NOTE 1 - Summary of Significant Accounting Policies:

The financial statements of the City of Winnemucca, Nevada (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental 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.

Reporting Entity:

The City of Winnemucca, Nevada is a municipal corporation governed by an elected mayor and a five member council. The City is fiscally independent of all other governmental entities and is therefore not a component unit of any other entity nor are there any component units which should be included in this report.

Government-Wide and Fund Financial Statements:

The basic financial statements include both government-wide (based upon the City as a whole) and fund financial statements. The reporting focus is on either the City as a whole or major individual funds and nonmajor funds in the aggregate (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

The government-wide financial statements (the Statement of Net Position and Statement of Activities) report information on all of the nonfiduciary activities of the City of Winnemucca. Eliminations have been made to minimize the double-counting of internal activities. Services provided by the General Fund to other funds are reported as expenditures or expenses, as appropriate, in the funds receiving the services and as reductions of expenditures in the General Fund. 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 function or business-type activity are offset by program revenues. Direct expenses are those 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, contributions and interest income restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

NOTE 1 - Summary of Significant Accounting Policies (Continued):

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses are the costs of providing those services, including depreciation. Non-operating revenues, such as subsidies and investment earnings, and non-operating expenses result from non-exchange transactions or ancillary activities.

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 fund financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 judgments, are recorded only when payment is due.

Property taxes, consolidated taxes (sales taxes, cigarette taxes, government services tax, liquor taxes), gaming taxes, gasoline taxes, franchise fees 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. Licenses and permits, charges for services and fines and forfeits are not susceptible to accrual because generally they are not measurable until received in cash.

Property tax revenue is recognized in the fiscal year in which the taxes become due to the extent they are collected during the fiscal year or soon enough thereafter that they can be used to finance current period expenditures (no later than 60 days after year-end).

The City reports deferred revenue in the fund financial statements balance sheets. Deferred/unearned revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. 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/unearned revenue is removed from the balance sheet and revenue is recognized.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 - Summary of Significant Accounting Policies (Continued):

The Debt Service Fund is used to account for the resources and expenditures for special assessments.

The Capital Improvement Fund is used to account for the resources and expenditures for major capital projects.

The City reports the following major enterprise funds:

The Water Fund accounts for the provision of water services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operating, maintenance, and billing and collection.

The Sewer Fund accounts for the provision of sanitary sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt services, and billing and collection.

Budgets and Budgetary Accounting:

Budget Policies:

The City of Winnemucca adheres to the Local Government Budget Act incorporated within Nevada Revised Statutes, which includes the following major procedures to establish the budgetary data which is reflected in these financial statements.

1. On or before April 15, the Winnemucca City Council submits a tentative budget to the Nevada Department of Taxation for the next fiscal year, commencing on July 1.

2. Public hearings on the tentative budget are held on the third Tuesday in May.

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 hearings and approval.

4. Formal budgetary integration in the financial records of all funds is employed to enhance management control during the year.

5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all funds except the fiduciary funds, which do not require budgets. Appropriations lapse at the end of each fiscal year.

NOTE 1 - Summary of Significant Accounting Policies (Continued):

6. Budget amounts within funds, and between funds, may be transferred if amounts do not exceed the original budget. Such transfers are to be approved by the budget officer and/or City Council, depending on established criteria. Budget augmentations in excess of original budgetary amounts may only be made with prior approval of the City Council. Additionally, for funds allocated ad valorem taxes, a scheduled and noticed public hearing must be held.

The budget amounts reflected in the financial statements have been amended from the original amounts in accordance with state statute.

In accordance with state statute, actual expenditures may not exceed budgetary appropriations of the various governmental functions (excluding the debt service function) of the General Fund, Capital Projects Funds and Special Revenue Funds except as specifically permitted by NRS 354.626. In Enterprise Funds, the sum of operating and nonoperating expenses may not exceed total appropriations.

Cash and Investments:

Cash balances from all funds are combined and, to the extent practicable, invested as permitted by law. Investments are recorded at fair value based on quoted market prices. The City invests in the State of Nevada Local Government Pooled Investment Fund, which has regulatory oversight from the Board of Finance for the State of Nevada.

The fair value of the City's position in the pool is the same as the value of the pool shares. Interest earned on pooled cash is allocated to participating funds based upon their combined cash and investment balances.

Pursuant to NRS 355.170 and 355.167, the City of Winnemucca may invest in the following types of securities:

- 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 obligation has been rated "A" or higher by a nationally recognized bond credit rating agency.

NOTE 1 - Summary of Significant Accounting Policies (Continued):

- Negotiable 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.
- Other securities expressly provided by other statutes, including repurchase agreements.
- Certain bankers' acceptances.
- Certain short term paper issued by US corporations.
- Certain "AAA" rated mutual funds that invest in federal securities.

Cash Equivalents:

The City considers short term, highly liquid investments that are both readily convertible to cash and have an original maturity date of three months or less to be cash and cash equivalents.

Accounts Receivable:

Management does not anticipate any material collection losses with respect to the accounts receivable balances.

Taxes Receivable, Delinquent:

Secured roll property taxes receivable reflect only those taxes receivable from the delinquent roll years. Delinquent taxes from all roll years prior to 2012-2013 have been written off. No provision for uncollectible accounts has been established since management does not anticipate any material collection loss in respect to the remaining balances.

Inventories:

Inventories for the proprietary funds are valued at the lower of cost or market on a first-in, first-out basis.

For all other funds, the City of Winnemucca charges consumable supplies against appropriations at the time of purchase. Any inventories of such supplies at June 30 are not material to the individual funds and are not recognized as assets in these financial statements.

Capital Assets:

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as those assets with an initial cost of $5,000 or more and an estimated useful life of more than one year. All purchased capital assets are valued at cost or estimated historical costs. Donated assets are recorded at their estimated fair market value on the

NOTE 1 - Summary of Significant Accounting Policies (Continued):

date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded at cost including capitalized interest incurred during the construction phase on debt-financed projects for business-type activities. Depreciation is computed using the straight-line method for all assets over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	10-40 years
Machinery and equipment	5 to 15 years

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective at the beginning of fiscal year 2004. Neither the historical cost nor related depreciation had historically been reported in the financial statements prior to that time.

Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave costs when earned by the employee. Compensated absences are reported in the governmental fund balance sheets only when owed to an employee who terminated by June 30 but is not paid those benefits until after year end. In proprietary funds, compensated absences are recorded when the liabilities are incurred. The government-wide Statement of Net Position reports accrued compensated absences in the same way as described for proprietary funds.

Fund Equity:

In government-wide and proprietary fund statements, equity is classified as net position and is displayed in three components:

1. Net investment in capital assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net position - consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted net position – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources not included in the determination of net investment in capital assets or the restricted component of net position.

NOTE 1 - Summary of Significant Accounting Policies (Continued):

Beginning with fiscal year 2011, the County 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 the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength the spending constraints places on the purposes for which resources can be used:

1. Nonspendable fund balance – amounts cannot be spent because they are either not in spendable form (such as inventory or prepaids) or are legally required to be maintained intact (such as notes receivable or principal of a permanent fund).

2. Restricted fund balance – amounts can be spent only for specific purposes because of constitutional provisions, enabling legislation, or because of constraints externally imposed by creditors, grantors, contributors, or the law or regulations of other governments.

3. Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the Council removes or changes the constraint using the same action used to create the commitment.

4. Assigned fund balance – amounts the City intends to use for a specific purpose as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the General Fund.

5. Unassigned fund balance – represents the residual classification for the General Fund or deficit balances in other funds.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. The City Clerk has been delegated the authority to assign ending fund balance and to report any assigned funds to the City Council at the next regularly scheduled City Council meeting.

Use of Restricted Resources:

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), it is the City's policy to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to committed, assigned, and then unassigned fund balances.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - Summary of Significant Accounting Policies (Continued):

Interfund Transactions:

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Property Taxes:

Humboldt County, Nevada, bills and collects property taxes for the City of Winnemucca. All real property in Humboldt County is assigned a parcel number in accordance with state law, with each parcel being subject to physical reappraisal every five years. A factoring system is used to adjust the appraised value during the years between physical appraisals. The assessed valuation of the property and its improvements is being assessed at 35% of "taxable value" as defined by statute. The amount of tax levied is developed by multiplying the assessed value by the tax rate applicable to the area in which the property is located. In 2005, the Nevada State Legislature passed Assembly Bill 489 which provides for a partial abatement of the ad valorem taxes levied on a qualified property. The abatement will limit the increase of a taxpayer's bill to 3% over the previous year's tax amount for a primary residence and some rental properties. All other property will have a higher limit of 6.9%.

Taxes on real property are a lien on the property and attach on July 1 of the year for which the taxes are levied.

Taxes may be paid in four installments payable the third Monday in August and the first Monday in October, January and March. Penalties are assessed if a taxpayer fails to pay an installment within ten days of the installment due date. After a two year waiting period, if the taxes remain unpaid, a tax deed is issued conveying the property to the 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.

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 and tax rates described above.

Accounting Standards:

In fiscal year 2013, the City implemented Governmental Accounting Standards Board (GASB) 65 "Items Previously Reported as Assets and Liabilities". The objective of GASB 65 is to either properly classify certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).