

**CITY OF HAILEY, IDAHO**

**Financial Statements**

**Year Ended September 30, 2011**

**CITY OF HAILEY, IDAHO**  
**Financial Statements**  
**For the year ended September 30, 2011**

**Table of Contents**

Independent Auditor's Report .....	1	
Required Supplementary Information - Part I		
Management's Discussion and Analysis .....	2-7	
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets .....	8	
Statement of Activities .....	9	
Fund Financial Statements:		
Balance Sheet .....	10	
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	11	
Statement of Revenues, Expenditures and Changes in Fund Balances .....	12	
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	13	
Proprietary Funds:		
Statement of Net Assets .....	14	
Statement of Revenues, Expenditures, and Changes in Net Assets .....	15	
Statement of Cash Flows .....	16	
Notes to the Financial Statements .....	17-27	
Required Supplementary Information - Part II		
General Fund Budgetary Comparison Schedule .....	28-29	
Capital Improvement Fund Budgetary Comparison Schedule .....	30	
Debt Service Fund Budgetary Comparison Schedule .....	31	
Water Fund Budgetary Comparison Schedule .....	32	
Wastewater Fund Budgetary Comparison Schedule .....	33	
Supplementary Information - Part III		
Bond - Future Principal and Interest Requirements .....	34-36	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the General Purpose Financial Statements Performed in Accordance with Government Auditing Standards .....		37



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INDEPENDENT AUDITOR'S REPORT

December 21, 2011

To the Honorable Mayor and City Council  
City of Hailey  
Hailey, Idaho

I have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Hailey, Idaho, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hailey, Idaho's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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 general purpose 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the business-type activities of the City of Hailey, Idaho as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 21, 2011, on my consideration of the City of Hailey, Idaho's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information, on pages 2-7 and 28-33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Also, the information presented as supplementary information on pages 34-36 is not a required part of the basic financial statements. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

DENNIS R. BROWN  
Certified Public Accountant

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**September 30, 2011**

This section of the City of Hailey's annual financial report presents management's discussion and analysis of the City's financial performance during the year ended September 30, 2011. Please use this information in conjunction with the information furnished in the City's financial statements.

### FINANCIAL HIGHLIGHTS

- The total assets of the City of Hailey exceeded its liabilities at September 30, 2011 by \$23,059,899. Of this amount \$2,100,213 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2011 the City's total net assets increased \$ 778,150. Net assets of the governmental activities increased \$ 489,160 and net assets of business type activities increased \$ 288,990.
- Total fund balance of governmental funds at September 30, 2011 was \$3,165,361 compared to a total governmental fund balance at September 30, 2010 of \$6,785,134. This decrease is due in large measure to proceeds of the sale of general obligation bonds to construct the Rodeo Park project in the amount of \$3,425,000 reported in 2010.
- The City has \$8,356,559 in long-term debt, including debt still remaining on a water system loan, sewer revenue bond, general obligation bonds (Rodeo Park), and accrued compensated absences.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of five parts – management discussion and analysis, the government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information.

#### Government- Wide Financial Statements

These statements report information about all of the operations of the City using accounting methods similar to those used by private sector businesses.

The government-wide financial statements are divided into two categories:

The Statement of Net Assets presents 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.

The Statement of Activities presents information showing how government's 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. This accrual basis of accounting requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred. Items such as uncollected taxes, unpaid vendor invoices for items received in the previous year, and earned but unused paid time off will be included in the statement of activities as revenues and expenses, even though the cash associated with these items will not yet be received or distributed.

## Management's Discussion and Analysis, Continued

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government 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). Examples of the government type activities of the City of Hailey include general government, administration and community development, public safety and emergency services activities, and street maintenance, parks and library operations. The major business-type activities of the City include the water and wastewater systems.

### Fund Financial Statements

The Fund financial statements provide information about the City's major *funds*, not the City as a whole. The City uses fund accounting to separate specific sources of funds and corresponding expenditures. Funds may be required by law or may be established by the City Council to segregate funds for specific activities or objectives. The City of Hailey has the following funds:

Governmental Funds: These funds encompass the City's basic governmental, administrative and community development services, public safety and emergency services, and street maintenance, parks and library operations. These are essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on short-term inflows and outflows of resources. Information provided by these statements provides a short-term view of what resources will be available to meet needs.

The City of Hailey has four governmental funds:

General Fund – The general fund is the general operating fund of the City. It derives most of its income from property tax, state taxes, franchises and fees for services, thereby funding operations.

Debt Service Fund – The Debt Service Fund is used to account for financial resources derived from the tax levied to pay off general obligation bond debt.

Capital Improvement Fund – The Capital Improvement Fund is used to account for financial resources to be used for the acquisition of major capital facilities, equipment, and assets. It is shown, in the financial statements, as a restricted fund, created in 2009 by the Hailey City Council. Following the acquisition or construction of major capital facilities, the capital assets then become depreciable assets in their respective General or Proprietary Funds.

Grants Fund – In 2010, the Hailey City Council established a Grant Fund, developed for the purpose of transparency and accountability in tracking city-wide grant programs, including grant revenues, in-kind and cash matches from appropriate city funds, and total grant expenditures. Each grant project is tracked separately within the fund, and the fund captures the entire grant program. At the end of each fiscal year the total revenues and expenses of each grant project are allocated to the respective General or Proprietary fund, where capital facilities become depreciable assets and operating programs developed through grants are either discontinued or assumed by the city under the proper department budget.

Proprietary Fund: User fees finance activities in these funds. The City of Hailey only has one type of propriety fund, the enterprise fund. The water and wastewater utilities and all the activities necessary to support their operation, including system component development, improvement, or replacement, are accounted for in this fund. Accounting for this fund is the same as a private business on a full accrual basis.

### Notes to the Financial Statements

The notes provide additional information that is necessary to fully understand the data presented in the government-wide and fund financial statements.

## Management's Discussion and Analysis, Continued

### Required Supplementary Information

This section has information that further explains and supports the information in the financial statements by including a comparison of the City's financial data from the current and prior years.

## FINANCIAL ANALYSIS OF THE CITY OF HAILEY AS A WHOLE

A comparison of the City of Hailey's Assets, Liabilities and Net Assets

<b>ASSETS</b>	<b>2009-2010</b>	<b>2010-2011</b>
Current and Other Assets	\$ 12,405,017	\$ 9,301,121
Capital Assets - Net	<u>19,636,152</u>	<u>23,080,053</u>
Total Assets	32,041,169	32,381,174
<b>LIABILITIES</b>		
Current Liabilities	870,036	1,650,259
Long Term Liabilities	<u>8,889,384</u>	<u>7,671,016</u>
Total Liabilities	9,759,420	9,321,275
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Debt	10,988,165	15,010,606
Restricted	9,561,677	5,949,080
Unrestricted	<u>1,731,907</u>	<u>2,100,213</u>
Total Net Assets	\$ <u>22,281,749</u>	\$ <u>23,059,899</u>

### Net Assets

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). The total assets of the City of Hailey exceeded its liabilities at September 30, 2011 by \$23,059,899, an increase of \$788,150 over the previous year's net asset balance of \$22,281,749. Of this amount \$2,100,213 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$368,306 more than the previous year's unrestricted amount of \$1,731,907. The unrestricted net assets equal 9.1% of net assets. This increase is due to the city having expended less than revenues in both the governmental and business-type activities in the current year and not restricting the excess.

The largest portion of the City's net assets, 65.1%, is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and infrastructure, and are used to provide services to the citizens and are not available for future spending. Although the investment in 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. The City's net fixed assets increased in book value by \$3,443,901, which sum is comprised largely of the monies expended on the Rodeo Park project and other smaller capital projects.

## **Management's Discussion and Analysis, Continued**

### **Changes in Net Assets**

During the year the City's financial position increased by \$778,150, compared to the previous year ending September 30, 2010, during which the City's financial position decreased by \$49,569. This increase is due to the city having expended less than revenues in both the governmental operating and business-type activities in the current year and adding several fixed assets of significant value.

### **Governmental Activities:**

Governmental activities increased the City's net assets by \$489,160, compared to the previous year's increase of \$293,353. In both years, operational expenses were budgeted and managed such that they did not exceed operational revenues. Grant revenues were increased over the previous year, which funded an increase in fixed assets.

**Business-Type Activities:** Business-type activities increased net assets by \$288,990, compared to the previous year's decrease of \$342,922. Both an increase in revenue and a decrease in expenses effected this positive change. Grant revenues were increased over the previous year, which funded an increase in fixed assets.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

### **Governmental Funds**

**General Fund** - The general fund balance at September 30, 2011 was \$772,114 compared to a \$711,388 operations component the previous year. This amount contains a non-binding endowment for fireworks display, contributed from donations, of \$96,485.

**Capital Improvement Fund** – The capital fund was established in fiscal year 2009 with a transfer of \$2,590,609 of annexation fees which had previously been accounted for in general, water, and wastewater operating funds, and reported a fund balance at September 30, 2010 of \$2,532,244. In 2011 several capital projects were launched, decreasing the capital fund balance at September 30, 2011 to \$1,760,771.

**Debt Service Fund** -- The debt service fund was established in 2010 to account for the bond proceeds of the Rodeo Park project. These bonds are general obligation and will be paid from the general funds of the City over the next ten years.

**Grant Fund** –The grant fund has been created to track city-wide grant programs, including grant revenues, in-kind and cash matches from appropriate city funds, and total grant expenditures. Within the fund, each grant project is tracked separately. At fiscal year end these captured project amounts are transferred out to the government fund or enterprise fund in which the grant activity or depreciable asset should reside.

### **General Fund Budgetary Highlights**

The City of Hailey monitored its expenses to remain below revenues throughout the fiscal year. The general fund revenues were \$7,497 less than budgeted. General fund expenses were held at \$68,223 less than budgeted, for a year-end excess in revenues over expenses of \$60,726, compared to the previous year's surplus of \$30,400.

### **Capital Improvement Fund Budgetary Highlights**

Hailey launched two multi-million dollar capital projects in 2010, spending \$3,143,203 on the Rodeo Park arena and skatepark in 2011, of which amount \$2,946,195 was funded through a transfer in from the voter approved bond fund and \$308,050 in donations were accepted for the project. Design and engineering expenses for the Woodside Boulevard Complete Streets Initiative Project also continued into 2011 with an expense of \$828,152. Design and engineering expenses of \$37,853 were spent on a new conceptual project to improve three blocks of River Street. In addition, capital funds were spent on a park projects, including a new demonstration garden and the addition of restrooms at the expanded RV dump station.

## Management's Discussion and Analysis, Continued

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal year 2011 the City had \$23,080,053 invested in capital assets (net of accumulated depreciation) compared to last year's \$19,636,152, an increase of \$3,443,901 compared to the previous year's decrease of \$287,711. Net capital assets of governmental activities increased by \$3,443,901 and those of business-type activities decreased by \$385,950 in the current period. The City investment in capital assets includes land, facilities, park improvements, automobiles and equipment, street lights, and sidewalks.

#### Long-Term Debt

The City has a 20-year sewer revenue bond of \$4.5 million, a long-term debt obligation through 2021. The current amount owed on the debt is \$2,800,000. The permanent financing of the Quigley Canyon water storage facility of \$2,400,000 has been recorded and the balance on this 20 year DEQ loan is \$ 2,182,907. The City sold general obligation bonds of \$3,425,000 at a premium of \$136,648 in 2010 to finance the Rodeo Park project over 10 years.

The City's maximum general obligation debt capacity is 2% of the taxable assessed value of properties within the city limits. At the end of September, 2011, the city's taxable assessed value was \$854,496,507. The 2% general obligation bond debt capacity of \$17,089,930 is now reduced by the outstanding general bond obligation of \$3,140,000, leaving the City with a general obligation bond debt capacity remaining of \$13,949,930.

Hailey has met the principal and interest payments on outstanding bonds and other indebtedness in the past 10 years when due. Additionally, no refunding bonds have been issued for the purpose of preventing an impending default. Hailey's ability to pay its general obligation long-term debt is reliant on property tax payments. The assessed net taxable value of properties within the city has been in decline since a peak in values in 2008.

#### Assessed Market Values of Taxable Property and Tax Collection Record

Year	Full Market Value	Homeowner's Exemption	Net Taxable Value	General Tax Levied	Bond Tax Levied	General Tax Collected for previous year	Bond Tax Collected for previous year
Jan 12 <sup>1</sup>	1,004,408,428	149,911,921	854,496,507	-	-	-	-
Jan 11	1,236,317,415	170,874,128	1,065,443,287	1,928,539	399,703	1,887,491	381,688
Jan 10	1,460,667,411	181,921,576	1,278,745,835	1,925,951		1,789,714	
Jan 09	1,580,943,641	176,823,018	1,404,120,623	1,870,361		1,803,834	
Jan 08	1,590,462,395	155,321,416	1,435,140,979	1,812,638		1,721,818	

### FY11 BUDGETARY CONSIDERATIONS

The City of Hailey bases its operating budgets on a revenue analysis and projection. The City manages its general fund cash such that a minimum fund balance of 10% of budget is needed to meet its obligations throughout the year, particularly in the first quarter of each year. Expenses will continue to be budgeted moderately as the fund balance target is increased to 20% of budget to create emergency contingencies within the general fund. With the FY 2012 general fund adopted budget at \$4,459,750, and the increase in fund balance now at \$793,813, the current fund balance is 17% of the FY 2012 budget.

The enterprise fund budgets carry a significant cash reserve, which allows the City to adjust its user fees to a declining base rate and an increasing metered-usage rate. Having completed a meter-installation project and begun city-wide metered billing in October 2008, the City has since incrementally amended its rates to encourage water conservation and to afford users better personal management of their impact upon the City's water and sewer system and its budget. During the same time period as these new rate structures are progressively implemented, the enterprise fund expenses have been systematically reduced in an effort to hold overall costs as low as possible for rate payers.

<sup>1</sup> Information as of August 1, 2011



## **Management's Discussion and Analysis, Continued**

The City of Hailey achieved a planned separation of capital improvement funds from general operating funds during the 2009 year. This separation of funds has benefited the city in several ways: 1) operational revenue and expenses are tracked and monitored against their own cash flow; 2) capital projects are budgeted and the funds spent without detriment to operations or operational cash flow; 3) a former practice of utilizing capital fund balance to defray first quarter operating expenses have been discontinued; and 4) the financial position of the City of Hailey is stated more clearly in its financial reports.

The City began earnest efforts in 2010 to launch planned capital improvements by utilizing its capital improvement funds as matching funds for eligible grants. With reduced staff and resources, the City's grant effort has also focused on operational expense recovery through meaningful grants. In its 2011 budgeting process, the City of Hailey adopted as part of its budget a Grant Fund, through which transparency and accountability within the grant program is monitored and by which the impact of the grant program can be clearly seen. The City tracks, through the grant fund, all of the grant revenue, as well as the City's in-kind contributions and its cash contributions, which are transferred to the grant fund monthly as an inter-fund receivable. All of the expenses are then captured by project within the grant fund, and at fiscal year end transferred out to the government fund or enterprise fund in which the grant activity or depreciable asset should reside.

The City of Hailey developed 2011 expense policies for its capital and grant projects as follows: All salary and fringe costs, as well as contractual and volunteer labor, materials, and equipment costs are captured through a project code as project expenses, from the project's conceptual inception to its completion. The project budget is developed, and identified by its predominant funding source as either a Capital Fund project or a Grant Fund project. Until a project is funded by the City governing body through an agreement, ordinance, resolution, or specific written approval by the grantor, all expenses except licensed contractual design and engineering costs procured solely for the project are spent from operating funds. Following the city governing body's approval of a funding agreement, ordinance, or resolution, or upon receipt of specific written approval by the grantor, project costs, including city salary and fringe costs for applied project time, may be spent from the capital or grant fund.

The City of Hailey continues to be challenged to find opportunities to control expenses in this economic climate, and find even more efficient ways of delivering services to its constituents. The City's most significant challenge will be in securing a consistent revenue source to fund capital needs within the city and to increase levels of service, both operationally and in its infrastructure.

### **Requests for Information**

This report is designed to provide a general overview of the City of Hailey's finances for our citizens and customers. If you have questions about this report or need additional financial information contact the Finance Office: 115 Main Street S., Hailey, Idaho 83333, 788-4221.

**CITY OF HAILEY, IDAHO**  
**Statement of Net Assets**  
**at September 30, 2011**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>
<b><u>ASSETS</u></b>			
Cash and Deposits	\$ 816,121	\$ 322,885	\$ 1,139,006
Investments - Unrestricted	270,479	904,354	1,174,833
Accounts Receivable	249,614	326,559	576,173
Taxes Receivable	156,356		156,356
Due From Other Governments	314,877		314,877
Inventory		115,067	115,067
Restricted Cash, Deposits, and Investments	2,268,976	3,555,833	5,824,809
Totals	4,076,423	5,224,698	9,301,121
Capital Assets:			
Land, Easements and Water Rights	2,431,674	235,391	2,667,065
Construction Projects in Process		88,741	88,741
Infrastructure	5,169,129	14,136,446	19,305,575
Buildings and Improvements	3,173,359	683,247	3,856,606
Equipment and Vehicles	5,211,033	4,439,668	9,650,701
Accumulated Depreciation	(4,570,091)	(7,918,544)	(12,488,635)
Total Capital Assets	11,415,104	11,664,949	23,080,053
<b>Total Assets</b>	<b>15,491,527</b>	<b>16,889,647</b>	<b>32,381,174</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable	492,148		492,148
Accrued Payroll and Benefits Payable	126,976	15,857	142,833
Accrued Interest Payable		45,173	45,173
Surety and Security Bonds Payable	291,938	46,084	338,022
Long-term Liabilities:			
Portion due or payable within one year:			
Bonds Payable	320,000	312,083	632,083
Portion due or payable after one year:			
Bonds and Loans Payable	2,820,000	4,670,824	7,490,824
Unamortized Bond (Premium) Discount	(122,983)	69,523	(53,460)
Compensated Absences	198,840	34,812	233,652
<b>Total Liabilities</b>	<b>4,126,919</b>	<b>5,194,356</b>	<b>9,321,275</b>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets - net of related debt	8,398,087	6,612,519	15,010,606
Restricted For:			
Debt Service	632,476	3,555,833	4,188,309
Capital Improvements	1,760,771		1,760,771
Unrestricted	573,274	1,526,939	2,100,213
<b>Total Net Assets</b>	<b>\$ 11,364,608</b>	<b>\$ 11,695,291</b>	<b>\$ 23,059,899</b>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Activities**  
**For the Year Ended September 30, 2011**

Activities:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>Governmental:</b>						
General Government	\$ 825,004	\$	\$ 113,504	\$ (711,500)		\$ (711,500)
Public Protection:						
Public Safety	1,886,554	437,772	84,439	(1,364,343)		(1,364,343)
Streets	832,127			(832,127)		(832,127)
Parks and Recreation	221,712	16,220	364,858	159,366		159,366
Library	466,024	18,902	14,358	(432,764)		(432,764)
Interest on Long-Term Debt	72,883			(72,883)		(72,883)
Unallocated Depreciation	441,322			(441,322)		(441,322)
Total Governmental Activities	4,745,626	472,894	577,159	(3,695,573)		(3,695,573)
<b>Business Type:</b>						
Water	1,157,249	1,302,448	31,805		\$ 177,004	177,004
Wastewater	1,178,388	1,313,334	126,088		261,034	261,034
Interest - on long-term debt	218,921				(218,921)	(218,921)
Total Business-type Activities	2,554,558	2,615,782	157,893		219,117	219,117
Total City of Hailey, Idaho	\$ 7,300,184	\$ 3,088,676	\$ 735,052	(3,695,573)	219,117	(3,476,456)

General Revenues:

Property taxes	2,326,329		2,326,329
Local Option sales taxes	327,332		327,332
Franchises, licenses, permits	455,476		455,476
State of Idaho revenue sharing	430,625		430,625
State of Idaho sales tax	75,729		75,729
State of Idaho liquor receipts	139,509		139,509
State highway user collections	269,393		269,393
Penalty and interest on property taxes	12,272		12,272
County court fines	52,554		52,554
Earnings on investments	47,026	69,873	116,899
Miscellaneous	48,488		48,488
Gain on Sale of Assets			0
Total general revenues	4,184,733	69,873	4,254,606
Net Transfers In (Out)			0
Changes in net assets	489,160	288,990	778,150
Net Assets - Beginning	10,875,448	11,406,301	22,281,749
Net Assets - Ending	\$ 11,364,608	\$ 11,695,291	\$ 23,059,899

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Balance Sheet**  
**Governmental Funds**  
for the year ended September 30, 2011

	<b>General Fund</b>	<b>Capital Improvement Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS:</b>				
Cash and Deposits	\$ 816,121	\$ 683,635	\$ 361,891	\$ 1,861,647
Investments	270,479	969,957	253,493	1,493,929
Accounts Receivable	249,614			249,614
Due From Other Governments	207,698	107,179		314,877
Property Taxes Receivable	139,264		17,092	156,356
Total Assets	1,683,176	1,760,771	632,476	4,076,423
 <b>LIABILITIES:</b>				
Accounts Payable	492,148			492,148
Accrued Payroll Expenses	126,976			126,976
Surety and Security Bonds Payable	291,938			291,938
Total Liabilities	911,062	0	0	911,062
 <b>FUND BALANCE:</b>				
General Fund	772,114			772,114
Capital Project Funds		1,760,771		1,760,771
Debt Service Fund			632,476	632,476
Total Fund Balance	772,114	1,760,771	632,476	3,165,361
Total Liabilities and Fund Balance	\$ 1,683,176	\$ 1,760,771	\$ 632,476	\$ 4,076,423

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**for the year ended September 30, 2011**

Total Governmental Fund Balances (Page 10)	\$ 3,165,361
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. The cost of assets is \$ 15,985,195 less accumulated depreciation \$ 4,570,091	11,415,104
Long-term liabilities, including bonds, capital leases payable and compensated absences are not payable in the current period and therefore are not reported in the governmental funds	(3,215,857)
Net Assets of Governmental Activities (Page 8)	<hr/> <u>\$ 11,364,608</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**for the year ended September 30, 2011**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUE:</b>				
Property taxes	\$ 1,927,549	\$	\$ 398,105	\$ 2,325,654
Local Option sales taxes	327,332			327,332
Franchises, licenses, permits	455,476			455,476
State of Idaho shared revenue	430,625			430,625
State of Idaho sales tax	75,729			75,729
State of Idaho liquor receipts	139,509			139,509
State highway user collections	269,393			269,393
Penalty and interest on property taxes	12,272		675	12,947
County court fines	52,554			52,554
Fees, fines and charges for services	394,760	78,134		472,894
Grants	256,586			256,586
Contributions	12,523	308,050		320,573
Earnings on investments	11,729	25,360	9,937	47,026
Miscellaneous	48,488			48,488
	<u>4,414,525</u>	<u>411,544</u>	<u>408,717</u>	<u>5,234,786</u>
Total Revenue				
<b>EXPENDITURES:</b>				
General Government	947,382			947,382
Public Safety	1,886,554			1,886,554
Streets	832,127			832,127
Parks and Recreation	221,712			221,712
Library	466,024			466,024
Capital outlay		4,129,212		4,129,212
Debt Service			371,548	371,548
	<u>4,353,799</u>	<u>4,129,212</u>	<u>371,548</u>	<u>8,854,559</u>
Total Expenditures				
<b>EXCESS REVENUE (EXPENDITURES)</b>	60,726	(3,717,668)	37,169	(3,619,773)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers from other funds		2,946,195		2,946,195
Operating transfers (to) other funds			(2,946,195)	(2,946,195)
	<u>60,726</u>	<u>(771,473)</u>	<u>(2,909,026)</u>	<u>(3,619,773)</u>
NET CHANGE IN FUND BALANCES				
FUND BALANCE - BEGINNING	711,388	2,532,244	3,541,502	6,785,134
FUND BALANCE - ENDING	<u>\$ 772,114</u>	<u>\$ 1,760,771</u>	<u>\$ 632,476</u>	<u>\$ 3,165,361</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**for the year ended September 30, 2011**

Net Change in Fund Balance - Total Governmental Funds (Page 12)	\$ (3,619,773)
<p>Governmental funds report capital outlays as current year expenditures. In the Statement of Activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of current capital outlay for new fixed assets.</p>	
This is the amount of current year depreciation.	(441,322)
This is the amount of new Governmental Fund assets.	4,257,509
This is the amount of disposed of Governmental Fund assets.	0
<p>Long term liabilities are not recorded in the Governmental funds. Principle and interest paid on capital debt are recorded as expenditures in the Governmental Funds. Principle amounts paid are not recorded as expenditures in the Statement of Net Assets.</p>	
This is the amount of current year principle payments on capital debt.	285,000
<p>Liability for personal leave days are not recorded in Governmental funds.</p>	
This is the decrease in compensated leave during the year.	<u>7,746</u>
Change in Net Assets of Governmental Activities (Page 9)	\$ <u><u>489,160</u></u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Net Assets**  
**Proprietary Funds**  
**at September 30, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>Assets:</b>			
Current Assets:			
Cash and Deposits	\$ 305,155	\$ 17,730	\$ 322,885
Investments - Unrestricted	638,580	265,774	904,354
Accts receivable - customers	209,930	116,629	326,559
Inventory	115,067		115,067
	1,268,732	400,133	1,668,865
<b>Restricted Current Assets:</b>			
Cash, Deposits, and Investments	2,384,253	1,171,580	3,555,833
Total Current Assets	3,652,985	1,571,713	5,224,698
<b>Capital Assets:</b>			
Plant and equipment	9,882,102	9,701,392	19,583,494
Accumulated depreciation	(3,716,415)	(4,202,130)	(7,918,545)
Net Plant and equipment	6,165,687	5,499,262	11,664,949
<b>Total Assets</b>	<b>9,818,672</b>	<b>7,070,975</b>	<b>16,889,647</b>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts and Interest Payable	85,488	21,626	107,114
Current portion long-term debt	92,083	220,000	312,083
Total current liabilities	177,571	241,626	419,197
<b>Noncurrent Liabilities:</b>			
Bonds Payable	2,090,824	2,580,000	4,670,824
Unamortized Bond Discount		69,523	69,523
Compensated Absences Payable	10,981	23,831	34,812
Total noncurrent liabilities	2,101,805	2,673,354	4,775,159
<b>Total Liabilities</b>	<b>2,279,376</b>	<b>2,914,980</b>	<b>5,194,356</b>
<b>Net Assets:</b>			
Investment in capital assets net of related debt	3,982,780	2,629,739	6,612,519
Restricted	2,384,253	1,171,580	3,555,833
Unrestricted	1,172,263	354,676	1,526,939
<b>Total Net Assets</b>	<b>\$ 7,539,296</b>	<b>\$ 4,155,995</b>	<b>\$ 11,695,291</b>

The accompanying notes are a part of these financial statements.



**CITY OF HAILEY, IDAHO**  
**Statement of Revenues, Expenditures, and Changes in Net Assets**  
**Proprietary Funds**  
**for the year ended September 30, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Charges for services	\$ 1,176,250	\$ 1,209,896	\$ 2,386,146
Hookups and connections	116,294	103,367	219,661
Reimbursements and Misc.	9,904	71	9,975
	<u>1,302,448</u>	<u>1,313,334</u>	<u>2,615,782</u>
Total Operating Revenue			
<b>Operating Expenses:</b>			
Salaries and benefits	494,066	532,725	1,026,791
Administrative and supplies	351,084	320,129	671,213
Depreciation	312,099	325,534	637,633
	<u>1,157,249</u>	<u>1,178,388</u>	<u>2,335,637</u>
Total Operating Expenses			
<b>Operating Income (Loss)</b>	<u>145,199</u>	<u>134,946</u>	<u>280,145</u>
<b>Nonoperating Revenues (Expenses):</b>			
Interest Income	47,650	22,223	69,873
Interest Expense	(78,404)	(140,517)	(218,921)
Gain (Loss) on asset disposal			0
Other Grants and Miscellaneous	31,805	126,088	157,893
	<u>1,051</u>	<u>7,794</u>	<u>8,845</u>
Total Nonoperating			
<b>Income before transfers</b>	<u>146,250</u>	<u>142,740</u>	<u>288,990</u>
Transfers in			
Transfers out			0
<b>Net Income</b>	146,250	142,740	288,990
<b>Total Net Assets - Beginning</b>	<u>7,393,046</u>	<u>4,013,255</u>	<u>11,406,301</u>
<b>Total Net Assets - Ending</b>	<u>\$ 7,539,296</u>	<u>\$ 4,155,995</u>	<u>\$ 11,695,291</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**for the year ended September 30, 2011**

	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>			
Receipts from customers	\$ 1,244,653	\$ 1,454,151	\$ 2,698,804
Payments to suppliers	(346,661)	(267,178)	(613,839)
Payments to employees	(494,067)	(590,420)	(1,084,487)
Other receipts	9,904	71	9,975
Net cash provided (used) by operations	413,829	596,624	1,010,453
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Purchase and construction of capital assets	(31,805)	(219,879)	(251,684)
Grants	31,805	126,088	157,893
Principal paid on capital debt	(88,301)	(288,427)	(376,728)
Interest paid on capital debt	(78,404)	(140,517)	(218,921)
Net cash provided (used) by capital and related financing activities	(166,705)	(522,735)	(689,440)
<b>Cash Flows From Investing Activities:</b>			
Interest Income	47,650	22,223	69,873
<b>Net Increase (Decrease) in Cash and Equivalents</b>	294,774	96,112	390,886
<b>Balances - Beginning of the year</b>	3,033,214	1,358,972	4,392,186
<b>Balances - Ending of the year</b>	\$ 3,327,988	\$ 1,455,084	\$ 4,783,072
Displayed as:			
Pooled Cash and Investments	943,735	283,504	1,227,239
Restricted Assets	2,384,253	1,171,580	3,555,833
<b>Balances - Ending of the year</b>	\$ 3,327,988	\$ 1,455,084	\$ 4,783,072
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating Income (Loss)	146,250	142,740	288,990
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	312,099	325,534	637,633
Changes in assets and liabilities:			
Receivables, net	(47,891)	140,888	92,997
Inventory	(180)	0	(180)
Compensated Absences	1	0	1
Accounts and other payables	3,550	(12,538)	(8,988)
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ 413,829	\$ 596,624	\$ 1,010,453

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hailey, Idaho was incorporated in 1909. The City operates under a Mayor-Council form of government and provides the following services: public safety, public works, recreation, social services, and community development. The City also provides water and waste water services which are financed by user charges. The significant revenues and receivables are generated by the residents of the City of Hailey through property tax and water and waste water charges.

The financial statements of the City of Hailey have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**1. Financial Reporting Entity**

The City's financial statements include the accounts of all operations under the oversight authority of the City Council and those of separately administered organizations over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**3. Measurement Focus and Basis of Accounting**

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City of Hailey uses an availability period of sixty days. Expenditures are recorded when the related liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales of services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**4. Fund Accounting**

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**GOVERNMENTAL FUNDS**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources not reported in another fund.

**Debt Service Funds** — The debt service fund is used to account for the accumulation of financial resources for the payment of principal and interest on the City's governmental debt.

**PROPRIETARY FUNDS**

**Enterprise Funds** - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Enterprise funds include the Water and Waste Water funds.

**OTHER FUND TYPES**

The City also reports the following fund types:

**Capital Projects Funds** - These funds account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

**Fiduciary Funds** - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds, non-expendable trust funds, and agency funds. The City currently does not have any agency funds.

**5. Budgetary Data**

The City of Hailey follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the city clerk submits to the City Council a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. After reviewing the preliminary budget, the City Council sets a public budget hearing to obtain taxpayer comments.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

- c. Prior to October 1, the budget is legally enacted through passage of an ordinance.

The budget is prepared on the modified accrual basis of accounting, as described above. The City does not use the encumbrance method of accounting.

**6. Cash and Cash Equivalents**

The City maintains and controls cash and investment pools in which the primary government funds share. Each fund's portion of a pool is displayed on its respective balance sheet.

For purposes of the Statement of Cash Flows, the enterprise funds consider cash and cash equivalents to include cash on hand and all amounts on deposit with financial institutions.

**7. Inventory**

Inventories in governmental funds are considered to be immaterial and are not reported. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

**8. Capital Assets, Depreciation, and Amortization**

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The City has not, nor is required to retroactively report infrastructure assets. The City has capitalized all acquired infrastructure after October 1, 2003.

Estimated useful lives, in years, for depreciable assets are as follows:

Building and Improvements	20-50
Equipment	5-15
Infrastructure	15-20
Books	5-10
Trucks and Vehicles	3-10

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2011**

Continued...

**9. Long-Term Debt**

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

Interest Rate Risk — The City does not have a formal investment policy that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk — The City has no investment policy which would further limit its investment choices beyond those stated in Idaho Code. The City's investment in the State Treasurer's Investment Pool is not currently rated. All deposits in the State Investment Pool are either FDIC insured or fully collateralized, with securities held in trust by the State Treasurer but not in the name of the City of Hailey

Concentration of Credit Risk — The City places no limit on the amount to invest in any one issuer.

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 to it. The City does not have a deposit policy for custodial credit risk. The City's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The cash is recorded in terms of US currency and consists of:

	<b><u>Carrying Amount</u></b>	<b><u>Bank Balance</u></b>
Cash on Hand	\$ 300	\$ 300
Mountain West – Checking	(17,716)	(17,716)
Bank of America - Checking	8,278	8,278
Chase Bank – Checking	13,757	13,757
Certificates of Deposit:		
Wells Fargo Bank	268,233	268,233
Ireland Bank	253,493	253,493
DL Evans Bank	270,479	270,479
Bank of the West	261,835	261,835
Bank of America (3)	276,332	276,332
Zions Bank	265,774	265,774
US Bank	269,119	269,119
Mountain West Bank	178,760	178,760
State of Idaho LGIP	4,056,580	4,056,580
Piper Jaffray Investments	2,081,665	2,081,665
Totals	<u>\$ 8,186,889</u>	<u>\$ 8,186,889</u>

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

There are three categories of credit risk that apply to the City's cash and investments:

- 1) Insured or collateralized or for which the securities are held by the City or the City's agent in the City's name;
- 2) Uninsured and uncollateralized; or
- 3) Uninsured and unregistered for which the securities are held by the counter party or by its trust department or agent but not in the City's name. This category also includes repurchase agreements with no underlying securities.

Balances are held in each category as follows:

	Carrying Amount		
	Categories		
	1	2	3
Deposits	\$ 1,925,101	\$ 123,543	
Investment - Piper Jaffray			\$ 2,081,665
Investment State of Idaho LGIP			4,056,580
Total Cash and Investments	\$ 1,925,101	\$ 123,543	\$ 6,138,245

Funds held in the Water and Wastewater Funds (Enterprise funds) in the amount of \$3,482,866 are reserved for repairs and replacement of the existing systems and equipment as well as repayment of existing debt. Funds held in the Capital Improvement Fund of \$1,598,175 are reserved for capital construction projects in general. The General Obligation Bond Fund reserve in the amount of \$615,384 is reserved for the construction of the Rodeo Park Project. A separate Debt Service Fund of the same amount has been established for collecting the levies to repay the bond interest and principal payments for 10 years.

**NOTE 3 - TAXES RECEIVABLE**

Property taxes are levied in November of each year and recognized as revenue when the tax notices are printed. Taxes are due in two equal installments at December and June following the levy date.

If payment is not received upon the due dates, a 2% penalty is charged and taxes are classified as past due subject to 12% interest. Taxes receivable are stated at taxes levied less amounts collected and canceled.

The City has not experienced any significant loss of delinquent taxes receivable in past years, and, therefore, does not consider it necessary to establish any allowance for uncollectible taxes receivable.

**NOTE 4 - ACCOUNTS RECEIVABLE**

The City charges for water and wastewater services and garbage collection on the first of the month. The water is metered and charged according to actual usage. The wastewater rate is based upon actual winter (non-irrigation) water usage. Water and wastewater are billed in arrears; garbage collection is prepaid. The balance of accounts receivable is for billings occurring Sept 30 and prior. Due to water and wastewater services that would be terminated if an account goes 90 days overdue, very few accounts become uncollectible.



**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2011, is as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Governmental Activities:</b>				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 2,431,674	\$	\$	\$ 2,431,674
Construction in Progress				
Total	<u>2,431,674</u>	<u>0</u>	<u>0</u>	<u>2,431,674</u>
 <i>Capital Assets being depreciated:</i>				
Buildings & Improvements	3,173,359			3,173,359
Infrastructure	1,015,737	4,153,392		5,169,129
Vehicles and Equipment	<u>5,093,252</u>	<u>117,781</u>		<u>5,211,033</u>
Total	9,282,348	4,271,173	0	13,553,521
Less: Accumulated Depreciation:	<u>(4,128,769)</u>	<u>(441,322)</u>		<u>(4,570,091)</u>
Total Net Depreciated Assets	<u>5,153,579</u>	<u>3,829,851</u>	<u>0</u>	<u>8,983,430</u>
 Governmental capital assets, net	 \$ <u>7,585,253</u>	 \$ <u>3,829,851</u>	 \$ <u>0</u>	 \$ <u>11,415,104</u>
 <b>Business-type activities:</b>				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 235,391	\$	\$	\$ 235,391
Construction in Progress		88,742		88,742
Total	<u>235,391</u>	<u>88,742</u>	<u>0</u>	<u>324,133</u>
 <i>Capital Assets being depreciated:</i>				
Buildings & Improvements	683,247			683,247
Infrastructure	14,034,353	102,093		14,136,446
Vehicles and Equipment	<u>4,290,078</u>	<u>149,590</u>		<u>4,439,668</u>
Total	19,007,678	251,683	0	19,259,361
Less: Accumulated Depreciation	<u>(7,280,911)</u>	<u>(637,633)</u>		<u>(7,918,544)</u>
Total Net Depreciated Assets	<u>11,726,767</u>	<u>(385,950)</u>	<u>0</u>	<u>11,340,817</u>
 <b>Business-type capital assets, net</b>	 \$ <u>11,962,158</u>	 \$ <u>(297,208)</u>	 \$ <u>0</u>	 \$ <u>11,664,950</u>

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**NOTE 6 - VOUCHERS PAYABLE AND ACCRUED LIABILITIES**

Vouchers payable and accrued expenses are stated at cost and are recognized liabilities for goods and services rendered to the City as of September 30.

**NOTE 7 - ACCRUED COMPENSATED ABSENCES**

Compensated absences for vacation pay, sick pay and “comp” time have been accrued. “Comp” time is computed at the rate of 1-hour overtime equals 1.5 hours off. Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. Such compensation in the governmental fund financial statements will be paid from future resources of the City and is, therefore, reported only if matured compensated absences are payable to currently terminating employees, when it is included in accrued payroll and benefits.

**NOTE 8 - LONG-TERM OBLIGATIONS**

The City has entered into the following agreements.

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9/30/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amount Outstanding 9/30/2011</u>	<u>Amount Due 1 Year</u>
<b>GENERAL FUND</b>							
<b>Bonds Payable:</b>							
General Obligation							
Bonds 2010	8/1/2020	Variable	\$ 3,425,000		\$ (285,000)	\$ 3,140,000	\$ 320,000
<b>Other:</b>							
Accrued Compensated							
Absences	N/A		<u>206,586</u>	<u>          </u>	<u>(7,746)</u>	<u>198,840</u>	<u>          </u>
<b>Total General Fund</b>			<b>\$ <u>3,631,586</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>(292,746)</u></b>	<b>\$ <u>3,338,840</u></b>	<b>\$ <u>320,000</u></b>
<b>PROPRIETARY FUND</b>							
<b>Bonds and Loans Payable:</b>							
Sewer Revenue Bond	3/1/2021	Variable	\$ 3,088,427		\$ (288,427)	\$ 2,800,000	\$ 220,000
Water DEQ Loan	11/12/2028	3.50%	2,271,208		(88,301)	2,182,907	92,083
<b>Other:</b>							
Accrued Compensated							
Absences	N/A		<u>34,811</u>	<u>\$ 1</u>	<u>          </u>	<u>34,812</u>	<u>          </u>
<b>Total Proprietary Fund</b>			<b>\$ <u>5,394,446</u></b>	<b>\$ <u>1</u></b>	<b>\$ <u>(376,728)</u></b>	<b>\$ <u>5,017,719</u></b>	<b>\$ <u>312,083</u></b>

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**NOTE 9 -SEWER REVENUE BONDS**

On April 17, 2001, the City of Hailey issued revenue bonds to advance refund a Department of Environmental Quality (DEQ) loan of \$4,500,000. The bonds were sold at a discount causing an additional cash flow requirement over the life of the new loan in the amount of \$161,280.

Revenues of the Waste Water Fund serve as collateral for bond payments. A bond maturity and interest schedule of the issued bonds is contained in the schedule on page 35 of these financial statements.

The Sewer Revenue Bond payable is comprised of the following:

Sewer Revenue Bonds Outstanding	\$ 2,800,000
Unamortized Interest Expense	<u>69,523</u>
Total	<u>\$ 2,869,523</u>

**NOTE 10 – WATER LOAN PAYABLE**

In 2007 the City of Hailey constructed a two million gallon drinking water storage facility in Quigley Canyon with monies borrowed from the State of Idaho Revolving Loan Fund. This loan was satisfied in 2009 with permanent financing through an Idaho Department of Environmental Quality Drinking Water Revolving Loan Program promissory note in the amount of \$2,400,000. The loan requires semi-annual principle and interest payments over a twenty (20) year period. The loan bears a fixed interest rate of 3.50%.

Revenues of the Water Fund serve as collateral for loan payments. A loan maturity and interest schedule of the issued loan is contained in the schedule on page 35 of these financial statements.

**NOTE 11 – GENERAL OBLIGATION BONDS PAYABLE**

In 2010 the City of Hailey sold \$ 3,425,000 of General Obligation Bonds to construct the project entitled Rodeo Park. This project will reconstruct the rodeo grounds, improve the skate park and construct an ice skating facility. These bonds will be repaid from the general revenues of the City under the schedule of payments on page 36 of these financial statements. The bonds were sold at a premium that will be amortized over the life of the bonds.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**NOTE 12 - EMPLOYEE RETIREMENT PLAN**

Public Employee Retirement System of Idaho - The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive forty-two months.

The contribution requirements of the City of Hailey and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2011, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighters. The City of Hailey contributions required and paid were \$ 281,111, \$303,376 and \$304,757 for the three years ended September 30, 2011, 2010, and 2009 respectively.

**NOTE 13 - INVESTMENT IN JOINT VENTURE - FRIEDMAN MEMORIAL AIRPORT**

Effective October 1, 1994, Blaine County, Idaho and the City of Hailey, Idaho entered into a Joint Powers Agreement creating the Friedman Memorial Airport Authority for the purpose of operating and managing airport activities in the City of Hailey, Idaho. The Authority is a public entity of the State of Idaho and therefore the Authority's income is exempt from Federal and Idaho income taxes. A five-member board governs the Airport Authority with two members representing Blaine County, two members representing the City of Hailey and one member who is unanimously selected by the other four members. The Authority has hired employees to provide for the day-to-day operations and management.

Pursuant to the Joint Powers Agreement, all buildings, improvements, facilities, equipment, and personal property used by the Authority were conveyed by Blaine County and the City of Hailey to the Authority for use and benefit of the Authority and title thereof shall be held by the Authority. Upon termination of this Agreement, title to all buildings, improvements, facilities, equipment and personal property held by the Authority shall vest jointly in Blaine County and the City of Hailey.

Audited financial statements of the Friedman Memorial Airport Authority for the year ended September 30, 2011 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2011**

Continued...

**NOTE 14 -RISK MANAGEMENT**

A City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the City contracted with Idaho County Risk Management Program (ICRMP) for property, crime and fleet insurance and the State Insurance Fund for workman's compensation. Under the terms of the ICRMP policy, The City of Hailey's liability is limited to the amount of annual financial membership contributions including \$1,000 per occurrence deductible with a \$10,000 annual aggregate stop-loss. There has been no significant reduction in insurance coverage in the current year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE 15 – LITIGATION**

The City, at the financial statement date, is involved in two pending lawsuits from disputes over housing ordinances and building code regulations. The City's legal council has determined that it is not possible to determine the outcome of either of these matters. Additionally, it is not possible to determine any material effect of these matters on the financial position of the City.

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- General Fund**  
**for the year ended September 30, 2011**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
Property taxes	\$ 1,925,047	\$ 1,927,549	\$ 2,502
Local Option sales taxes	300,000	327,332	27,332
Franchises, licenses, permits:			
Alcohol Catering Licenses	1,700	1,580	(120)
Police Security	5,000	8,277	3,277
Building Permits	130,000	87,705	(42,295)
Business Licenses	45,000	41,095	(3,905)
Encroachment Permits	6,000	3,425	(2,575)
Franchises - Cable TV	75,000	70,798	(4,202)
Banner Fees	5,600	6,300	700
Franchises - Idaho Power	48,000	47,247	(753)
Franchises - Intermountain Gas	84,000	81,195	(2,805)
Franchises - Rubbish Company	72,000	72,460	460
Sign Permits	3,000	1,470	(1,530)
Fire Dept Permits	10,000	15,653	5,653
Subdivision Inspection Permits	700	450	(250)
Zoning Applications	20,000	17,820	(2,180)
Maps, Copies, and Postage	5,500	2,623	(2,877)
State of Idaho shared revenue	443,702	430,625	(13,077)
State of Idaho sales tax	73,164	75,729	2,565
State of Idaho liquor receipts	132,000	139,509	7,509
State highway user collections	263,808	269,383	5,575
Penalty and interest on property taxes	15,000	12,272	(2,728)
County court fines	60,000	52,554	(7,446)
Fees, fines and charges for services:			
HPD Traffic School	48,000	56,970	8,970
Library Fines and Memberships	21,000	18,902	(2,098)
Park Rental Fees	15,000	16,220	1,220
RV Dump Fees	400	504	104
Rubbish Bookkeeping Contract	72,000	72,488	488
Police Security Contracts	160,258	159,253	(1,005)
Police Security Contr-School	68,000	67,811	(189)
Grants	225,000	256,586	31,586
Donations and contributions	24,000	12,523	(11,477)
Earnings on investments	5,822	11,729	5,907
Miscellaneous:			
Property Sales	0	1,302	1,302
Refunds and Reimbursements	25,000	4,958	(20,042)
Mutual Aid Reimbursements	33,321	42,228	8,907
Other			0
<b>Total Revenue</b>	<u>4,422,022</u>	<u>4,414,525</u>	<u>(7,497)</u>

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- General Fund**  
**for the year ended September 30, 2011**

Continued.....

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>EXPENDITURES:</b>			
General Government:			
Legislative Department	225,773	223,144	2,629
Finance and Records	269,903	272,755	(2,852)
Planning	222,783	231,949	(9,166)
Building	120,079	95,410	24,669
Public Works	121,140	124,124	(2,984)
Public Safety:			
Police	1,450,133	1,430,132	20,001
Fire Protection	479,495	456,422	23,073
Streets	843,291	832,127	11,164
Library	470,636	466,024	4,612
Parks and Recreation	218,789	221,712	(2,923)
Total Expenditures	<u>4,422,022</u>	<u>4,353,799</u>	<u>68,223</u>
<b>EXCESS REVENUE (EXPENDITURES)</b>	0	60,726	60,726
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds			
Operating transfers (to) other funds			0
<b>NET CHANGE IN FUND BALANCES</b>	0	60,726	<u>60,726</u>
<b>FUND BALANCE - BEGINNING</b>	<u>711,388</u>	<u>711,388</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 711,388</u>	<u>\$ 772,114</u>	

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- Capital Improvement Fund**  
**for the year ended September 30, 2011**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
Capital Projects Bond Revenue	\$	\$	\$
Penalties and interest on Bond			
Annexation Fees	200,000		(200,000)
In-Lieu Fees for Capital Projects	0	24,662	24,662
DIF Parks	6,250	1,716	(4,534)
DIF Transportation	8,750	24,572	15,822
DIF Police	4,500	2,272	(2,228)
DIF Fire and EMS	5,000	24,373	19,373
DIF CIP Cost	500	6	(494)
Property Sales			
Contributions	0	308,050	308,050
Earnings on investments	75,000	25,360	(49,640)
Reimbursements and Other	0	533	533
	<u>300,000</u>	<u>411,544</u>	<u>111,544</u>
Total Revenue			
<b>EXPENDITURES:</b>			
General Government			
Public Safety			
Streets			
Capital outlay	5,878,312	4,129,212	1,749,100
Parks and Recreation			
Transportation			
Rodeo Park			
Debt Service			
	<u>5,878,312</u>	<u>4,129,212</u>	<u>1,749,100</u>
Total Expenditures			
<b>EXCESS REVENUE (EXPENDITURES)</b>	(5,578,312)	(3,717,668)	1,860,644
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds	2,946,195	2,946,195	0
Operating transfers (to) other funds			
	<u>2,946,195</u>	<u>2,946,195</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>	(2,632,117)	(771,473)	1,860,644
<b>FUND BALANCE - BEGINNING</b>	<u>2,532,244</u>	<u>2,532,244</u>	<u>0</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ (99,873)</u>	<u>\$ 1,760,771</u>	<u>\$ 1,860,644</u>



**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- Debt Service Fund**  
**for the year ended September 30, 2011**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
Property taxes	\$ 398,980	\$ 398,105	\$ (875)
Local Option sales taxes			
Franchises, licenses, permits			
State of Idaho shared revenue			
State of Idaho sales tax			
State of Idaho liquor receipts			
State highway user collections			
Penalty and interest on property taxes	0	675	675
County court fines			
Fees, fines and charges for services			
Grants and contributions			
Earnings on investments	0	9,937	9,937
Miscellaneous - Sale of G.O. Bonds			
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Revenue	<u>398,980</u>	<u>408,717</u>	<u>9,737</u>
<b>EXPENDITURES:</b>			
General Government			
Public Safety			
Streets			
Capital outlay			
Parks and Recreation			
Transportation			
Affordable Housing			
Debt Service	<u>398,980</u>	<u>371,548</u>	<u>27,432</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Expenditures	<u>398,980</u>	<u>371,548</u>	<u>27,432</u>
<b>EXCESS REVENUE (EXPENDITURES)</b>	0	37,169	37,169
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds			
Operating transfers (to) other funds	<u>(2,946,195)</u>	<u>(2,946,195)</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>	(2,946,195)	(2,909,026)	37,169
<b>FUND BALANCE - BEGINNING</b>	<u>3,541,502</u>	<u>3,541,502</u>	<u>0</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 595,307</u>	<u>\$ 632,476</u>	<u>\$ 37,169</u>

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- Water Fund**  
**for the year ended September 30, 2011**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
User Fees	\$ 845,000	\$ 985,216	\$ 140,216
Capital Projects Bond Fees	169,031	169,273	242
Hook-up Fees	70,000	116,294	46,294
Service Charges	10,000	17,790	7,790
Meter Reimbursements	2,000	7,464	5,464
Idaho Power Hydroplant Revenues	3,000	2,438	(562)
Inspection/Live Tap Fees	2,000	650	(1,350)
Water Fill Tower Permits	0	2,471	2,471
Earnings on investments	31,054	47,650	16,596
Grants and Contributions	0	31,805	31,805
Miscellaneous	1,000	852	(148)
	<u>1,133,085</u>	<u>1,381,903</u>	<u>248,818</u>
<b>EXPENDITURES:</b>			
Labor and Benefits	528,646	494,066	34,580
Administrative and supplies	396,603	351,084	45,519
Debt Service	169,031	167,886	1,145
Capital Outlay	31,805	31,805	0
	<u>1,126,085</u>	<u>1,044,841</u>	<u>81,244</u>
<b>EXCESS REVENUE (EXPENDITURES)</b>	<b>7,000</b>	<b>337,062</b>	<b>330,062</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds			
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts		(190,812)	(190,812)
		<u>(190,812)</u>	<u>(190,812)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>7,000</b>	<b>146,250</b>	<b>139,250</b>
<b>FUND BALANCE - BEGINNING</b>	<u>7,393,046</u>	<u>7,393,046</u>	<u>0</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 7,400,046</u>	<u>\$ 7,539,296</u>	<u>\$ 139,250</u>

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- Wastewater Fund**  
**for the year ended September 30, 2011**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
User Fees	\$ 1,116,444	\$ 953,862	\$ (162,582)
Capital Projects Bond Fees	241,517	237,444	(4,073)
Hook-up Fees	70,000	103,367	33,367
Service Charges	0	17,790	17,790
Inspection/Live Tap Fees	2,000	800	(1,200)
Earnings on investments	19,397	22,223	2,826
Grants and Contributions	0	126,088	126,088
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	<u>1,449,358</u>	<u>1,461,574</u>	<u>12,216</u>
<b>EXPENDITURES:</b>			
Labor and Benefits	633,583	532,725	100,858
Administrative and supplies	344,379	320,129	24,250
Debt Service	359,695	359,422	273
Capital Outlay	<u>219,879</u>	<u>219,879</u>	<u>0</u>
Total Expenditures	<u>1,557,536</u>	<u>1,432,155</u>	<u>125,381</u>
EXCESS REVENUE (EXPENDITURES)	(108,178)	29,419	137,597
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds			
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts	<u>                    </u>	<u>113,321</u>	<u>113,321</u>
<b>NET CHANGE IN FUND BALANCES</b>	(108,178)	142,740	250,918
<b>FUND BALANCE - BEGINNING</b>	<u>4,013,255</u>	<u>4,013,255</u>	<u>0</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,905,077</u>	<u>\$ 4,155,995</u>	<u>\$ 250,918</u>

**CITY OF HAILEY, IDAHO**  
**Bond-Future Principal and Interest Requirements**  
**at September 30, 2011**

	Annual Payment			
	Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Sewer Revenue Bonds 2001 \$4,500,000, April 17, 2001 4.50% - 5.625%	5.625%	2012	\$ 220,000	\$ 141,469
	5.625%	2013	230,000	128,813
	5.625%	2014	245,000	115,453
	5.625%	2015	260,000	101,250
	5.625%	2016	270,000	86,344
	5.000%	2017	285,000	71,625
	5.000%	2018	300,000	57,000
	5.000%	2019	315,000	41,625
	5.000%	2020	330,000	25,500
	5.000%	2021	345,000	8,625
			\$ 2,800,000	\$ 777,704

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Loan-Future Principal and Interest Requirements**  
**at September 30, 2011**

		Annual Payment			
		Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Drinking Water Revolving Promissory Loan					
	\$2,400,000, November 20, 2008	3.50%	2012	\$ 92,083	\$ 75,803
	3.50%	3.50%	2013	95,539	72,347
		3.50%	2014	98,912	68,974
		3.50%	2015	102,405	65,481
		3.50%	2016	105,853	62,033
		3.50%	2017	109,757	58,129
		3.50%	2018	113,633	54,253
		3.50%	2019	117,644	50,242
		3.50%	2020	121,675	46,211
		3.50%	2021	126,094	41,792
		3.50%	2022	130,546	37,340
		3.50%	2023	135,155	32,731
		3.50%	2024	139,853	28,033
		3.50%	2025	144,864	23,022
		3.50%	2026	149,979	17,907
		3.50%	2027	155,274	12,612
		3.50%	2028	160,741	7,145
		3.50%	2029	82,462	1,455
				\$ 2,182,470	\$ 755,509

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Loan-Future Principal and Interest Requirements**  
**at September 30, 2011**

	Annual Payment			
	Interest Rate	Fiscal Year	Principal Payment	Interest Payment
General Obligation Bonds, Series 2010 \$3,425,000, August 1, 2010 2.00% - 3.00%	2.00%	2012	\$ 320,000	\$ 81,025
	2.00%	2013	325,000	74,625
	2.00%	2014	330,000	68,125
	2.50%	2015	340,000	61,525
	2.50%	2016	345,000	53,025
	3.00%	2017	355,000	44,400
	3.00%	2018	365,000	33,750
	3.00%	2019	375,000	22,800
	3.00%	2020	385,000	11,550
			\$ 3,140,000	\$ 450,825

The accompanying notes are a part of these financial statements.



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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

December 21, 2011

To the Honorable Mayor and City Council  
City of Hailey  
Hailey, Idaho

I have audited the financial statements of the City of Hailey, Idaho (City), as of and for the year ended September 30, 2011, and have issued my report thereon dated December 21, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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 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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

My consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Mayor, City Council, management, others within the organization, and any state and federal government oversight authorities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dennis R. Brown". The signature is written in a cursive, flowing style.

DENNIS R. BROWN  
Certified Public Accountant