

CITY OF HAILEY, IDAHO

BASIC FINANCIAL STATEMENTS
AND
SELECTED OTHER FINANCIAL INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2006

CITY OF HAILEY, IDAHO

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Independent Auditor's Report

Honorable Mayor and City Council
City of Hailey
State of Idaho

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hailey, Idaho as of and for the year ending September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hailey, Idaho as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2007 on our consideration of City of Hailey's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

The Management's Discussion and Analysis and budgetary comparison information 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. We applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements takes as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.



HCM Holmstead, pllc
January 12, 2007

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REPORT ON COMPLIANCE

Honorable Mayor and City Council
City of Hailey
State of Idaho

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hailey, Idaho as of and for the year ending September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Hailey's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we have reported to management of City of Hailey in a separate letter dated January 12, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hailey's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal reporting that might be material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

This report is intended for the information of the audit committee, management and federal award agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "HCM Holmstead".

HCM Holmstead, pllc
January 12, 2007

CITY OF HAILEY
MANAGEMENT DISCUSSION AND ANALYSIS
September 30, 2006

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, 2006. 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, 2006 by \$19,774,000. Of this amount \$6,091,410 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2006 the City's total net assets increased \$1,414,877. Net assets of the governmental activities increased \$881,036 and net assets of business type activities increased \$533,841.
- Total fund balance of governmental funds at September 30, 2006 was \$2,629,711 compared to a total governmental fund balance at September 30, 2005 of \$2,024,597.
- The City has \$4,594,892 in long term debt, down from \$5,055,422 the previous year. The debt consists of a sewer revenue bond, the Fox Building acquisition bond, equipment purchases of a fire truck and street grader, and accrued compensated absences. Hailey is allowed up to \$25,570,548 in bonded indebtedness (2% of its taxable assessed value).

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 vacation leave 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.

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 and administration, public safety and emergency services activities, community planning and development, and parks and library operations. The major business-type activities of the City include the water and sewer 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 and administrative services, public safety and emergency services, community planning and development, and parks and library. 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 spendable 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 three governmental funds:

General Fund – The general fund is the general operating fund of the City. It derives most of its income from property tax and funds the operations of the City.

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 Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition of major capital facilities.

Proprietary Fund: User fees finance activities in these funds. The City of Hailey only has one type of proprietary fund, the enterprise fund. The water and sewer utilities and all the activities necessary to support their operation 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.

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 budget data for the year.

FINANCIAL ANALYSIS OF THE CITY OF HAILEY AS A WHOLE

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

ASSETS	2004-2005	2005-2006
Current and Other Assets	8,349,067	9,251,745
Capital Assets	16,077,068	16,088,348
Total Assets	<u>24,426,135</u>	<u>25,340,093</u>
LIABILITIES		
Long-Term Liabilities	4,605,019	4,163,467
Other Liabilities	1,461,993	1,402,626
Total Liabilities	<u>6,067,012</u>	<u>5,566,093</u>
NET ASSETS		
Invested in Capital Assets, Net of Debt	11,456,791	13,648,887
Restricted	3,002,731	33,703
Unrestricted	3,899,601	6,091,410
Total Net Assets	<u>18,359,123</u>	<u>19,774,000</u>

Statement of Activities
Fiscal Year 2006 as Compared to 2005

	Governmental Activities		Business-Type Activities		Net Change in Primary Government
	FY 2005	FY 2006	FY 2005	FY 2006	
Program Revenues					
Dedicated Projects	361,400	473,672			112,272
Financial and Administrative	90,386	56,874			(33,512)
Planning and Zoning	63,033	78,605			15,572
Law Enforcement	216,272	230,918			14,646
Animal Control	20,630	28,136			7,506
Building Inspector	534,164	471,658			(62,506)
Streets	27,623	20,850			(6,773)
Library	18,027	17,307			(720)
Parks and Recreation	23,497	13,250			(10,247)
Fire Control	24,361	69,901			45,540
Water Revenue Fund			813,297	1,079,005	265,708
Sewer Revenue Fund			1,119,074	1,227,067	107,993
Water Replacement Fund			426,242	436,000	9,758
Sewer Replacement Fund			319,420	352,096	32,676
General Revenues					
Property Taxes	1,684,861	1,766,479			81,618
Local Option Taxes	-	92,719			92,719
Intergovernmental	912,673	1,061,739			149,066
Franchises	232,823	354,993	-	-	122,170
Investment Earnings & Misc	75,796	123,490	128,614	154,788	73,868
Total Revenues	<u>4,285,546</u>	<u>4,860,591</u>	<u>2,806,647</u>	<u>3,248,956</u>	<u>1,017,354</u>
Program Expenses:					
Dedicated Projects	23,058	-			(23,058)
Legislative	20,561	57,441			36,880
Chief Executive	61,648	71,313			9,665
Engineering	54,965	140,814			85,849
Financial and Administrative	165,063	174,864			9,801
Planning and Zoning	194,055	243,366			49,311
Law Enforcement	949,004	980,986			31,982
Animal Control	52,335	54,537			2,202
Building Inspector	135,235	156,015			20,780
Streets	873,022	870,353			(2,669)
Public Works	136,933	120,345			(16,588)
Library	347,582	419,027			71,445
Parks and Recreation	147,632	149,677			2,045
Fire Control	449,885	551,716			101,831
Bond Interest and Fees	15,527	10,591			(4,936)
Water Revenue Fund			888,661	1,187,409	298,748
Sewer Revenue Fund			1,374,308	1,435,030	60,722
Water Replacement Fund			71,082	(3,687)	(74,769)
Sewer Replacement Fund			91,847	74,872	(16,975)
Total Expenses	<u>3,626,505</u>	<u>4,001,045</u>	<u>2,425,898</u>	<u>2,693,624</u>	<u>642,266</u>
Net Transfer (In) Out		(21,491)		21,491	
Increase in Net Assets	659,041	881,037	380,749	533,841	1,659,620
Beginning Net Assets	6,160,733	6,819,774	7,370,567	11,539,349	
Ending Net Assets	<u>6,819,774</u>	<u>7,700,811</u>	<u>7,751,316</u>	<u>12,073,190</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, 2006 by \$19,774,000, an increase of \$1,414,877 over the previous year's net asset balance of \$18,359,123. Of this amount \$6,091,410 is unrestricted and available to meet the City's ongoing obligations to citizens and creditors. Significantly more (\$2,191,809) than the previous year's unrestricted amount of \$3,899,601, the increase represents the fact that Hailey has discontinued reporting its water and wastewater replacement assets as restricted.

The largest portion of the City's net assets, 69%, 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 value by \$2,192,096, resulting from the annual pay-down of long term debt, and the completion of several projects including the Toe of the Hill Trail, the Echo Hill Park, and the system-wide water meter project.

Assets restricted to a particular use are less than 1% of net assets, and include required bond reserves.

Unrestricted net assets equal 31% of net assets. Some portion of the unrestricted net asset balance has been designated by the City Council for specific purposes, such as a fireworks endowment fund holding \$124,838 of the unrestricted funds, and a capital expansion fund holding unspent annexation fees from Airport West, Blaine County School District, and Little Indio of \$1,587,609.

Changes in Net Assets

During the year the City's financial position increased by \$1,414,877, compared to the previous year's increase of \$1,039,790.

Governmental Activities:

Governmental activities increased the City's net assets by \$881,036, compared to the previous year's \$659,041. Revenue increases were favorably affected by several grants, a newly instituted local option tax, a new cable franchise agreement which increased the franchise fee from 3% to 5%, and higher energy costs which increased franchise revenue from energy-related franchise agreements.

Business-Type Activities:

Business-type activities increased net assets by \$533,841, compared to the previous year's increase of \$380,749. Fees charged for new connections to pay for system replacement continue to exceed the replacement expenses. Water and waste water operating expenses exceeded operating revenues by \$316,367.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund - the general fund is the principal fund used for the City's governmental operations. The fund balance at September 30, 2006 was \$2,484,639, a \$578,858 increase over the prior year's fund balance of \$1,905,781. The major factor increasing fund balance was an enhanced revenue stream including \$201,636 in grants, \$92,719 in local option taxes, and increases from 3% to 5% in a franchise revenue source. General departmental operating expenses increased by 9%, with 4% of that increase being tied to grant expenses.

The general fund balance is largely reserved for capital expansion needs.

General Fund Budgetary Highlights

There were two amendments made to the appropriated budget during the fiscal year, both of which were to appropriate fund balance to accommodate costs.

The general fund revenue exceeded its budgeted revenue by \$1,014,75, which amount was impacted favorably by a high volume of construction activity, grants, park in lieu fees, increased energy costs with associate franchise fees, and state and local sales taxes.

General Fund expenses were \$401,771 under budget. This was largely due to delays in filling vacated staff positions, and construction timing of park projects spilling over from summer into fall, past the fiscal year end.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2006 the City had \$16,088,348 invested in capital assets (net of accumulated depreciation) compared to last year's \$16,077,068, an increase of \$11,280 compared to the previous year's increase of \$264,876. Net capital assets of governmental activities decreased by \$125,074 and those of business-type activities increased by \$136,354.

The City investment in capital assets includes land, buildings, sewer and water lines, buildings, automobiles and equipment, street lights, sidewalks, roads and books.

The City booked \$245,554 in depreciation expense for governmental City functions (compared to the previous year's \$244,899) and \$613,632 for business-type activities (compared to the previous year's \$582,334).

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 on the debt is \$3,883,453. A refunded amount of \$725,000 from a general obligation bond is an outstanding debt obligation through 2008, with current outstanding balance of \$370,000. The City has agreements with Wells Fargo Equipment Financing for purchase of a fire truck and a street grader. The city's sewer fund has a 10 year inter-fund debt obligation to the water replacement fund, initially a \$500,000 debt with current debt still due of \$198,651.

FY06 Budgetary Considerations

The City of Hailey bases its budget on a revenue analysis and projection. Underlying all revenue projections for all funds is the assumption of continued growth in community development. Near the end of FY04 the City enacted new development fees which resulted in significantly defraying the rising cost of issuing development permits and conducting inspections. The increased revenue flow from development permits will help the city move away from its former practice of budgeting fund balance to cover operating expenses.

The passage of a Local Option Tax measure further solidified Hailey's ability to have sufficient operating revenue to cover operating expenses with little fund balance being appropriated for operations. LOT collections are highest from the tax on car rentals, then restaurant foods, then lodging, and lastly sale of alcohol by-the-drink. The effect of tourism and growth is also seen in the state sales tax revenue distribution to Hailey, which increased by 17%. Budgetary considerations include establishing a more costly level-of-service to accommodate tourism and growth within Hailey's operations, particularly in the areas of law enforcement, park maintenance, and street maintenance.

An increase in franchise fees tied to the higher cost of energy consumption, as well as a higher rate on a non-energy franchise, creates a budgeting opportunity to allocate a portion of franchise fees to energy reduction, in itself a cost-savings budgetary consideration.

Statutory limitations on property tax collections mean that in periods of rapid growth and inflation revenue does not keep up with the demand for services. The City has seen a decline in its ability to fund equipment replacement and capital infrastructure repair and replacement, and has therefore set goals to put in place development annexation in-lieu fees. These fees will function to fund the replacement portion of a city-wide Capital Improvement Plan, with annexation fees and grants funding expansion elements of the Plan.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Hailey
Statement of Net Assets
September 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 2,912,316	\$ 3,073,278	\$ 5,985,594
Accounts Receivable	518,628	204,694	723,322
Delinquent Taxes Receivable	47,060	-	47,060
Inventory	-	220,096	220,096
Total Current Assets	<u>3,478,004</u>	<u>3,498,068</u>	<u>6,976,072</u>
Non Current Assets			
Restricted Cash and Investments	33,703	-	33,703
Construction in Progress	325,079	1,916,891	2,241,970
Capital Assets, net of Accumulated Depreciation	<u>5,387,885</u>	<u>10,700,463</u>	<u>16,088,348</u>
Total Non Current Assets	<u>5,746,667</u>	<u>12,617,354</u>	<u>18,364,021</u>
Total Assets	9,224,671	16,115,422	25,340,093
LIABILITIES			
Current Liabilities			
Vouchers Payable	326,895	73,974	400,869
Accrued Payroll and Benefits Payable	162,638	-	162,638
Accrued Interest Payable	3,894	17,028	20,922
Surety and Security Bonds Payable	355,781	30,991	386,772
Note Payments Due Within One Year	<u>261,425</u>	<u>170,000</u>	<u>431,425</u>
Total Current Liabilities	<u>1,110,633</u>	<u>291,993</u>	<u>1,402,626</u>
Long-Term Debt			
Note Payments Due Beyond One Year	211,475	3,713,453	3,924,928
Accrued Compensated Absences	<u>201,753</u>	<u>36,786</u>	<u>238,539</u>
Total Long-Term Liabilities	<u>413,228</u>	<u>3,750,239</u>	<u>4,163,467</u>
Total Liabilities	1,523,861	4,042,232	5,566,093
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,914,985	8,733,902	13,648,887
Restricted	33,703		33,703
Unrestricted	<u>2,752,122</u>	<u>3,339,288</u>	<u>6,091,410</u>
Total Net Assets	<u>\$ 7,700,810</u>	<u>\$ 12,073,190</u>	<u>\$ 19,774,000</u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Activities
For the Year Ended September 30, 2006

Functions/Programs	Net (Exp.) Revenue & Changes in Net Assets					Primary Government	
	Direct Expenses	Indirect Expenses	Fees, Fines & Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government:							
Dedicated Projects	\$ -		\$ 272,036	\$ -	\$ 272,036		
Legislative	57,441	(57,441)	-		-		
Chief Executive	71,313	(71,313)	-		-		
Engineering	140,814	(140,814)	-		-		
Financial and Administrative	174,864	(60,990)	56,874		(57,000)		
Planning and Zoning	243,366	41,056	78,605	2,250	(203,567)		
Law Enforcement	980,986	48,405	230,918		(798,473)		
Animal Control	54,537	13,221	28,136		(39,622)		
Building Inspector	156,015	54,171	471,658		261,472		
Streets	870,353	148,534	20,850	49,508	(948,529)		
Public Works	120,345	(120,345)	-		-		
Library	419,027	30,813	17,307	3,325	(429,208)		
Parks and Recreation	149,677	78,019	13,250	5,882	(208,564)		
Fire Control	551,716	36,684	69,901	140,671	(377,828)		
Bond Interest and Fees	10,591		-	-	(10,591)		
Total Government Activities	<u>4,001,045</u>	<u>-</u>	<u>1,259,535</u>	<u>201,636</u>	<u>(2,539,874)</u>		
Business-Type Activities:							
Water Revenue Fund	1,187,409		1,079,005	-	-	(108,404)	
Sewer Revenue Fund	1,435,030		1,227,067	-	-	(207,963)	
Water Replacement Fund	(3,687)		436,000	-	-	439,687	
Sewer Replacement Fund	74,872		352,096	-	-	277,224	
Total Business-Type Activities	<u>2,693,624</u>		<u>3,094,168</u>	<u>-</u>	<u>-</u>	<u>400,544</u>	
Total	<u>6,694,669</u>		<u>4,353,703</u>	<u>201,636</u>	<u>(2,539,874)</u>	<u>400,544</u>	
General Revenues							
Property Taxes					1,766,478		
Local Option Taxes					92,719		
State Allocations					1,061,739		
Franchises					354,993		
Earnings on Investments					123,490	154,253	
Miscellaneous					-	535	
Total General Revenues					<u>3,399,419</u>	<u>154,788</u>	
Net Transfers (In) Out					<u>(21,491)</u>	<u>21,491</u>	
Change in Net Assets					881,036	533,841	
Net Assets - Beginning					<u>6,819,774</u>	<u>11,539,349</u>	
Net Assets - Ending					<u>\$ 7,700,810</u>	<u>\$ 12,073,190</u>	

See accompanying notes and accountants' report.

FUND FINANCIAL STATEMENTS

**City of Hailey
Balance Sheet
Governmental Funds
September 30, 2006**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,802,240	\$ 140,894	\$ 2,885	\$ 2,946,019
Accounts Receivable	518,628	-	-	518,628
Property Taxes Receivable	41,268	5,792	-	47,060
Total Assets	<u>3,362,136</u>	<u>146,686</u>	<u>2,885</u>	<u>3,511,707</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Vouchers Payable	\$ 326,895	\$ -	\$ -	\$ 326,895
Accrued Payroll Expenses	162,638	-	-	162,638
Accrued Interest Payable	-	-	-	-
Surety and Security Bonds Payable	355,781	-	-	355,781
Deferred Revenue	32,183	4,499	-	36,682
Total Liabilities	<u>877,497</u>	<u>4,499</u>	<u>-</u>	<u>881,996</u>
Fund Balances				
Unreserved, Reported In:				
Designated Fund Balance				
General Fund	2,484,639			2,484,639
Debt Service Fund		142,187		142,187
Special Revenue Funds			2,885	2,885
Total Fund Balances	<u>2,484,639</u>	<u>142,187</u>	<u>2,885</u>	<u>2,629,711</u>
Total Liabilities and Fund Balances	<u>\$ 3,362,136</u>	<u>\$ 146,686</u>	<u>\$ 2,885</u>	<u>\$ 3,511,707</u>

See accompanying notes and accountants' report.

City of Hailey
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
For the Year Ended September 30, 2006

Total Governmental Fund Balances	\$ 2,629,711
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>	5,712,964
<p>Property taxes collected beyond 60 days after year end are not recorded recorded as assets in the Governmental Funds Balance Sheet</p>	36,682
<p>Long-Term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term are reported in the statement of net assets. Balances at September 30, 2006 are as follows:</p>	
Capital Leases	(472,900)
Accrued Interest Payable	(3,894)
Compensated Absences Payable	(201,753)
	(678,547)
Net Assets of Governmental Activities	\$ 7,700,810

See accompanying notes and accountants' report.

City of Hailey
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Debt Service Fund	Other Governmental Funds	Total (Governmental Funds)
REVENUES				
Property Tax	\$ 1,550,500	\$ 208,140	\$ -	\$ 1,758,640
Fees and Fines	953,792	-	-	953,792
Licenses and Permits	651,040	-	-	651,040
Intergovernmental	1,263,375	-	-	1,263,375
Miscellaneous	219,045	8,707	-	227,752
Total Revenues	4,637,752	216,847	-	4,854,599
EXPENDITURES				
Dedicated Projects	-	-	-	-
Legislative	57,441	-	-	57,441
Chief Executive	71,314	-	-	71,314
Engineering	140,826	-	-	140,826
Financial and Administrative	139,333	-	-	139,333
Planning & Zoning	243,414	-	-	243,414
Law Enforcement	983,529	-	-	983,529
Animal Control	51,044	-	-	51,044
Building Inspector	149,351	-	-	149,351
Streets	833,977	-	-	833,977
Public Works	120,394	-	-	120,394
Library	390,843	-	-	390,843
Parks and Recreation	304,966	-	-	304,966
Fire Control	593,953	-	-	593,953
Debt Service:				-
Bond Interest and Fees	-	10,591	-	10,591
Bond Principal	-	180,000	-	180,000
Total Expenditures	4,080,385	190,591	-	4,270,976
Excess (Deficiency) of Revenues over Expenditures	557,367	26,256	-	583,623
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	21,491	-	-	21,491
Total Other Financing Sources (Uses)	21,491	-	-	21,491
Net Change in Fund Balances	578,858	26,256	-	605,114
Fund Balances, Beginning of Year	1,905,781	115,931	2,885	2,024,597
Fund Balances, End of Year	\$ 2,484,639	\$ 142,187	\$ 2,885	\$ 2,629,711

See accompanying notes and accountants' report.

City of Hailey
Reconciliation of the Statement of Revenues
and Changes in Fund Balance of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 605,114

The amounts reported for governmental activities in the Statement of Activities are different because:

Property tax revenues that are not received within sixty days after year end do not provide current financial resources and thus are not recorded as revenue in the Governmental Fund 7,838

Governmental funds report capital outlays as current expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

In the current period, these amounts are:

Capital Outlay	\$ 242,460	
Depreciation Expense	(245,555)	
Excess of Depreciation Expense over Capital Outlay		(3,095)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceeded proceeds. 274,279

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of financial resource availability.

Increase in Accrued Interest Payable	794	
Decrease in Compensated Absences	(3,894)	
		(3,100)

Change in Net Assets of Governmental Activities \$ 881,036

See accompanying notes and accountants' report.

City of Hailey
Statement of Net Assets - Proprietary Funds
September 30, 2006

	Water Revenue Fund	Sewer Revenue Fund	Water Replacement Fund	Sewer Replacement Fund	Total Proprietary Funds
ASSETS					
Cash and Investments	\$ (178,753)	\$ 467,858	\$ 1,411,203	\$ 1,372,970	\$ 3,073,278
Accounts Receivable, Net	109,896	94,797	-	-	204,693
Inventory	220,096	-	-	-	220,096
Restricted Cash & Investments	-	-	-	-	-
Interfund Receivable	-	-	198,651	-	198,651
Construction In Progress	1,916,891	-	-	-	1,916,891
Property, Plant and Equipment, Net	4,141,285	6,559,179	-	-	10,700,464
Total Assets	6,209,415	7,121,834	1,609,854	1,372,970	16,314,073
LIABILITIES					
Current Liabilities:					
Vouchers Payable	\$ 25,472	\$ 15,761	\$ 1,834	\$ 30,907	\$ 73,974
Accrued Payroll Expense	-	-	-	-	-
Accrued Interest Payable	-	17,028	-	-	17,028
Security Deposits	30,991	-	-	-	30,991
Current Portion of Interfund Payable	-	50,000	-	-	50,000
Current Portion of Long-Term Debt	-	170,000	-	-	170,000
Non-Current Liabilities					
Interfund Payable	-	148,651	-	-	148,651
Surety and Security Bonds	-	-	-	-	-
Accrued Compensated Absences	18,911	17,875	-	-	36,786
Sewer Revenue Bonds	-	3,713,453	-	-	3,713,453
Total Liabilities	75,374	4,132,768	1,834	30,907	4,240,883
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	6,058,176	2,675,726	-	-	8,733,902
Reserved for System Replacement			1,608,020	1,342,063	2,950,083
Unreserved	75,865	313,340	-	-	389,205
Total Net Assets	\$ 6,134,041	\$ 2,989,066	\$ 1,608,020	\$ 1,342,063	\$ 12,073,190

See accompanying notes and accountants' report.

City of Hailey
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds
For the Year Ended September 30, 2006

	Water Revenue Fund	Sewer Revenue Fund	Water Replacement Fund	Sewer Replacement Fund	Total Proprietary Funds
OPERATING REVENUES					
User Charges	\$ 1,054,067	\$ 1,223,009	\$ 13,120	\$ 45,027	\$ 2,335,223
Hook-Up and Inspection Fees	24,307	4,061	422,880	307,070	758,318
Miscellaneous	-	535	-	-	535
Total Operating Revenues	<u>1,078,374</u>	<u>1,227,605</u>	<u>436,000</u>	<u>352,097</u>	<u>3,094,076</u>
OPERATING EXPENSES					
Salaries and Benefits	494,171	511,679	-	-	1,005,850
Office Supplies and Postage	4,464	6,535	-	-	10,999
Chemical and Lab Testing	5,037	13,135	-	-	18,172
Advertising and Publishing	2,496	2,295	-	-	4,791
Legal and Audit	36,789	49,341	-	-	86,130
Insurance	33,052	31,541	-	-	64,593
Travel and Meetings	3,146	4,141	-	-	7,287
Dues and Subscriptions	1,893	1,847	-	-	3,740
Telephone	9,709	9,515	-	-	19,224
Utilities and Rent	55,630	87,165	-	-	142,795
Gas and Oil	12,496	15,580	-	-	28,076
Repairs and Maintenance	5,292	47,442	(7,068)	68,330	113,996
Depreciation	242,962	370,669	-	-	613,631
Services	53,473	49,603	3,381	-	106,457
Prevention Program	783	1,328	-	-	2,111
Reimbursements and Clothing	9,987	19,194	-	-	29,181
Education and Miscellaneous	4,324	4,562	-	-	8,886
Supplies	3,367	10,929	-	-	14,296
Special Project & Capital Outlay	1,662,046	10,234	-	6,542	1,678,821
Total Operating Expenses	<u>2,641,117</u>	<u>1,246,735</u>	<u>(3,687)</u>	<u>74,872</u>	<u>3,959,037</u>
Operating Income (Loss)	(1,562,743)	(19,130)	439,687	277,225	(864,961)
Non-Operating Revenues (Expenses)					
Grant Revenue	634	-	-	-	634
Interest Earned	21	61,982	50,719	41,529	154,251
Principal Payments					-
Interest Expense		(188,297)			(188,297)
Total Non-Operating Revenues (Expenses)	<u>655</u>	<u>(126,315)</u>	<u>50,719</u>	<u>41,529</u>	<u>(33,412)</u>
Income (Loss) Before Other Adjustments	(1,562,088)	(145,445)	490,406	318,754	(898,373)
Other Adjustments to Net Assets					
Capitalization of Deprec. Property and Inventory	1,453,706	-	-	-	1,453,706
Transfer of Cash and Replacement Property	652,656	187,661	(663,187)	(198,622)	(21,492)
Total Other Adjustments To Net Assets	<u>2,106,362</u>	<u>187,661</u>	<u>(663,187)</u>	<u>(198,622)</u>	<u>1,432,214</u>
Change in Net Assets	544,274	42,216	(172,781)	120,132	533,841
Net Assets Beginning of Period	<u>5,589,767</u>	<u>2,946,850</u>	<u>1,780,801</u>	<u>1,221,931</u>	<u>11,539,349</u>
Net Assets End of Period	<u>\$ 6,134,041</u>	<u>\$ 2,989,066</u>	<u>\$ 1,608,020</u>	<u>\$ 1,342,063</u>	<u>\$ 12,073,190</u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2006

	Water Revenue Fund	Sewer Revenue Fund	Water Replacement Fund	Sewer Replacement Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Customers	\$ 1,109,968	\$ 1,176,874	\$ 436,000	\$ 352,097	\$ 3,074,939
Cash Payments to Suppliers for Goods	(1,717,684)	(363,609)	(435)	(71,895)	(2,153,622)
Cash Payments to Employees for Services	(506,234)	(526,108)	-	-	(1,032,342)
Net Cash Provided (Used) by Operating Activities	(1,113,950)	287,157	435,565	280,202	(111,025)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interest paid	-	(9,189)			
Principal (Paid) Received on Long-Term Debt	-	(50,000)	50,000	-	-
Cash Advanced to (from) Other Funds	652,656	187,661	(663,187)	(198,622)	(21,492)
Cash Received from Grants	634	-	-	-	634
Net Cash Provided (Used) by Noncapital Financing Activities	653,290	128,472	(613,187)	(198,622)	(20,858)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Capital Assets	(838,728)	(86,799)	-	-	(925,527)
Reduction of Debt	-	(192,745)	-	-	(192,745)
Interest Paid	-	(178,684)	-	-	(178,684)
Net Cash Provided (Used) by Capital and Related Financing Activities	(838,728)	(458,228)	-	-	(1,296,956)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on Investments	21	61,981	50,719	41,529	154,250
Redemption of Investments					-
Net Cash Provided (Used) by Financing Activities	21	61,981	50,719	41,529	154,250
Net Increase (Decrease) in Cash	(1,299,367)	19,382	(126,903)	123,109	(1,283,778)
CASH - BEGINNING OF YEAR	<u>1,120,614</u>	<u>448,476</u>	<u>1,538,106</u>	<u>1,249,861</u>	<u>4,357,057</u>
CASH (OVERDRAFT) - END OF YEAR	<u>\$ (178,753)</u>	<u>\$ 467,858</u>	<u>\$ 1,411,203</u>	<u>\$ 1,372,970</u>	<u>\$ 3,073,279</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (1,562,743)	\$ (19,130)	\$ 439,687	\$ 277,225	\$ (864,960)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	242,962	370,669	-	-	613,631
Change in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	31,594	(50,731)	-	-	(19,137)
(Increase) Decrease in Inventory	175,541	-	-	-	175,541
Increase (Decrease) in Vouchers Payable	5,482	778	(4,122)	2,977	5,115
Increase (Decrease) in Accrued Payroll Expense	(16,269)	(17,511)	-	-	(33,780)
Increase (Decrease) in Security Deposits	5,277	-	-	-	5,277
Increase (Decrease) in Compensated Absences	4,206	3,082	-	-	7,288
Total Adjustments	448,793	306,287	(4,122)	2,977	753,935
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,113,950)</u>	<u>\$ 287,157</u>	<u>\$ 435,565</u>	<u>\$ 280,202</u>	<u>\$ (111,025)</u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Net Assets - Fiduciary Funds
September 30, 2006

ASSETS	
Equity in Pooled Cash & Cash Equivalents	\$ (4,186)
Total Assets	<u>(4,186)</u>
LIABILITIES	
	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS	
Reserved for Bond Payment	<u>(4,186)</u>
Total Net Assets	<u><u>\$ (4,186)</u></u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Changes in Net Assets - Fiduciary Funds
For the Year Ended September 30, 2006

Additions	
Trust Amounts Received	\$ 19,889
Interest Income	<u>389</u>
Total Additions	20,278
Deductions	
Bond Principal and Interest Payments	<u>48,274</u>
Total Deductions	48,274
Change in Net Assets	(27,996)
Net Assets Beginning of Year	<u>23,810</u>
Net Assets End of Year	<u><u>\$ (4,186)</u></u>

See accompanying notes and accountants' report.

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hailey 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.

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

2. Government-Wide and Fund Financial Statements (cont.)

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.

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.

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 are maintained consistent with legal and managerial requirements.

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 Water, Waste Water, Water Replacement and Waste Water Replacement. All but Waste Water Replacement are reported as major enterprise 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. The fund is currently inactive with an amount of cash remaining in the fund.

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 agency fund in use by the City of Hailey is L.I.D 92-1.

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. After reviewing the preliminary budget, the Council sets a public budget hearing to obtain taxpayer comments.
- 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.

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

8. Capital Assets, Depreciation, and Amortization (cont.)

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

Buildings 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.

9. Long-Term Debt

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

The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

NOTE B - CASH AND INVESTMENTS

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 the City may 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 United States currency and consists of the following:

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE B - CASH AND INVESTMENTS (cont.)

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Mountain West Bank - Checking	\$ 1,094	\$ 44,965
Mountain West Bank - Cash Management	(158,346)	133,271
Bank of America - Interest Bearing Checking	5,906	5,906
Cash on Hand	300	300
State of Idaho Investment Pool	<u>6,166,157</u>	<u>6,166,157</u>
 Total Cash and Investments	 <u><u>\$6,015,111</u></u>	 <u><u>\$6,350,599</u></u>

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 are as follows:

	<u>Categories</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits	\$7,300	\$(158,346)	-	\$(151,046)
Investments in State of Idaho's Investment Pool				<u>6,166,157</u>
Total Cash and Investments				<u><u>\$6,015,111</u></u>

Funds held in the Water Replacement and Waste Water Replacement Funds (Enterprise Funds) in the amount of \$2,950,083 are reserved for repairs and replacement of the existing systems and equipment.

NOTE C - DELINQUENT 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.

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE C - DELINQUENT TAXES RECEIVABLE (cont.)

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. The City feels secure in the right of the County to take tax deeds on property for the collection of real property taxes and the City's ability to take tax anticipation notes if needed to finance liabilities of the current period. Deferred revenue has been recorded as recommended by NCGA Interpretation #3 - "Revenue Recognition".

NOTE D - ACCOUNTS RECEIVABLE

The City charges for water and waste water services and garbage collection on the first of the month for usage during that month. Therefore, the user normally prepays utilities provided by the City and these are recognized in a separate ledger account as deferred revenue. At the end of each month the payment is applied to charges for services based on a predetermined occupancy rate. The balance of accounts receivable is for billings occurring September 1, 2006 and prior. Due to water and waste water services that would be terminated if an account goes 90 days overdue, very few accounts become uncollectible. If an account goes over 120 days then the City will make an allowance for the bad debt.

The following funds have uncollected receivables at September 30, 2006:

	General Fund	Water Fund	Waste Water Fund	Total
Utility Receivables	\$ 127,939	\$ 32,269	\$ 31,703	\$191,911
State Highway Users Tax	72,604	-	-	72,604
State Sales Tax	174,244	-	-	172,244
State Liquor Distribution	27,793	-	-	27,793
Building and Connection Permits	60,629	77,627	63,094	201,350
Misc. and Misc. Grants	55,419	-	-	55,419
Total Receivables	\$ 518,628	\$ 109,896	\$ 94,797	\$723,321

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE E - INTERFUND RECEIVABLES / PAYABLES

This account represents amounts due between funds for the following purposes:

	<u>Enterprise</u>	
	<u>Waste</u>	<u>Water</u>
	<u>Water</u>	<u>Replacement</u>
Sewer System Loan	\$(248,651)	\$248,651

NOTE F – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, is as follows:

Governmental Activities

Capital Assets, Not Being Depreciated:				
Land, Easements and Collections	\$ 1,601,674	\$ 67,334	\$ -	\$ 1,669,008
Capital Assets, Being Depreciated				
Buildings and improvements	3,134,185	-	-	3,134,185
Equipment	2,322,713	159,800	-	2,482,513
Infrastructure	67,202	-	-	67,202
Books	251,301	-	-	251,301
Trucks & Vehicles	744,125	53,146	(159,800)	637,471
	<u>6,519,526</u>	<u>212,946</u>	<u>(159,800)</u>	<u>6,572,672</u>
Total Capital Assets, Being Depreciated				
Less Accumulated Depreciation:				
Buildings and Improvements	(793,521)	(63,990)	-	(857,511)
Equipment	(1,248,525)	(188,766)	-	(1,437,291)
Infrastructure	(3,989)	(3,587)	-	(7,576)
Books	(131,030)	(20,038)	-	(151,068)
Trucks & Vehicles	(431,176)	(4,561)	35,388	(400,349)
	<u>(2,608,241)</u>	<u>(280,942)</u>	<u>35,388</u>	<u>(2,853,795)</u>
Total Accumulated Depreciation				
Capital Assets, Net	<u>\$ 5,512,959</u>	<u>\$ (662)</u>	<u>\$ (124,412)</u>	<u>\$ 5,387,885</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land and Easements	\$ 235,391	\$ -	\$ -	\$ 235,391
Capital Assets, Being Depreciated				
Buildings and Improvements	474,029	-	-	474,029
Equipment	2,753,015	711,305	-	3,464,320
Infrastructure	10,725,697	-	-	10,725,697
Trucks & Vehicles	465,236	38,681	-	503,917
	<u>14,417,977</u>	<u>749,986</u>	<u>-</u>	<u>15,167,963</u>
Total Capital Assets, Being Depreciated				
Less Accumulated Depreciation:				
Buildings and Improvements	(82,873)	(17,912)	-	(100,785)
Equipment	(633,184)	(150,303)	-	(783,487)
Infrastructure	(3,200,105)	(398,286)	-	(3,598,391)
Trucks & Vehicles	(173,097)	(47,131)	-	(220,228)
	<u>(4,089,259)</u>	<u>(613,632)</u>	<u>-</u>	<u>(4,702,891)</u>
Total Accumulated Depreciation				
Capital Assets, Net	<u>\$ 10,564,109</u>	<u>\$ 136,354</u>	<u>\$ -</u>	<u>\$ 10,700,463</u>

**CITY OF HAILEY, IDAHO
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE F — CAPITAL ASSETS (cont.)

The following depreciation has been charged to the respective programs in the government wide statements:

Finance	\$35,583	Streets	88,175
Law Enforcement	17,900	Library	31,303
Animal Control	3,506	Parks	24,547
Building Inspector	6,652	Fire	37,889
			\$245,555

NOTE G - 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 H - DEFERRED REVENUE. GENERAL FUND

Deferred revenue of the Governmental Funds consists of delinquent taxes receivable not collected within 60 days of the fiscal year end.

NOTE I - 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 J - LONG-TERM OBLIGATIONS

The City has entered into the following agreements. Although the lease agreements provide cancellation clauses for termination of the lease due to non-appropriation of funds by the City (lessee) for any fiscal period during the term of the lease, the likelihood of the lease being canceled is considered remote. Therefore, the leases are presented for financial purposes as capital leases. The capital leases are secured by said equipment.

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE J - LONG-TERM OBLIGATIONS (cont.)

<u>Description</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Amount Outstanding 09/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 09/30/06</u>	<u>Amount Due in One Year</u>
GENERAL FUND							
Capital Leases:							
Fire Truck	01/16/06	0.00%	\$ 22,442	\$ -	\$ 22,442	-	\$ -
Volvo 746B Grader & Mack	11/12/07	2.90%	98,193	-	47,270	50,923	50,923
2004 Fire Truck	02/11/08	3.81%	76,544	-	24,567	51,977	25,502
Bonds:							
2003 GO Refunding Bonds	N/A	N/A	550,000	-	180,000	370,000	185,000
Other:							
Acc. Comp. Absences	N/A		202,547	-	794	201,753	-
Total General Fund			<u>\$ 949,726</u>	<u>-</u>	<u>\$ 275,073</u>	<u>\$ 674,653</u>	<u>\$ 261,425</u>
#							
PROPRIETARY FUNDS							
Bonds:							
Sewer Bond	03/01/21	Various	\$ 4,076,198	\$ -	\$ 192,745	\$ 3,883,453	\$ 170,000
Other:							
Waste Water to Water	11/01/09	2.78%	248,651	-	50,000	198,651	50,000
Acc. Comp. Absences	N/A		29,498	7,288	-	36,786	-
Total Proprietary Fund			<u>\$ 4,354,347</u>	<u>\$ 7,288</u>	<u>\$ 242,745</u>	<u>\$ 4,118,890</u>	<u>\$ 220,000</u>

The purchase price of equipment reported as capital leases with remaining capital lease requirements is \$600,779.

Note and bond sinking fund requirements at the balance sheet date are as follows:

<u>Year Ended</u>	<u>Governmental</u>		<u>Proprietary</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 261,425	\$ 10,810	\$ 220,000	\$ 194,228
2008	211,474	5,634	230,000	184,437
2009	-	-	235,000	174,202
2010			243,651	163,575
2011	-	-	205,000	153,442
Thereafter	-	-	2,948,453	777,704
Total	<u>\$ 472,899</u>	<u>\$ 16,444</u>	<u>\$ 4,082,104</u>	<u>\$1,647,588</u>

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE K - GENERAL OBLIGATION REFUNDING BONDS, SERIES 2003

On December 15, 2003 the City of Hailey issued general obligation bonds of \$885,000 (par value) with an effective interest rate of 2.202% to advance refund 1993 General Obligation Refunding Series Bonds and 1993 General Obligation Bonds with a combined effective interest rate of 5.157% and a combined par value of \$920,000. The general obligation bonds were issued at a premium of \$3,063, and after paying issuance costs of \$20,914, the net proceeds were \$867,149. The bonds are not subject to call or redemption prior to their stated dates of maturity. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the prior bonds were called on August 1, 2005. The advance refunding met the requirements of an in-substance debt defeasance.

As a result of the advance refunding, the City reduced its total debt service requirements by \$36,045, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$30,939. A bond maturity and interest schedule of the newly issued bonds follows:

**Bond Amortization Schedule
City of Hailey
General Obligation Refunding Bonds, Series 2003
\$885,000 - Dated December 15, 2003**

<u>Payment</u> <u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Total</u>	<u>Total by</u> <u>Calendar Year</u>
02/01/07	\$ -		\$ 4,255	\$ 4,255	
08/01/07	185,000	2.100%	4,255	189,255	\$ 193,510
02/01/08	-		2,312	2,312	
08/01/08	185,000	2.500%	2,313	187,313	189,625
	<u>\$ 370,000</u>		<u>\$ 13,135</u>	<u>\$ 383,135</u>	<u>\$ 383,135</u>

NOTE L - 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 DEQ loan had accrued interest of \$209,319 and carried an interest rate of 4.5%. Due to DEQ requesting the city to pay off the loan by using public funds at a higher interest rate, they were willing to forgive all but \$1,271 of the accrued interest on the loan. This transaction resulted in no economic gain or loss to the City by refunding the DEQ loan. There will be 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 newly issued bonds follows:

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE L – SEWER REVENUE BONDS– (cont.)

**Sewer Revenue Bond 2001 Amortization Schedule
City of Hailey
\$4,500,000 dated April 17, 2001**

Payment Date	Principal	Interest Rate	Interest	Total	Total by Fiscal Year
03/01/07	170,000	4.375%	95,800	265,800	
09/01/07			92,081	92,081	357,881
03/01/08	180,000	4.375%	92,081	272,081	
09/01/08			88,144	88,144	360,225
03/01/09	185,000	4.500%	88,144	273,144	
09/01/09			83,981	83,981	357,125
03/01/10	195,000	4.500%	83,981	278,981	
09/01/10			79,594	79,594	358,575
03/01/11	205,000	5.625%	79,594	284,594	
09/01/11			73,828	73,828	358,422
03/01/12	220,000	5.625%	73,828	293,828	
09/01/12			67,641	67,641	361,469
03/01/13	230,000	5.625%	67,641	297,641	
09/01/13			61,172	61,172	358,813
03/01/14	245,000	5.625%	61,172	306,172	
09/01/14			54,281	54,281	360,453
03/01/15	260,000	5.625%	54,281	314,281	
09/01/15			46,969	46,969	361,250
03/01/16	270,000	5.625%	46,969	316,969	
09/01/16			39,375	39,375	356,344
03/01/17	285,000	5.000%	39,375	324,375	
09/01/17			32,250	32,250	356,625
03/01/18	300,000	5.000%	32,250	332,250	
09/01/18			24,750	24,750	357,000
03/01/19	315,000	5.000%	24,750	339,750	
09/01/19			16,875	16,875	356,625
03/01/20	330,000	5.000%	16,875	346,875	
09/01/20			8,625	8,625	355,500
03/01/21	345,000	5.000%	8,625	353,625	353,625
	<u>3,735,000</u>		<u>1,634,932</u>	<u>5,369,932</u>	<u>5,369,932</u>

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE L - SEWER REVENUE BONDS (cont.)

Because the interest rate is higher on the bonds than would have been paid to DEQ, the interest accrued at the time of the bonding plus cash accrued at the time of bonding will be amortized (reduce interest expense) over the life of the bonds. The Sewer Revenue Bond payable is comprised of the following:

Sewer Revenue Bonds Outstanding	\$ 3,735,000
Unamortized Interest Expense	<u>148,453</u>
	<u>\$ 3,883,453</u>

NOTE M - 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, 2006, the required contribution rate as a percentage of covered payroll 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 \$278,725, \$252,287 and \$228,711 for the three years ended September 30, 2006, 2005, and 2004 respectively.

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

NOTE N - 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 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, 2006 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

During the Airport Authority's fiscal year ending September 30, 2006, the City of Hailey's share of the Retained Earnings/Equity increased \$1,955,359 and the City's share of Net Assets is \$14,216,040.

NOTE O - 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 P – COMPARATIVE FINANCIAL STATEMENTS

Because of grouping of accounts maintained by the City, some changes have occurred in the manner of presentation of corresponding items in financial statements from prior years and differences may exist for comparative purposes.

REQUIRED SUPPLEMENTARY INFORMATION

City of Hailey
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property Taxes, Penalty and Interest	1,549,536	1,549,536	\$ 1,550,500	\$ 964
Fees and Fines	677,766	677,766	953,792	276,026
Licenses and Permits	478,500	478,500	651,040	172,540
Intergovernmental	853,000	853,000	1,263,375	410,375
Miscellaneous	64,200	64,200	219,045	154,845
Total Revenues	<u>3,623,002</u>	<u>3,623,002</u>	<u>4,637,752</u>	<u>1,014,750</u>
EXPENDITURES:				
Legislative	54,147	57,147	57,441	(294)
Chief Executive	53,361	74,441	71,314	3,127
Engineering	126,715	132,055	140,826	(8,771)
Financial and Administrative	157,712	176,072	139,333	36,739
Planning and Zoning	263,620	264,907	243,414	21,493
Law Enforcement	1,057,673	1,087,673	983,529	104,144
Animal Control	56,272	56,272	51,044	5,228
Building Inspector	145,118	172,330	149,351	22,979
Streets	863,349	886,648	833,977	52,671
Public Works	108,421	157,421	120,394	37,027
Library	401,730	409,730	390,843	18,887
Parks and Recreation	437,762	440,662	304,966	135,696
Fire Control	551,298	566,798	593,953	(27,155)
Capital Outlay	-	-	-	-
Total Expenditures	<u>4,277,178</u>	<u>4,482,156</u>	<u>4,080,385</u>	<u>401,771</u>
Excess (Deficit) Revenues Over Expenditures	(654,176)	(859,154)	557,367	1,416,521
Transfers In (Out)	-	-	21,491	21,491
Net Change in Fund Balance	(654,176)	(859,154)	578,858	1,438,012
FUND BALANCE BEGINNING OF YEAR	<u>1,905,781</u>	<u>1,905,781</u>	<u>1,905,781</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 1,251,605</u>	<u>\$ 1,046,627</u>	<u>\$ 2,484,639</u>	<u>\$ 1,438,012</u>

See accompanying notes and accountants' report.

City of Hailey
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Debt Service Fund
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES:				
Property Tax	\$ 192,110	\$ 192,110	\$ 208,140	\$ 16,030
Miscellaneous	-	-	8,707	8,707
Total Revenues	<u>192,110</u>	<u>192,110</u>	<u>216,847</u>	<u>24,737</u>
EXPENDITURES:				
Bond Interest	-	-	10,591	(10,591)
Bond Principal	192,110	192,110	180,000	12,110
Total Expenditures	<u>192,110</u>	<u>192,110</u>	<u>190,591</u>	<u>1,519</u>
Excess (Deficit) Revenues Over Expenditures	-	-	26,256	26,256
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	26,256	26,256
FUND BALANCE BEGINNING OF YEAR	<u>115,931</u>	<u>115,931</u>	<u>115,931</u>	<u>115,931</u>
FUND BALANCE END OF YEAR	<u><u>\$ 115,931</u></u>	<u><u>\$ 115,931</u></u>	<u><u>\$ 142,187</u></u>	<u><u>\$ 142,187</u></u>

See accompanying notes and accountants' report.

SUPPLEMENTARY INFORMATION

City of Hailey
Statement of Revenues, Expenses, and Changes in Net Assets
Budget and Actual - Water Fund
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
OPERATING REVENUES				
User Charges	\$ 757,119	\$ 757,119	\$ 1,054,067	296,948
Hook-Up and Inspection Fees	12,500	12,500	24,307	11,807
Miscellaneous	-	-	-	-
Total Operating Revenues	<u>769,619</u>	<u>769,619</u>	<u>1,078,374</u>	<u>308,755</u>
OPERATING EXPENSES				
Salaries and Benefits	628,745	628,745	494,171	134,574
Office Supplies and Postage	7,270	7,270	4,464	2,806
Chemical and Lab Testing	6,000	6,000	5,037	963
Advertising and Publishing	4,030	4,030	2,496	1,534
Legal and Audit	12,660	33,660	36,789	(3,129)
Insurance	34,364	34,364	33,052	1,312
Travel and Meetings	6,965	6,965	3,146	3,819
Dues and Subscriptions	3,304	3,304	1,893	1,411
Telephone	12,630	12,630	9,709	2,921
Utilities and Rent	65,590	65,590	55,630	9,960
Gas and Oil	10,430	10,430	12,496	(2,066)
Repairs and Maintenance	32,810	32,810	5,292	27,518
Depreciation	-	-	242,962	(242,962)
Services	79,433	97,793	53,473	44,320
Prevention Program	1,321	1,321	783	538
Reimbursements and Clothing	6,495	6,495	9,987	(3,492)
Education and Miscellaneous	10,565	12,065	4,324	7,741
Supplies	8,965	8,965	3,367	5,598
Special Project & Capital Outlay	2,411,195	2,412,620	1,662,046	750,574
Total Operating Expenses	<u>3,342,772</u>	<u>3,385,057</u>	<u>2,641,117</u>	<u>743,940</u>
Operating Income (Loss)	(2,573,153)	(2,615,438)	(1,562,743)	(435,185)
Non-Operating Revenues (Expenses)				
Grant Revenue	2,402,000	2,402,000	634	(2,401,366)
Interest Earned	4,500	4,500	21	(4,479)
Total Non-Operating Revenues (Expenses)	<u>2,406,500</u>	<u>2,406,500</u>	<u>655</u>	<u>(2,405,845)</u>
Income (Loss) Before Other Adjustments	(166,653)	(208,938)	(1,562,088)	(2,841,030)
Other Adjustments to Retained Earnings				
Transfer of Depreciable Property and Inventory	-	-	1,453,706	1,453,706
Transfer of Cash	-	-	652,656	652,656
Total Other Adjustments To Net Assets	<u>-</u>	<u>-</u>	<u>2,106,362</u>	<u>2,106,362</u>
Net Income (Loss), after Adjustments	(166,653)	(208,938)	544,274	(734,668)
Net Assets, Beginning of Period	<u>5,589,767</u>	<u>5,589,767</u>	<u>5,589,767</u>	<u>5,589,767</u>
Net Assets, End of Period	<u>\$ 5,423,114</u>	<u>\$ 5,380,829</u>	<u>\$ 6,134,041</u>	<u>\$ 4,855,099</u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Revenues, Expenses, and Changes in Net Assets
Budget and Actual - Sewer Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
OPERATING REVENUES				
User Charges	\$ 1,149,873	\$ 1,149,873	\$ 1,223,009	73,136
Hook-Up and Inspection Fees	5,000	5,000	4,061	(939)
Miscellaneous	-	-	535	535
Total Operating Revenues	1,154,873	1,154,873	1,227,605	72,732
OPERATING EXPENSES				
Salaries and Benefits	647,315	647,315	511,679	135,636
Office Supplies and Postage	11,270	11,270	6,535	4,735
Chemical and Lab Testing	14,000	14,000	13,135	865
Advertising and Publishing	3,230	3,230	2,295	935
Legal and Audit	12,660	33,660	49,341	(15,681)
Insurance	34,364	34,364	31,541	2,823
Travel and Meetings	8,265	8,265	4,141	4,124
Dues and Subscriptions	2,234	2,234	1,847	387
Telephone	8,470	8,470	9,515	(1,045)
Utilities and Rent	129,730	129,730	87,165	42,565
Gas and Oil	13,290	13,290	15,580	(2,290)
Repairs and Maintenance	60,985	60,985	47,442	13,543
Depreciation	-	-	370,669	(370,669)
Services	53,438	71,798	49,603	22,195
Prevention Program	3,091	3,091	1,328	1,763
Reimbursements and Clothing	6,495	6,495	19,194	(12,699)
Education and Miscellaneous	8,615	10,115	4,562	5,553
Supplies	15,695	15,695	10,929	4,766
Special Project & Capital Outlay	22,940	24,365	10,234	14,131
Total Operating Expenses	1,056,087	1,098,372	1,246,735	(148,363)
Operating Income (Loss)	98,786	56,501	(19,130)	221,095
Non-Operating Revenues (Expenses)				
Grant Revenue	-	-	-	-
Interest Earned	35,000	35,000	61,982	26,982
Principal Payments	-	-	(188,297)	188,297
Total Non-Operating Revenues (Expenses)	35,000	35,000	(126,315)	215,279
Income (Loss) Before Other Adjustments	133,786	91,501	(145,445)	436,374
Other Adjustments to Retained Earnings				
Transfer of Depreciable Property and Inventory	-	-	-	-
Transfer of Cash	-	-	187,661	187,661
Total Other Adjustments To Net Assets	-	-	187,661	187,661
Net Income (Loss), after Adjustments	133,786	91,501	42,216	624,035
Net Assets, Beginning of Period	2,946,850	2,946,850	2,946,850	5,589,767
Net Assets, End of Period	\$ 3,080,636	\$ 3,038,351	\$ 2,989,066	\$ 6,213,802

See accompanying notes and accountants' report.

City of Hailey
Schedule of Revenues, Expenditures and Changes in Fund Balance
Detailed Budget and Actual - General Fund
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property Taxes, Penalty and Interest	\$ 1,549,536	\$ 1,549,536	\$ 1,550,500	\$ 964
Beverage and Business Licenses	36,500	36,500	127,495	90,995
Permits	442,000	442,000	523,544	81,544
County Animal Control	28,136	28,136	28,136	-
Franchises	136,000	136,000	198,040	62,040
Fines and Forfeitures	84,500	84,500	76,301	(8,199)
Rubbish Bookkeeping	145,000	145,000	156,953	11,953
Refunds and Reimbursements	3,200	3,200	68,629	65,429
Annexation in-Lieu Fees	72,380	72,380	243,000	170,620
Interest Earned	39,000	39,000	114,784	75,784
State Shared Liquor Funds	95,000	95,000	129,299	34,299
Highway Users	260,000	260,000	289,582	29,582
Fees and Miscellaneous	38,250	38,250	56,067	17,817
Federal Grants	80,000	80,000	201,636	121,636
Applications	55,000	55,000	67,870	12,870
Rent and Contracts	140,500	140,500	163,058	22,558
State Sales Tax and Shared Revenue	418,000	418,000	642,858	224,858
Total Revenues	<u>3,623,002</u>	<u>3,623,002</u>	<u>4,637,752</u>	<u>1,014,750</u>
EXPENDITURES:				
Legislative Salaries and Benefits	16,097	16,097	15,423	674
Legislative	38,050	41,050	42,018	(968)
Chief Executive Salaries and Benefits	17,049	17,049	12,440	4,609
Chief Executive	35,173	55,573	58,039	(2,466)
Chief Executive Capital Outlay	1,139	1,819	835	984
Engineering Salaries and Benefits	36,105	36,105	35,854	251
Engineering	3,570	4,130	5,588	(1,458)
Engineering Capital Outlay	87,040	91,820	99,384	(7,564)
Financial and Administrative Salaries and Benefits	98,868	98,868	83,330	15,538
Financial and Administrative	54,322	72,682	51,160	21,522
Financial and Administrative Capital Outlay	4,522	4,522	4,843	(321)
Planning and Zoning Salaries and Benefits	210,316	210,316	201,213	9,103
Planning and Zoning	47,325	47,325	40,244	7,081
Planning and Zoning Capital Outlay	5,979	7,266	1,957	5,309
Law Enforcement Salaries and Benefits	894,565	924,565	852,587	71,978
Law Enforcement	109,784	109,784	91,341	18,443
Law Enforcement Capital Outlay	53,324	53,324	39,601	13,723
Animal Control Salaries and Benefits	50,157	50,157	48,350	1,807
Animal Control	6,115	6,115	2,694	3,421

See accompanying notes and accountants' report.

City of Hailey
Schedule of Revenues, Expenditures and Changes in Fund Balance
Detailed Budget and Actual - General Fund
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Building Inspector Salaries and Benefits	127,323	149,535	136,513	13,022
Building Inspector	14,695	14,695	8,777	5,918
Building Inspector Capital Outlay	3,100	8,100	4,061	4,039
Streets Salaries and Benefits	503,248	526,547	474,711	51,836
Streets	305,467	305,467	295,312	10,155
Streets Capital Outlay	54,634	54,634	63,954	(9,320)
Public Works Salaries and Benefits	56,037	56,037	70,586	(14,549)
Public Works	51,104	100,104	48,949	51,155
Public Works Capital Outlay	1,280	1,280	859	421
Library Salaries and Benefits	310,152	310,152	306,247	3,905
Library	45,336	53,336	36,453	16,883
Library Capital Outlay	46,242	46,242	48,143	(1,901)
Parks and Recreation Salaries and Benefits	66,181	66,181	43,830	22,351
Parks and Recreation	82,581	85,481	76,429	9,052
Parks and Recreation Capital Outlay	289,000	289,000	184,707	104,293
Fire Control Salaries and Benefits	296,423	296,423	298,131	(1,708)
Fire Control	61,375	61,375	53,473	7,902
Fire Control Capital Outlay	193,500	209,000	242,349	(33,349)
Capital Outlay	-	-	-	-
Total Expenditures	4,277,178	4,482,156	4,080,385	401,771
Excess (Deficit) Revenues Over Expenditures	(654,176)	(859,154)	557,367	1,416,521
Transfers In (Out)	-	-	21,491	21,491
Net Change in Fund Balance	(654,176)	(859,154)	578,858	1,438,012
FUND BALANCE BEGINNING OF YEAR	<u>1,905,781</u>	<u>1,905,781</u>	<u>1,905,781</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 1,251,605</u>	<u>\$ 1,046,627</u>	<u>\$ 2,484,639</u>	<u>\$ 1,438,012</u>

See accompanying notes and accountants' report.