | 259,603 | 304,718 | 309,896 | 294,645 | 282,617 | 271,449 |
| Unrestricted gaming licenses | 75,015 | 71,271 | 97,121 | 98,753 | 96,021 | 92,211 | 96,598 | 99,439 | 99,607 |
| Unrestricted interest income | 22,441 | 97,729 | 329,341 | 361,301 | 175,866 | 41,085 | 26,847 | 13,921 | 5,066 |
| Miscellaneous revenue | 35,660 | 36,640 | 389,619 | 89,378 | 424,649 | 56,179 | 46,238 | 74,225 | 108,617 |
| 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> | <u>2,467,082</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 | 19,326 |
| Miscellaneous revenue | 37,142 | 65,234 | 59,441 | 46,287 | 384,555 | 569,452 | 244,232 | 154,734 | 250,116 |
| 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> | <u>269,442</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> | <u>\$ 2,736,524</u> |
| CHANGE IN NET ASSETS | | | | | | | | | |
| Governmental activities | \$ (71,154,606) | \$ 5,926,680 | \$ 8,376,165 | \$ 5,126,439 | \$ 3,164,365 | \$ 3,885,359 | \$ (721,425) | \$ 190,443 | \$ 2,113,913 |
| Business-type activities | 10,552,592 | 11,423,041 | 19,425,488 | 19,753,966 | 6,240,890 | 7,709,687 | (3,547,797) | (5,091,016) | (3,118,432) |
| Total Primary Government Change in Net Assets | <u>\$ (60,602,014)</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>\$ (4,900,573)</u> | <u>\$ (1,004,519)</u> |

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

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

| | FISCAL YEAR ENDED JUNE 30, | | | | | | | | | |
|---------------------------------------|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2012 | 2010 | 2011* | 2012 |
| General fund | | | | | | | | | | |
| Reserved | \$ 287,018 | \$ 1,330 | \$ 5,205 | \$ 6,239 | \$ 6,709 | \$ 366,424 | \$ 394,251 | \$ 332,238 | \$ - | \$ - |
| Unreserved | 725,358 | 790,990 | 869,817 | 938,757 | 582,237 | 279,443 | 294,617 | 482,078 | - | - |
| Nonspendable | - | - | - | - | - | - | - | - | 22,375 | - |
| Restricted | - | - | - | - | - | - | - | - | 342,400 | 342,123 |
| Committed | - | - | - | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | 5,582 | 1,449,207 |
| Unassigned | - | - | - | - | - | - | - | - | 1,223,672 | - |
| Total general fund | <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> | <u>\$ 1,791,330</u> |
| All other governmental funds | | | | | | | | | | |
| Reserved - Transient Lodging Tax Fund | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 31,364 | \$ - | \$ - |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue fund | 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 | 226,289 |
| Committed | - | - | - | - | - | - | - | - | - | 1,200,065 |
| Assigned | - | - | - | - | - | - | - | - | 104,988 | 148,181 |
| Total all other governmental funds | <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> | <u>\$ 1,574,535</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,

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|--------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|---------------------|-------------------|-------------------|--------------------|
| REVENUES | | | | | | | | | | |
| Taxes | \$ 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 | \$ 2,108,576 |
| Licenses and permits | 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 | 1,483,489 |
| Intergovernmental | 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 | 5,555,712 |
| Fines and forfeits | 104,330 | 170,836 | 175,167 | 228,424 | 234,353 | 207,465 | 161,820 | 222,566 | 197,397 | 169,630 |
| Miscellaneous | 55,149 | 199,081 | 192,613 | 794,352 | 581,833 | 610,883 | 138,018 | 88,765 | 95,752 | 112,246 |
| Developer fees | - | - | - | - | - | - | - | - | 111,000 | - |
| Total revenues | <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> | <u>9,429,653</u> |
| EXPENDITURES | | | | | | | | | | |
| General government | 475,065 | 528,906 | 595,297 | 717,355 | 1,025,295 | 1,238,982 | 1,290,272 | 1,402,434 | 1,661,818 | 1,629,090 |
| Judicial | 144,797 | 154,514 | 171,868 | 169,163 | 194,518 | 251,829 | 244,714 | 257,983 | 201,062 | 213,214 |
| Public works | 517,855 | 331,318 | 420,500 | 376,571 | 515,394 | 428,988 | 457,243 | 448,224 | - | - |
| Culture and recreation | 337,677 | 324,629 | 381,962 | 508,797 | 647,542 | 522,392 | 546,492 | 482,871 | 612,723 | 617,960 |
| Community development | 301,269 | 405,298 | 669,105 | 810,965 | 834,503 | 1,226,149 | 787,056 | 1,332,123 | 2,796,292 | 5,309,789 |
| Health | 40,828 | 48,395 | 96,876 | 256,738 | 275,905 | 262,526 | 232,843 | 242,279 | 176,488 | 200,427 |
| Debt service: | | | | | | | | | | |
| Principal | 90,314 | - | - | - | 158,000 | 165,000 | 173,000 | 181,000 | 189,000 | 4,134,000 |
| Interest | 5,117 | - | - | 94,789 | 221,032 | 214,326 | 206,092 | 198,144 | 189,836 | 194,402 |
| Bond issuance costs | - | - | - | - | - | - | - | - | - | 61,727 |
| 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 | 956,329 |
| Total expenditures | <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> | <u>13,316,938</u> |
| Excess (deficiency) of revenues over expenditures | <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> | <u>(3,887,285)</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 | (205) |
| Transfers in | 950,000 | 1,931,030 | 1,690,000 | 1,050,000 | 711,712 | 20,000 | 26,000 | - | (60,000) | 205 |
| General obligations bonds issued | - | - | - | 5,000,000 | - | - | - | - | - | 4,010,000 |
| Proceeds from disposal of capital assets | - | 4,277 | - | - | 61,450 | - | - | 7,984 | - | - |
| Total other financing sources (uses) | <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> | <u>4,010,000</u> |
| Net change in fund balance | <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> | <u>\$ 122,715</u> |
| Debt service as a percentage of noncapital expenditures | 5.3% | 0.0% | 0.0% | 3.3% | 10.9% | 9.6% | 10.7% | 9.1% | 7.0% | 54.3% |

**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 | |
| 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 |
| 2012 | 440,455,995 | 1,258,445,700 | 35.0 |

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

*Allocation between personal and real property was not readily available from Lyon County at the time the CAFR was completed.

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 |
|--------------------|------------------------|------------------------|------------------------|---------------|--------------------------|--------------|
| 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 |
| 2012 | 0.5469 | 0.1700 | 1.3367 | 0.8644 | 0.4803 | 3.3983 |

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

SCHEDULE 7

**CITY OF FERNLEY, NEVADA
PRINCIPAL PROPERTY OWNERS
June 30, 2012**

| Taxpayer | Product/Service | Taxable | | Approximate Percentage of Taxable Assessed Valuation |
|----------------------------------|---------------------|-------------------------------------|------------------------------|---|
| | | Estimated Appraised Value (1) | Taxable Assessed Value | |
| NV Energy | Utility | \$ 147,093,480 | \$ 51,482,718 | 11.689% |
| Southwest Gas Corp. | Utility | 40,320,274 | 14,112,096 | 3.204% |
| Peri & Peri/ Desert Pearl Farms | Agriculture | 26,312,089 | 9,209,231 | 2.091% |
| 1600 East Newlands Dr., LLC | Developer | 24,715,977 | 8,650,592 | 1.964% |
| Sherwin-Williams Acceptance Corp | Paint Manufacturer | 24,381,300 | 8,533,455 | 1.937% |
| Amazon.com | Retail Distributor | 20,404,366 | 7,141,528 | 1.621% |
| Nevada Cement Co. | Cement Manufacturer | 19,688,843 | 6,891,095 | 1.565% |
| Union Pacific Railroad | Railroad | 17,103,629 | 5,986,270 | 1.359% |
| Sonterra Development Co. Inc. | Developer | 16,622,571 | 5,817,900 | 1.321% |
| Beehive Telephone Company | Telephone | 15,145,137 | 5,300,798 | 1.203% |
| Totals | | <u>\$ 351,787,666</u> | <u>\$123,125,683</u> | <u>27.954%</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, | | | | | | | | | |
|--|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| WATER UTILITY | | | | | | | | | | |
| Number of Customers | 3,966 | 4,980 | 6,083 | 6,634 | 6,816 | 7,170 | 7,371 | 7,061 | 7,103 | 9,837 |
| Annual Average Day Demand per customer | 750 | 750 | 750 | 750 | 750 | 750 | 750 | 750 | 750 | 333 |
| Gallons of water used (in thousands) | 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 | 1,196,887 |
| Direct rate per 1000 gallons | \$ 0.95 | \$ 0.95 | \$ 0.95 | \$ 0.95 | \$ 0.95 | \$ 1.11 | \$ 1.50 | \$ 2.02 | \$ 2.02 | \$ 2.02 |

Source: City of Fernley

SCHEDULE 9

**CITY OF FERNLEY, NEVADA
PRINCIPLE WATER USERS**

| Employer | JUNE 30, | | 2004* | |
|-----------------------------|------------------|-------------|------------------|-------------|
| | 2012 | | | |
| | User Fees | Rank | User Fees | Rank |
| City of Fernley | \$ 129,874 | 1 | \$ - | - |
| Lyon County School District | 127,822 | 2 | - | - |
| World Color Fernley | 87,949 | 3 | - | - |
| Trex Manufacturing Company | 59,528 | 4 | 42,141 | 1 |
| Veteran's Cemetery | 57,610 | 5 | 15,059 | 4 |
| Amazon.com | 29,499 | 6 | - | - |
| Hollywood Investments | 28,086 | 7 | 18,076 | 3 |
| Sherwin Williams | 26,305 | 8 | - | - |
| Blue Beacon | 23,133 | 9 | 7,413 | 8 |
| Rewana Mobile Home Park | 16,189 | 10 | 5,708 | 10 |

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 | | | | |
| 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 |
| 2012 | 4,010,000 | 69,648,107 | 7,461,893 | | 81,120,000 | 15.42% | 4,293 |

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 78 for personal income and population data.

**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) |
|--------------------|---------------------------------|---------------------------------|--------------|--|-----------------------|
| 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 |
| 2012 | 4,010,000 | 77,110,000 | 81,120,000 | 6.45% | 4,292.97 |

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 78.

CITY OF FERNLEY, NEVADA
COMPUTATION OF GENERAL OBLIGATION DIRECT AND OVERLAPPING DEBT
June 30, 2012

| | Total General Obligation Debt | Presently Self-Supporting General Obligation Debt | Net Debt Outstanding | % Applicable | Applicable Net Debt |
|------------------------------------|--|--|---------------------------------|-------------------------|--------------------------------|
| Direct: | | | | | |
| City of Fernley | \$ 81,120,000 | \$ 77,110,000 | \$ 4,010,000 | 100.00% | <u>\$ 4,010,000</u> |
| Overlapping: | | | | | |
| State of Nevada (1) | 1,243,420,000 | - | 1,243,420,000 | 0.44% | 5,471,048 |
| Lyon County (2) | 12,732,955 | 12,732,955 | - | 36% | - |
| Lyon County School (3) District | 76,810,000 | | 76,810,000 | 36% | <u>27,675,796</u> |
| Total Overlapping Debt | | | | | <u>33,146,844</u> |
| Total Direct and Overlapping Debt | | | | | <u><u>\$ 37,156,844</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, 2012

| | |
|---|----------------------------|
| Estimated Assessed Value | \$440,455,995 |
| Debt Limit - 30 Percent of Total Assessed Value | 132,136,799 |
| Total Amount of Debt Applicable to Debt Limit | <u>81,120,000</u> |
| Legal Debt Margin | <u><u>\$51,016,799</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 | |
| 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 | 3,823,597 | 2,626,576 | 1,698,531 | 3,674,376 | 5,372,907 | 49% |
| 2012 | 8,327,702 | 3,801,460 | 4,526,242 | 1,764,329 | 3,611,327 | 5,375,656 | 84% |

Note: (1) Total operating expenses exclusive of depreciation

SCHEDULE 15

**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) |
|--------------------|-----------------------|------------------------------|---------------------------------------|------------------------------|
| 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% |
| 2012 | 18,896 | 525,970,160 | 27,835 | 15.80% |

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 | 2012 | | | 2005* | | |
|------------------------------|------------------|-------------|--|------------------|-------------|--|
| | Employees | Rank | Percentage of Total County Employment (1) | Employees | Rank | Percentage of Total County Employment (1) |
| Lyon County School District | 1000-1499 | 1 | 6.52% | - | - | - |
| Amazon.com | 600-699 | 2 | 3.39% | 700-799 | 1 | 6.14% |
| Lyon County | 400-499 | 3 | 2.35% | - | - | - |
| MSC Industrial Supply Co. | 300-399 | 4 | 1.83% | 100-199 | 3 | 1.23% |
| Wal-Mart | 200-299 | 5 | 1.30% | - | - | - |
| Medallic Art | 100-199 | 6 | 0.78% | - | - | - |
| Production Pattern & Foundry | 100-199 | 7 | 0.78% | - | - | - |
| South Lyon Medical Center | 100-199 | 8 | 0.78% | - | - | - |
| TREX Company | 100-199 | 9 | 0.78% | 100-199 | 4 | 1.23% |
| QG Printing Corp | 100-199 | 10 | 0.78% | - | - | - |

Source: Nevada Department of Employment, Training and Rehabilitation

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

* Information presented from 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**

| FUNCTION/PROGRAM | FISCAL YEAR ENDED JUNE 30, | | | | | | | | | |
|------------------------|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| General government | 14.3 | 14.7 | 15.5 | 12.1 | 18.6 | 22.3 | 9.3 | 13.0 | 16.0 | 14.7 |
| Judicial | 1.7 | 1.9 | 1.9 | 2.0 | 1.9 | 1.9 | 3.0 | 2.4 | 2.4 | 2.4 |
| Public works | 1.2 | 1.3 | 1.3 | 2.0 | 1.5 | 1.8 | 2.5 | 5.5 | 10.0 | 4.3 |
| Culture and recreation | 4.5 | 4.5 | 7.5 | 7.5 | 10.9 | 11.5 | 4.8 | 6.0 | 4.0 | 5.3 |
| Community development | 7.0 | 7.0 | 12.0 | 15.5 | 16.0 | 14.0 | 8.1 | 8.0 | 6.0 | 5.0 |
| Health | - | - | 2.0 | 3.9 | 2.9 | 2.5 | 3.0 | 2.0 | 2.0 | 2.0 |
| Water | 5.4 | 5.6 | 5.9 | 8.6 | 6.8 | 8.1 | 15.3 | 16.5 | 13.0 | 17.0 |
| Sewer | 5.4 | 5.6 | 5.9 | 9.1 | 6.8 | 8.1 | 9.2 | 4.5 | 4.0 | 6.7 |
| Total | <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> | <u>57.4</u> |

Sources: City of Fernley, Nevada

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

| Function/Program | FISCAL YEAR ENDED JUNE 30, | | | | | | | | | |
|----------------------------------|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Judicial: | | | | | | | | | | |
| Municipal Court Cases Filed: | | | | | | | | | | |
| Drug | 55 | 33 | 34 | 68 | 35 | 28 | 25 | 39 | 20 | 12 |
| Driving Under Influence | 82 | 71 | 75 | 91 | 81 | 83 | 68 | 79 | 59 | 16 |
| Domestic Violence | 37 | 48 | 65 | 45 | 5 | 3 | 1 | 3 | 0 | 112 |
| Traffic | 1,979 | 2,132 | 2,410 | 2,530 | 1,829 | 1,668 | 1,260 | 2,206 | 2002 | 990 |
| Non-Traffic | 160 | 309 | 314 | 326 | 319 | 397 | 326 | 307 | 175 | 23 |
| Other | 5 | 0 | 1 | 0 | 0 | 3 | 3 | 3 | 0 | 16 |
| Public Safety: | | | | | | | | | | |
| Calls for Service: | | | | | | | | | | |
| Criminal | 2,292 | 2,760 | 3,072 | 3,382 | 3,866 | 3,633 | 2,791 | 2,679 | 2,407 | 2,514 |
| Non-Criminal | 948 | 828 | 924 | 1,028 | 1,180 | 1,129 | 1,889 | 2,144 | 2,523 | 2,334 |
| Domestic Violence | 312 | 432 | 684 | 678 | 866 | 889 | 463 | 414 | 352 | 393 |
| Follow-up | 1,044 | 1,488 | 1,404 | 1,630 | 1,439 | 1,624 | 1,599 | 1,920 | 2,497 | 2,083 |
| Traffic Stops | 1,080 | 672 | 876 | 1,026 | 1,450 | 1,639 | 2,067 | 1,999 | 1,626 | 1,193 |
| Civil Papers | 2,028 | 1,596 | 2,028 | 2,232 | 2,136 | 2,601 | 2,359 | 2,568 | 2,418 | 1,868 |
| Animal | 132 | 192 | 168 | 102 | 156 | 204 | 337 | 377 | 252 | 282 |
| Death/Coroner | 36 | 36 | 36 | 42 | 33 | 45 | 42 | 29 | 41 | 33 |
| Public Service | 1,536 | 1,440 | 1,044 | 1,250 | 927 | 1,191 | 1,111 | 1,195 | 1,337 | 1,424 |
| Assist other Agencies | 612 | 600 | 684 | 732 | 625 | 1,112 | 1,024 | 851 | 791 | 876 |
| Alarms | 216 | 252 | 276 | 346 | 383 | 377 | 517 | 494 | 492 | 520 |
| Property Damage Accident | 72 | 120 | 132 | 92 | 120 | 98 | 115 | 108 | 87 | 86 |
| Injury Accident | 12 | 12 | 24 | 24 | 20 | 5 | 15 | 9 | 17 | 15 |
| Private Property Accident | 60 | 48 | 48 | 48 | 73 | 81 | 65 | 52 | 57 | 64 |
| Administrative | 2,016 | 2,316 | 2,196 | 2,304 | 2,761 | 3,113 | 3,204 | 4,715 | 7,911 | 6,858 |
| 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> | <u>24,385</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> | <u>2,594</u> |
| Arrests: | | | | | | | | | | |
| Felony | 84 | 72 | 60 | 90 | 123 | 76 | 95 | 122 | 133 | 112 |
| Gross Misdemeanor | 12 | 12 | 24 | 16 | 17 | 27 | 44 | 34 | 27 | 34 |
| Misdemeanor | 192 | 168 | 120 | 112 | 143 | 146 | 121 | 160 | 135 | 45 |
| Driving Under the Influence | 48 | 48 | 36 | 48 | 84 | 90 | 76 | 111 | 57 | 40 |
| Domestic Violence | 48 | 48 | 72 | 52 | 71 | 53 | 73 | 61 | 67 | 113 |
| Mental Health | 12 | 12 | 12 | 8 | 12 | 11 | 4 | 5 | 4 | 1 |
| 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> | <u>345</u> |
| Citations: | | | | | | | | | | |
| Traffic | 444 | 240 | 228 | 274 | 593 | 464 | 557 | 535 | 409 | 274 |
| Non-Traffic | 240 | 132 | 168 | 162 | 209 | 234 | 328 | 339 | 287 | 239 |
| 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> | <u>513</u> |
| Water Utility | | | | | | | | | | |
| Customer Count | 3,966 | 4,980 | 6,083 | 6,634 | 6,816 | 6,896 | 6,876 | 6,693 | 6,736 | 9,837 |
| New Connections | 657 | 1,014 | 1,103 | 551 | 182 | 80 | 15 | 12 | 12 | 5 |
| Sewer Utility | | | | | | | | | | |
| Customer Count | 3,950 | 4,957 | 6,049 | 6,600 | 6,782 | 6,862 | 6,312 | 6,140 | 6,174 | 8,188 |
| New Connections | 649 | 1,007 | 1,092 | 551 | 182 | 80 | 14 | 12 | 7 | 2 |
| Building | | | | | | | | | | |
| Number of Permits Issued | 868 | 1,492 | 1,445 | 897 | 500 | 352 | 221 | 217 | 228 | 201 |
| Number of Inspection Performed | 7,042 | 15,929 | 19,108 | 13,302 | 5,838 | 3,107 | 1,894 | 929 | 803 | 863 |
| Planning | | | | | | | | | | |
| Number of applications processed | 144 | 195 | 211 | 238 | 223 | 150 | 93 | 52 | 32 | 32 |

Sources: City of Fernley

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

| Function/Program | FISCAL YEAR ENDED JUNE 30, | | | | | | | | | |
|------------------------------|----------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Streets | | | | | | | | | | |
| Public Road Mileage | 92.03 | 95.45 | 104.12 | 106.64 | 116.96 | 125.36 | 126.79 | 126.79 | 126.79 | 126.79 |
| Parks and Recreation: | | | | | | | | | | |
| Parks and Open Space Acreage | 68 | 68.3 | 85.3 | 150 | 155 | 155 | 155 | 155 | 155 | 155 |
| Developed Parks | 7 | 7 | 8 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Tennis Courts | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Rodeo Arena | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Playing Fields | 6 | 7 | 8 | 10 | 19 | 19 | 19 | 19 | 19 | 19 |
| Pavilions | 1 | 1 | 2 | 2 | 2 | 3 | 3 | 7 | 7 | 7 |
| Skate Park | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Water Utility: | | | | | | | | | | |
| Water lines (miles) | 79.4 | 85.8 | 92.6 | 105 | 115.2 | 124.7 | 148.9 | 152.1 | 152.1 | 152.1 |
| Fire Hydrants | 775 | 850 | 925 | 1,000 | 1,033 | 1,083 | 1,102 | 1,102 | 1,102 | 1,102 |
| Sewer Utility: | | | | | | | | | | |
| Sanitary Sewer lines (miles) | 68.0 | 73.4 | 79.3 | 90.0 | 93.6 | 101.3 | 124.2 | 124.2 | 124.2 | 124.2 |
| Sanitary Sewer Manhole Count | 864 | 1,113 | 1,362 | 1,510 | 1,600 | 2,126 | 2,227 | 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 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 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

Management of the City is responsible for establishing and maintaining effective internal controls 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 to be material weaknesses.

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 December 20, 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.

A handwritten signature in blue ink that reads "K. J. Armstrong & Co." The signature is written in a cursive style with a small "K" and "J" at the beginning and a "Co." at the end.

Fallon, Nevada
December 20, 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, 2012. 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 each of 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 compliance 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, 2012.

Internal Control over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-3. A *significant deficiency in internal controls over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

A handwritten signature in blue ink that reads "Kofouris, Armstrong & Co." The signature is written in a cursive style.

Fallon, Nevada
December 20, 2012

**CITY OF FERNLEY, NEVADA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

| 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 | \$ 1,739,221 |
| Providing Water to At-Risk Natural Desert Terminal Lakes | 15.508 | R12AP20013 | <u>15,659</u> |
| Total Bureau of Reclamation | | | 1,754,880 |
| Passed through the State of Nevada: | | | |
| Division of State Parks | | | |
| Outdoor Recreation_Acquisiton, Development and Planning | 15.916 | 32-00312.1 | <u>13,453</u> |
| Total Department of Interior | | | <u>1,768,333</u> |
| <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 | 2,699,113 |
| Highway Planning and Construction | 20.205 | P352-09-802 | <u>3,155</u> |
| Total Department of Transportation | | | <u>2,702,268</u> |
| <u>Department of Justice:</u> | | | |
| Direct Program: | | | |
| Bureau of Justice Assistance | | | |
| BJA FY 09 Congressionally Recommended Awards | 16.753 | 2009-D1-BX-0070 | <u>56,130</u> |
| <u>Department of Housing and Urban Development:</u> | | | |
| Passed through the State of Nevada: | | | |
| Governor's Office of Economic Development | | | |
| CDBG - State-Administered CDBG Cluster: | | | |
| Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii | 14.228 | 11/PS/13 | <u>163,647</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 4,690,378</u> |

See accompanying notes.

CITY OF FERNLEY, NEVADA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. 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:

| | |
|---------------------------|---------------------|
| | Federal Awards |
| Governmental Activities: | |
| Other Governmental Funds: | |
| Grants | <u>\$ 4,690,378</u> |

D. SUBRECIPIENTS

All expenditures related to the following grants from the Department of Housing and Urban Development were passed through to Access to HealthCare Network, Inc., a Nevada non-profit corporation:

Community Development Block Grant/State's Programs and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

**CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

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> X </u> | Yes | <u> </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> X </u> | Yes | <u> </u> | No |

Identification of major programs:

| | |
|---------------------|---|
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| CFDA 14.228 | Community Development Block Grant |
| CFDA 20.205 | Highway Planning and Construction |

| | | | | |
|--|---------------|-----|--------------|----|
| 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 2012 - 1:

Material Weakness

Criteria: Management is responsible for establishing and maintaining an effective internal control system over financial reporting. Components of an effective internal control system over financial reporting include the preparation of the Schedule of Expenditures of Federal Awards that reconciles with expenditures in the trial balance and the recording of the corresponding revenue in the correct period.

Condition: During the compliance testing it was determined that non grant expenditures had been posted to grant accounts and that accounts receivable for reimbursements not received as of the year end had not been posted to the accounting records. An adjustment to increase grant revenue by \$455,327 was needed to reconcile the Schedule of Expenditures of Federal Awards with the trial balance.

CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Effect: Insufficient controls over the financial reporting process of preparing the Schedule of Expenditures of Federal Awards could lead to the incorrect selection of major programs. It could also lead to erroneous recording of grant activity.

Cause: Management does not appear to have adequate controls to ensure that fiscal year grant revenues and expenditures are easily identifiable and recorded in the proper period.

Recommendation: We recommend that the City strengthen policies and procedures over federal awards to ensure the Schedule of Expenditures of Federal Awards is prepared correctly and grant revenues are recognized in the period earned.

Finding 2012 - 2:

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 principle without audit adjustments.

Cause: The audit adjustments originated in seven areas:

- 1.) The City's refunding of debt was not recorded in the financial statements. A \$4,010,000 adjustment was needed to record the refunding and related bond issuance costs.
- 2.) Year-end liabilities were understated by \$447,665. An adjustment was needed to record the liability and the related expenditures and expenses in the current year.
- 3.) An entry in the amount of \$78,450 was needed to reverse early posting of a bond payment. The actual payment was not made until after June 30, 2012.
- 4.) A cash adjustment of \$661,743 was needed to correct negative cash in the Grants Major Special Revenue Fund.
- 5.) Bank reconciliations were not being reviewed. Two adjustments were needed to correct reconciling items on the bank reconciliations that were incorrectly labeled as "cash in transit" in the amount of \$59,227 and \$78,450.
- 6.) Several adjustments were needed in order for the fund statements to reconcile to the Government-Wide statements in accordance with GASB 34.
- 7.) Several reclassifying adjustments were needed to correctly report fund balance at year-end in accordance with GASB 54.

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.

**CITY OF FERNLEY, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

Finding 2012 - 3:

Significant Deficiency

Federal Agency: U.S. Department of Transportation

Passed through: State of Nevada Department of Transportation

Grant award: CFDA 20.205 – Highway Planning and Construction

Criteria: OMB Circular A-133 Compliance Supplement states that “reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.”

Condition and Context: During our testing of internal controls over reporting, it was identified that the City did not have controls in place to ensure that reports are prepared accurately and supported by accounting records. It was noted during testing of the reimbursement reports that the accounting records included \$19,672 in grant expenditures that were not included on the reimbursement requests.

Questioned Costs: None

Cause: The City did not have adequate procedures in place to ensure that reports were prepared accurately or that reports were supported by the City’s accounting or performance records.

Effect: The City could have reported information that was not accurate or supported by accounting records.

Recommendation: We recommend that the City establish procedures to ensure that reports are prepared accurately and are supported by the City’s accounting or performance records.

**CITY OF FERNLEY, NEVADA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no prior year federal awards findings or questioned costs.

AUDITOR'S COMMENTS

June 30, 2012

Statute Compliance

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

Progress on Prior Year Statute Compliance

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

Prior Year Recommendations

We identified a financial weakness that was reported as a material weakness.

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 2012-1, 2012-2, and 2012-3.

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, 2011 | <u>\$ 202,452</u> |
|--|-------------------|

Adjustment to Base:

Base year:

- | | | |
|--|--------------|--|
| 1. Percentage decrease in population of the local government | (2.34%) | |
| 2. Percentage increase in the Consumer Price Index for the year ending on December 31, next preceding the year for which the limit is being calculated | <u>2.00%</u> | |

| | | |
|---|---------|----------------|
| Adjusted Base at June 30, 2012 | (0.34%) | 201,764 |
| Actual Revenue | | <u>201,821</u> |
| Actual Amount over (under) Allowable Amount | | <u>\$ 57</u> |

Fee calculated on a Percentage of Gross Revenue:

| | |
|---|--------------------|
| Adjusted base at June 30, 2011 | \$891,689 |
| Percentage change in CPI | <u>1.02</u> |
| Adjusted base at June 30, 2012 | 909,523 |
| Actual Revenue | <u>201,821</u> |
| Actual Amount over (under) Allowable Amount | <u>\$(707,702)</u> |