NOTE 2 - Compliance with Nevada Statutes and Administrative Code:

The City conformed to all significant statutory constraints on its financial administration during the year except as follows:

- In the Culture and Recreation function of the Capital Improvement Fund, actual expenditures exceeded the budgeted appropriations, which is an apparent violation of NRS 354.626.
- In the Public Works function of the Capital Improvement Fund, actual expenditures exceeded budgeted appropriations, which is an apparent violation of NRS 354.626
- In the General Government function of the Unemployment Compensation Fund, actual expenditures exceeded budgeted appropriations, which is an apparent violation of NRS 354.626.
- In the Water Fund, the sum of the operating and non-operating expenses exceeded the budgeted appropriations, which is an apparent violation of NRS 354.626.

The City plans to monitor expenditures/expenses in 2014-15 to help prevent potential violations.

NOTE 3 - Cash and Investments:

As of June 30, 2014 the city had the following cash and investments:

Investment Type		Maturities (maturity, in years)			
	Fair Value	Less than 1	1 to 3	3 to 5	Greater than 5
U.S. Treasury Notes	$ 3,242,084	$ -	$ 3,242,084	$ -	$ -
Government Agencies	7,883,530	628,912	4,546,802	2,142,185	565,631
Corporate Bonds	10,812,540	640,471	4,600,164	2,256,978	3,314,927
MM Mutual Fund	783,739	783,739	-	-	-
State of Nevada Local Gov't Investment Pool	175,728	-	-	-	175, 728
Total Investments	22,897,621	2,053,122	12,389,050	4,399,163	4,056,286
Total Cash (Carrying Value)	3,232,641	3,232,641	-	-	-
Total Cash and Investments	$ 26,130,262	$ 5,285,763	$ 12,389,050	$ 4,399,163	$ 4,056,286

NOTE 3 - Cash and Investments (Continued):

Investment Type		Quality Rating by Standard and Poor's			
	Fair Value	AAA	AA	A	Unrated
U.S. Treasury Notes	$ 3,242,084	$ 3,242,084	$ -	$ -	$ -
Government Agencies	7,883,530	90,062	7,793,468	-	-
Corporate Bonds	10,812,540	4,758,644	452,285	3,338,191	2,263,420
MM Mutual Fund	783,739	783,739	-	-	-
State of Nevada Local Gov't Investment Pool	175,728	-	-	-	175,728
Total Investments	22,897,621	$ 8,874,529	$ 8,245,753	$ 3,338,191	$ 2,439,148
Total Cash (Carrying Value)	3,232,641				
Total Cash and Investments	$ 26,130,262				

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. Wells Fargo determines the fair value of the investments in NVEST on a monthly basis.

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 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. The LGIP is an unrated external investment pool and as noted above, the City does not have a formal investment policy that specifies minimum acceptable credit ratings beyond what is specified in the statutes.

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

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2014, 27.74%, of the City's total investments were in the Federal National Mortgage Association.

NOTE 4 - Interfund Balances:

Interfund receivable and payable balances at June 30, 2014, by fund are as follows:

	Due From Other Funds	Due to Other Funds
Major Funds		
General Fund	$ -	$ 27,524
Sewer Fund	403	3
Water Fund	27,527	403
Total	$ 27,930	$ 27,930

Interfund transfers for the year ended June 30, 2014 are as follows:

	Transfer In	Transfer Out
Major Funds		
General Fund	$ -	$ 2,600,000
Water Fund	-	100,000
Capital Improvement Fund	2,600,000	-
Nonmajor Funds		
Retiree Insurance Fund	100,000	-
Total	$ 2,700,000	$ 2,700,000

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Interfund balances outstanding at June 30, 2014 in the General, Sewer and Water Funds represent amounts owed by the General Fund to the Water and Sewer Funds for services provided and amounts owed to the General Fund by the Water and Sewer Funds for expenses paid out by the General Fund that are to be reimbursed by the Water and Sewer Funds.

NOTE 5 - Assessment Receivable:

During the year ended June 30, 2006, the City of Winnemucca completed improvements on a special assessment district. The total cost of the project was $2,267,740. This amount was charged back to the land owners in the form of notes receivable from the land owners. The balance remaining on the notes receivable as of June 30, 2014 was $75,612.

CITY OF WINNEMUCCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - Capital Assets:

Capital activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 1,320,396	$ 193,451	$ -	$ 1,513,847
Construction in progress	485,481	1,997,271	822,659	1,660,093
Total capital assets, not being depreciated	1,805,877	2,190,722	822,659	3,173,940
Capital assets being depreciated:				
Buildings and improvements	7,958,047	50,373	-	8,008,420
Improvements other than buildings	10,768,696	2,498,360	-	13,267,056
Machinery and equipment	2,635,408	366,920	98,251	2,904,077
Total capital assets being depreciated	21,362,151	2,915,653	98,251	24,179,553
Less accumulated depreciation for:				
Buildings and improvements	4,381,716	143,866	-	4,525,582
Improvements other than buildings	2,501,997	482,817	-	2,984,814
Machinery and equipment	1,674,351	200,105	59,633	1,814,823
Total accumulated depreciation	8,558,064	826,788	59,633	9,325,219
Governmental activities capital assets, net	$ 14,609,964	$ 4,279,587	$ 861,277	$ 18,028,274
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	$ 228,706	$ -	$ -	$ 228,706
Construction in progress	9,256	171,407	-	180,663
Total capital assets, not being depreciated	237,962	171,407	-	409,369
Capital assets being depreciated:				
Buildings and improvements	189,680	-	-	189,680
Improvements other than buildings	4,580,264	2,353,204	-	6,933,468
Machinery and equipment	15,106,905	370,131	29,651	15,447,385
Total capital assets being depreciated	19,876,849	2,723,335	29,651	22,570,533
Less accumulated depreciation for:				
Buildings and improvements	52,150	5,174	-	57,324
Improvements other than buildings	489,618	141,704	-	631,322
Machinery and equipment	9,337,089	453,809	4,448	9,786,450
Total accumulated depreciation	9,878,857	600,687	4,448	10,475,096
Business-type activities capital assets, net	$ 10,235,954	$ 2,294,055	$ 25,203	$ 12,504,806

NOTE 6 - Capital Assets (Continued):

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

Governmental Activities	
General government	$ 19,792
Public safety	137,091
Public works	476,182
Culture and recreation	193,723
Total depreciation expense – governmental activities	$ 826,788
Business-Type Activities	
Sewer Fund	$ 241,029
Water Fund	359,658
Total depreciation expense – business-type activities	$ 600,687

NOTE 7 - Long-Term Obligations:

The lawful City general obligation bonded debt limit at June 30, 2014, was $57,481,944. In addition, other indebtedness excepting the bond indebtedness, was not to exceed $38,321,296 (NRS 266.600). The City was within these legal limits as shown below.

NOTE 8 - Changes in General Long-Term Debt:

Governmental Activities:

	Balance June 30, 2013	Additions	Used/ Payments	Balance June 30, 2014	Due Within One Year
Accrued vacation, compensatory and sick pay	$ 236,827	$ 189,108	$ 161,440	$ 264,495	$ 212,914
Special assessment debt with governmental commitment	521,053	-	173,684	347,369	173,684
	$ 757,880	$ 189,108	$ 335,124	$ 611,864	$ 386,598

The City issued special assessment bonds in November 2006 to provide cash flow while collecting special assessment receivables, for which the City is obligated to the extent there are insufficient funds in the Debt Service Fund to pay these bonds and the interest thereon. The bond is payable in semi-annual principal installments of $86,842 plus interest which is set at a rate of 4.7%. The bond matures in May of 2016.

NOTE 8 - Changes in General Long-Term Debt (Continued):

Business-type Activities

	Balance June 30, 2013	Additions	Used/ Payments	Balance June 30, 2014	Due Within One Year
Accrued vacation, compensatory and sick pay	$ 29,379	$ 22,855	$ 17,787	$ 34,447	$ 19,642
Water revenue bond debt with governmental commitment	1,260,548	-	1,260,548	-	-
	$ 1,289,927	$ 22,855	$ 1,278,335	$ 34,447	$ 19,642

A Series 2007 Water Revenue Bond was authorized in May of 2007 in the maximum aggregate principal sum of $1,600,000 for making improvements to the City water system by providing financial assistance for the North-Side Water Project. As of June of 2008, the City of Winnemucca had drawn the entire $1,600,000. The interest rate is 2.93%. Payments are due on a semi-annual basis in the amount of $55,207 each and will be paid over a 20-year period from the date of the first draw. The bond matures in January of 2027. The City paid this debt in full January 2014.

The special assessment bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2015	$ 173,684	$ 14,286	$ 187,970
2016	173,685	6,121	179,806
Total Governmental Activities Debt Service	$ 347,369	$ 20,407	$ 367,776

Compensated absences typically have been liquidated by the General Fund and enterprise funds. Governmental activities debt is liquidated by the Debt Service Fund. Business-type activities debt is liquidated by the Water Fund.

NOTE 9 - Unearned Revenue:

Unearned revenue as of June 30, 2014, consists of the following:

Federal Grant Revenues:	
General Fund	$ 15,005

NOTE 10 - Defined Benefit Pension Plan:

Plan Description. The City of Winnemucca contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost-sharing, multiple-employer, defined benefit pension 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

NOTE 10 - Defined Benefit Pension Plan (Continued):

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. Plan members' benefits are funded under the employer pay contribution plan, in which the City is required to contribute all amounts due under the plan. The contribution requirements of plan members and the City are established by Chapter 286 of the Nevada Revised Statutes. Funding provisions may only be amended through legislation. The City's contribution rates and amounts contributed (which was 100% of the required contribution) for the last three years are as follows:

	Contribution Rate			
Fiscal Year	Regular Member	Police	Fire	Total Contribution
2013-14	25.75%	40.50%	26.50%	$1,081,615
2012-13	23.75%	39.75%	24.50%	$ 963,932
2011-12	23.75%	39.75%	24.50%	$ 839,831

NOTE 11 - Risk Management:

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries of employees; and natural disasters, as are all entities.

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 Inter-local 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 liability coverage for its members for up to $10,000,000 per event and a $10,000,000 general aggregate per member. Property, crime and equipment breakdown coverage is provided to its members up to $300,000,000 per loss with various sublimits established for earthquake, flood, equipment breakdown, and money and securities.

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

The City has also joined together with similar public agencies effective December 16, 1997, to create a pool under the Nevada Interlocal Cooperation Act. The Public Agency Compensation Trust (PACT) is an intergovernmental self-insured association for workers compensation insurance.

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.

NOTE 12 - Postemployment Benefits Other Than Pensions:

Plan Description:

The City administers a single-employer defined benefit healthcare plan, the City of Winnemucca Health Insurance Plan (CWHIP). Additionally, the City contributes to an agent multi-employer defined benefit postemployment healthcare plan, Public Employees' Benefit Plan (PEBP). Each plan provides medical, vision, dental, and life insurance benefits to eligible retired City retirees and their beneficiaries.

Benefit provisions for the CWHIP are established pursuant to Nevada Revised Statute (NRS) 287.023 and amended through negotiations between the City and the respective associations. NRS 288.150 assigns authority to establish benefit provisions to the City of Winnemucca Council. 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 benefiting from an implicit subsidy. Retirees are required to pay 100% of their premiums under the plan. Eligible retirees are participants in the Nevada Public Employee Retirement System (PERS) and retired from the City at the time of their election to participate. As of June 30, 2014, 4 retirees were using this plan. The CWHIP 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 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 after November 29, 2008. Local governments are required to pay the same portion of cost of coverage for their retirees joining PEBP that the State of Nevada pays for those persons retired from state service who have continued to participate in the plan. As of June 30, 2014, 17 City retirees were utilizing this benefit. The PEBP issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employee's Benefits Program, 901 S. Stewart Street, Suite 1001, Carson City, NV, 89701, by calling (775) 684-7000, or by accessing the website at www.pebp.state.nv.us/informed/financial.htm.

Funding Policy:

For the CWHIP, 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 $19,617.

For the PEBP plan, NRS 287.046 establishes the subsidies to be contributed toward the premium costs of the eligible retired City employees. 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, 2014, retirees qualify for a subsidy of $114 at five years of service and $627 at 20 years of service with incremental increases for years of service between. Subsidy rates for retirees covered under the Medicare Exchange were $55 at five years of service and $220 at 20 years of service with incremental increases for each year of service between. The contribution requirements of plan members and the City are established

NOTE 12 - Postemployment Benefits Other Than Pensions (Continued):

and amended by the PEBP board of trustees. As a participating employer, the City is billed for the subsidy on a monthly basis and is legally required under NRS 287.023 to provide for it. For fiscal year 2014, the City contributed $54,152 to the plan for current premiums. The City did not prefund any future benefits.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) cost (expense) for the plan 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 (assets), by plan, for fiscal years 2012 through 2014 were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
CWHIP	6/30/14	$ 128,789	$ 19,617	15.23%	$ 407,649
CWHIP	6/30/13	$ 117,318	$ 15,829	13.49%	$ 298,477
CWHIP	6/30/12	$ 108,956	$ 12,717	11.67%	$ 196,988
PEBP	6/30/14	$ 57,020	$ 54,152	94.97%	$ 59,720
PEBP	6/30/13	$ 57,450	$ 61,879	107.71%	$ 56,852
PEBP	6/30/12	$ 57,867	$ 62,473	107.96%	$ 61,281
Combined Totals	6/30/14	$ 185,809	$ 73,769		$ 467,369
Combined Totals	6/30/13	$ 174,768	$ 77,708		$ 355,329
Combined Totals	6/30/12	$ 166,823	$ 75,190		$ 258,269

NOTE 12 - Postemployment Benefits Other Than Pensions (Continued):

The net OPEB obligation (NOPEBO) as of June 30, 2014, was calculated as follows:

	CWHIP	PEBP	Total
Annual required contribution (ARC)	$ 131,001	$ 58,303	$ 189,304
Interest on beginning net OPEB obligation	11,939	2,274	14,213
ARC adjustment	(14,151)	(3,557)	(17,708)
Annual OPEB cost	128,789	57,020	185,809
Contributions made	(19,617)	(54,152)	(73,769)
Increase (decrease) in net OPEB obligation	109,172	2,868	112,040
Net OPEB obligation (asset), beginning of year	298,477	56,852	355,329
Net OPEB obligation (asset), end of year	$ 407,649	$ 59,720	$ 467,369

Funded Status and Funding Progress:

The funded status of the plans as of June 30, 2014, was as follows:

	CWHIP	PEBP	Total
Accrued actuarial liability (a)	$ 1,012,694	$ 950,558	$ 1,963,252
Actuarial value of plan assets (b)	-	-	-
Unfunded actuarial accrued liability (a-b)	$ 1,012,694	$ 950,558	$ 1,963,252
Funded ratio (b) / (a)	0.00%	0.00%	0.00%
Covered payroll (c)	$ 2,754,322	N/A	
Unfunded actuarial accrued liability as a A percentage of covered payroll ([(a) – (b)] / (c))	36.8%	N/A	

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

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 benefit costs between the City and the 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 the actuarial value of assets. Significant methods and assumptions are displayed on the next page:

NOTE 12 - Postemployment Benefits Other Than Pensions (Continued):

	CWHIP	PEBP
Actuarial valuation date	01/01/11	01/01/11
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level % of Pay	Level Dollar
Amortization period (open and closed)	30 years	27 years
Asset valuation method	Market value	Market value
Actuarial Assumptions:		
Investment rate of return	4.00%	4.00%
Projected salary increases	4.00%	4.00%
Health care inflation rate*	6.00%	6.00%

*Decreasing 1.0% each year until ultimate trend rate of 5.0% is reached

NOTE 13 - Commitments:

As of June 30, 2014 the City had the following construction commitments outstanding

Project Description	Commitment Authorization	Project Expended/Retainage	Balance at June 30, 2014
Firehouse Project	$ 1,665,397	$ 1,217,651	$ 447,746
Airport Layout Project	80,000	58,496	21,504
Winnemucca Blvd and Melarkey Intersection Project	550,000	-	550,000
Total Commitments	$ 2,295,397	$ 1,276,147	$ 1,019,250

NOTE 14 - Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The unavailable revenues are from two sources, property taxes and special assessments.