

CITY OF HAILEY, IDAHO

BASIC FINANCIAL STATEMENTS
AND
SELECTED OTHER FINANCIAL INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2007

CITY OF HAILEY, IDAHO

TABLE OF CONTENTS

<u>GENERAL PURPOSE FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor’s Report	3-4
Independent Auditor’s Report on Compliance and on Internal Control	5-6
Management’s Discussion and Analysis	7-13
Government-Wide Financial Statements:	
Statement of Nets Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Government Funds	18
Reconciliation of the Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities	21
Statement of Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds	24
Notes to Financial Statements	27-40
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
General Fund	42
Debt Service	43
 <u>SUPPLEMENTARY INFORMATION</u>	
Statement of Revenues, Expenditures and Changes in Retained Earnings	
Budget and Actual - Water and Sewer Funds	45-46
Statement of Revenues, Expenditures and Changes in Fund Balance	
Detailed Budget and Actual – General Fund	47-48

Justamere Inn
401 Gooding Street North, Suite 201
P.O. Box 1293
Twin Falls, Idaho 83303-1293

Phone (208) 734-2077
Fax (208) 734-2079

office@hcmholmstead.com

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, 2007, 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, 2007, 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 December 3, 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

HCM Holmstead, pllc
December 3, 2007

Justamere Inn
401 Gooding Street North, Suite 201
P.O. Box 1293
Twin Falls, Idaho 83303-1293

Phone (208) 734-2077
Fax (208) 734-2079

office@hcmholmstead.com

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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 3, 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 December 3, 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 black ink that reads "HCM Holmstead". The signature is written in a cursive, flowing style.

HCM Holmstead, pllc
December 3, 2007

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Hailey
Statement of Net Assets
September 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 810,047	\$ 3,037,103	\$ 3,847,150
Investments	2,007,142	1,012,626	3,019,768
Accounts Receivable	403,782	425,458	829,240
Delinquent Taxes Receivable	54,770	-	54,770
Inventory	-	207,976	207,976
Total Current Assets	<u>3,275,741</u>	<u>4,683,163</u>	<u>7,958,904</u>
Non Current Assets			
Restricted Cash and Investments	200,880	-	200,880
Construction in Progress	382,395	-	382,395
Capital Assets, net of Accumulated Depreciation	5,685,180	13,723,495	19,408,675
Total Non Current Assets	<u>6,268,455</u>	<u>13,723,495</u>	<u>19,991,950</u>
Total Assets	9,544,196	18,406,658	27,950,854
LIABILITIES			
Current Liabilities			
Vouchers Payable	376,111	-	376,111
Accrued Payroll and Benefits Payable	121,251	-	121,251
Accrued Interest Payable	8,758	16,328	25,086
Surety and Security Bonds Payable	387,264	37,574	424,838
Note Payments Due Within One Year	261,425	170,000	431,425
Total Current Liabilities	<u>1,154,809</u>	<u>223,902</u>	<u>1,378,711</u>
Long-Term Debt			
Note Payments Due Beyond One Year	154,191	3,526,393	3,680,584
Accrued Compensated Absences	157,392	32,550	189,942
Total Long-Term Liabilities	<u>311,583</u>	<u>3,558,943</u>	<u>3,870,526</u>
Total Liabilities	1,466,392	3,782,845	5,249,237
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	5,269,564	10,027,103	15,296,667
Restricted	200,880		200,880
Unrestricted	2,607,361	4,596,714	7,204,075
Total Net Assets	<u>\$ 8,077,805</u>	<u>\$ 14,623,817</u>	<u>\$ 22,701,622</u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Activities
For the Year Ended September 30, 2007

Functions/Programs	Direct Expenses	Indirect Expenses			Net (Exp.) Revenue & Changes in Net Assets Primary Government	
			Fees, Fines & Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
General Government:						
Dedicated Projects	\$ -		\$ 89,895	\$ -	\$ 89,895	
Legislative	62,590		-	255,127	192,537	
Chief Executive	150,937		-		(150,937)	
Engineering	163,166		-		(163,166)	
Financial and Administrative	179,091		223,564		44,473	
Planning and Zoning	227,701		32,423		(195,278)	
Law Enforcement	1,202,357		212,940		(989,417)	
Animal Control	33,561		19,038		(14,523)	
Building Inspector	171,522		145,123		(26,399)	
Streets	1,101,345		13,800		(1,087,545)	
Public Works	93,118		-		(93,118)	
Library	435,165		17,066		(418,099)	
Parks and Recreation	180,492		13,942		(166,550)	
Fire Control	489,120		44,636		(444,484)	
Bond Interest and Fees	12,320		-	-	(12,320)	
Total Government Activities	4,502,485	-	812,427	255,127	(3,434,931)	
Business-Type Activities:						
Water Revenue Fund	994,578		1,290,044	2,160,000	-	2,455,466
Sewer Revenue Fund	1,379,395		1,245,314	-	-	(134,081)
Water Replacement Fund	261,387		241,059	-	-	(20,328)
Sewer Replacement Fund	32,462		111,225	-	-	78,763
Total Business-Type Activities	2,667,822		2,887,642	2,160,000	-	2,379,820
Total	7,170,307		3,700,069	2,415,127	(3,434,931)	2,379,820
General Revenues						
Property Taxes					1,826,302	
Local Option Taxes					415,180	
State Allocations					1,181,333	
Franchises					209,281	
Earnings on Investments					177,501	170,807
Miscellaneous					2,329	-
Total General Revenues					3,811,926	170,807
Net Transfers (In) Out					-	-
Change in Net Assets					376,995	2,550,627
Net Assets - Beginning					7,700,810	12,073,190
Net Assets - Ending					\$ 8,077,805	\$ 14,623,817

See accompanying notes and accountants' report.

FUND FINANCIAL STATEMENTS

**City of Hailey
Balance Sheet
Governmental Funds
September 30, 2007**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 859,540	\$ 148,498	\$ 2,885	\$ 1,010,923
Investments	2,007,142			2,007,142
Accounts Receivable	403,782	-	-	403,782
Property Taxes Receivable	48,694	6,076	-	54,770
Total Assets	3,319,158	154,574	2,885	3,476,617
LIABILITIES AND FUND BALANCES				
Liabilities				
Vouchers Payable	\$ 376,111	\$ -	\$ -	\$ 376,111
Accrued Payroll Expenses	121,251	-	-	121,251
Accrued Interest Payable	-	-	-	-
Surety and Security Bonds Payable	387,264	-	-	387,264
Deferred Revenue	41,059	5,145	-	46,204
Total Liabilities	925,685	5,145	-	930,830
Fund Balances				
Unreserved, Reported In:				
Designated Fund Balance				
General Fund	2,393,473			2,393,473
Debt Service Fund		149,429		149,429
Special Revenue Funds			2,885	2,885
Total Fund Balances	2,393,473	149,429	2,885	2,545,787
Total Liabilities and Fund Balances	\$ 3,319,158	\$ 154,574	\$ 2,885	\$ 3,476,617

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, 2007

Total Governmental Fund Balances	\$ 2,545,787
<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>	6,067,575
<p>Property taxes collected beyond 60 days after year end are not recorded recorded as assets in the Governmental Funds Balance Sheet</p>	46,204
<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	(415,611)
Accrued Interest Payable	(8,758)
Compensated Absences Payable	(157,392)
	(581,761)
Net Assets of Governmental Activities	\$ 8,077,805

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, 2007

	General Fund	Debt Service Fund	Other Governmental Funds	Total (Governmental Funds)
REVENUES				
Property Tax	\$ 1,622,459	\$ 194,319	\$ -	\$ 1,816,778
Fees and Fines	1,151,148	-	-	1,151,148
Licenses and Permits	205,560	-	-	205,560
Intergovernmental	1,436,460	-	-	1,436,460
Miscellaneous	253,074	6,933	-	260,007
Total Revenues	4,668,701	201,252	-	4,869,953
EXPENDITURES				
Dedicated Projects	-	-	-	-
Legislative	62,590	-	-	62,590
Chief Executive	146,845	-	-	146,845
Engineering	157,673	-	-	157,673
Financial and Administrative	140,757	-	-	140,757
Planning & Zoning	235,429	-	-	235,429
Law Enforcement	1,212,663	-	-	1,212,663
Animal Control	33,226	-	-	33,226
Building Inspector	164,590	-	-	164,590
Streets	1,308,010	-	-	1,308,010
Public Works	103,438	-	-	103,438
Library	416,470	-	-	416,470
Parks and Recreation	212,429	-	-	212,429
Fire Control	565,747	-	-	565,747
Debt Service:				
Bond Interest and Fees	-	10,591	-	10,591
Bond Principal	-	183,419	-	183,419
Total Expenditures	4,759,867	194,010	-	4,953,877
Excess (Deficiency) of Revenues over Expenditures	(91,166)	7,242	-	(83,924)
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(91,166)	7,242	-	(83,924)
Fund Balances, Beginning of Year	2,484,639	142,187	2,885	2,629,711
Fund Balances, End of Year	\$ 2,393,473	\$ 149,429	\$ 2,885	\$ 2,545,787

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, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (83,924)

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 9,526

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	\$ 527,577	
Depreciation Expense	(297,371)	
Excess of Depreciation Expense over Capital Outlay		230,206

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. 181,690

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	\$ (4,864)	
Decrease in Compensated Absences	44,361	
		39,497

Change in Net Assets of Governmental Activities \$ 376,995

City of Hailey
Statement of Net Assets - Proprietary Funds
September 30, 2007

	<u>Water Revenue Fund</u>	<u>Sewer Revenue Fund</u>	<u>Water Replacement Fund</u>	<u>Sewer Replacement Fund</u>	<u>Total Proprietary Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 948,770	\$ 403,648	\$ 981,805	\$ 702,886	\$ 3,037,109
Investment			506,313	506,313	1,012,626
Accounts Receivable, Net	255,425	170,032	-	-	425,457
Inventory	207,976	-	-	-	207,976
Restricted Cash & Investments	-	-	-	-	-
Interfund Receivable	-	-	148,651	-	148,651
Construction In Progress	-	-	-	-	-
Property, Plant and Equipment, Net	7,260,101	6,463,395	-	-	13,723,496
Total Assets	<u>8,672,272</u>	<u>7,037,075</u>	<u>1,636,769</u>	<u>1,209,199</u>	<u>18,555,315</u>
LIABILITIES					
Current Liabilities:					
Vouchers Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Payroll Expense	-	-	-	-	-
Accrued Interest Payable	-	16,328	-	-	16,328
Security Deposits	37,574	-	-	-	37,574
Current Portion of Interfund Payable	-	50,000	-	-	50,000
Current Portion of Long-Term Debt	-	170,000	-	-	170,000
Non-Current Liabilities					
Interfund Payable	-	98,651	-	-	98,651
Surety and Security Bonds	-	-	-	-	-
Accrued Compensated Absences	16,092	16,458	-	-	32,550
Sewer Revenue Bonds	-	3,526,393	-	-	3,526,393
Total Liabilities	53,666	3,877,830	-	-	3,931,496
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	7,260,101	2,767,002	-	-	10,027,103
Reserved for System Replacement			1,636,769	1,209,199	2,845,968
Unreserved	1,358,505	392,243	-	-	1,750,748
Total Net Assets	<u>\$ 8,618,606</u>	<u>\$ 3,159,245</u>	<u>\$ 1,636,769</u>	<u>\$ 1,209,199</u>	<u>\$ 14,623,818</u>

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, 2007

	Water Revenue Fund	Sewer Revenue Fund	Water Replacement Fund	Sewer Replacement Fund	Total Proprietary Funds
OPERATING REVENUES					
User Charges	\$ 1,257,969	\$ 1,244,316	\$ 114	\$ (8)	\$ 2,502,391
Hook-Up and Inspection Fees	21,652	1,000	240,944	111,234	374,830
Miscellaneous	-	-	-	-	-
Total Operating Revenues	<u>1,279,621</u>	<u>1,245,316</u>	<u>241,058</u>	<u>111,226</u>	<u>2,877,221</u>
OPERATING EXPENSES					
Salaries and Benefits	496,486	519,395	-	-	1,015,881
Office Supplies and Postage	6,206	9,360	-	-	15,566
Chemical and Lab Testing	4,849	13,472	-	-	18,321
Advertising and Publishing	2,274	2,141	-	-	4,415
Legal and Audit	34,691	34,856	-	-	69,547
Insurance	34,164	34,164	-	-	68,328
Travel and Meetings	2,377	5,050	-	-	7,427
Dues and Subscriptions	3,793	2,521	-	-	6,314
Telephone	10,238	9,575	-	-	19,813
Utilities and Rent	63,213	79,526	-	-	142,739
Gas and Oil	9,475	13,734	-	-	23,209
Repairs and Maintenance	26,043	49,871	88,749	71,336	235,999
Depreciation	205,172	373,957	-	-	579,129
Services	39,272	31,537	2,063	-	72,872
Prevention Program	419	2,838	107	-	3,364
Reimbursements and Clothing	5,157	6,315	-	-	11,472
Education and Miscellaneous	2,684	2,920	-	-	5,604
Supplies	3,602	7,504	-	-	11,106
Special Project & Capital Outlay	32,342	2,026	170,468	(38,875)	165,961
Total Operating Expenses	<u>982,457</u>	<u>1,200,762</u>	<u>261,387</u>	<u>32,461</u>	<u>2,477,068</u>
Operating Income (Loss)	297,164	44,554	(20,329)	78,765	400,153
Non-Operating Revenues (Expenses)					
Grant Revenue	2,170,425	-	-	-	2,170,425
Interest Earned	13,765	36,286	64,410	56,344	170,805
Principal Payments					-
Interest Expense		(178,634)			(178,634)
Total Non-Operating Revenues (Expenses)	<u>2,184,190</u>	<u>(142,348)</u>	<u>64,410</u>	<u>56,344</u>	<u>2,162,596</u>
Income (Loss) Before Other Adjustments	2,481,354	(97,794)	44,081	135,109	2,562,749
Other Adjustments to Net Assets					
Capitalization of Deprec. Property and Inventory	(12,120)	-	-	-	(12,120)
Transfer of Cash and Replacement Property	15,332	267,973	(15,332)	(267,973)	-
Total Other Adjustments To Net Assets	<u>3,212</u>	<u>267,973</u>	<u>(15,332)</u>	<u>(267,973)</u>	<u>(12,120)</u>
Change in Net Assets	2,484,566	170,179	28,749	(132,864)	2,550,629
Net Assets Beginning of Period	<u>6,134,040</u>	<u>2,989,066</u>	<u>1,608,020</u>	<u>1,342,063</u>	<u>12,073,189</u>
Net Assets End of Period	<u>\$ 8,618,606</u>	<u>\$ 3,159,245</u>	<u>\$ 1,636,769</u>	<u>\$ 1,209,199</u>	<u>\$ 14,623,818</u>

See accompanying notes and accountants' report.

City of Hailey
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2007

	Water Revenue Fund	Sewer Revenue Fund	Water Replacement Fund	Sewer Replacement Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Customers	\$ 1,134,091	\$ 1,170,082	\$ 241,057	\$ 111,226	\$ 2,656,456
Cash Payments to Suppliers for Goods	(287,568)	(323,171)	(263,221)	(63,368)	(937,328)
Cash Payments to Employees for Services	(499,305)	(520,812)	-	-	(1,020,117)
Net Cash Provided (Used) by Operating Activities	347,218	326,099	(22,164)	47,858	699,011
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interest paid	-	(7,512)			
Principal (Paid) Received on Long-Term Debt	-	(50,000)	50,000	-	-
Cash Advanced to (from) Other Funds	15,332	267,973	(15,332)	(267,973)	-
Cash Received from Grants	2,170,425	-	-	-	2,170,425
Net Cash Provided (Used) by Noncapital Financing Activities	2,185,757	210,461	34,668	(267,973)	2,170,425
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Capital Assets	(1,419,217)	(278,173)	-	-	(1,697,390)
Increase in Investments			(506,313)	(506,313)	
Reduction of Debt	-	(187,060)	-	-	(187,060)
Interest Paid	-	(171,822)	-	-	(171,822)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,419,217)	(637,055)	(506,313)	(506,313)	(3,068,898)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on Investments	13,765	36,285	64,410	56,344	170,804
Redemption of Investments					-
Net Cash Provided (Used) by Financing Activities	13,765	36,285	64,410	56,344	170,804
Net Increase (Decrease) in Cash	1,127,523	(64,210)	(429,399)	(670,084)	(36,170)
CASH - BEGINNING OF YEAR	(178,753)	467,858	1,411,204	1,372,970	3,073,279
CASH (OVERDRAFT) - END OF YEAR	<u>\$ 948,770</u>	<u>\$ 403,648</u>	<u>\$ 981,805</u>	<u>\$ 702,886</u>	<u>\$ 3,037,109</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 297,164	\$ 44,554	\$ (20,329)	\$ 78,765	\$ 400,154
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	205,172	373,957	-	-	579,129
Change in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	(145,529)	(75,235)	-	-	(220,764)
(Increase) Decrease in Inventory	12,120	-	-	-	12,120
Increase (Decrease) in Vouchers Payable	(25,472)	(15,761)	(1,834)	(30,907)	(73,974)
Increase (Decrease) in Accrued Payroll Expense	-	-	-	-	-
Increase (Decrease) in Security Deposits	6,583	-	-	-	6,583
Increase (Decrease) in Compensated Absences	(2,819)	(1,417)	-	-	(4,236)
Total Adjustments	50,055	281,544	(1,834)	(30,907)	298,858
Net Cash Provided (Used) by Operating Activities	<u>\$ 347,219</u>	<u>\$ 326,098</u>	<u>\$ (22,163)</u>	<u>\$ 47,858</u>	<u>\$ 699,012</u>

See accompanying notes and accountants' report.

NOTES TO FINANCIAL STATEMENTS

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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, 2007

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, 2007**

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, 2007**

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, 2007**

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, 2007**

NOTE B - CASH AND INVESTMENTS (cont.)

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Mountain West Bank - Checking	\$ (2,966)	\$ (2,966)
Mountain West Bank - Cash Management	(261,537)	281,901
Bank of America - Interest Bearing Checking	5,924	5,924
Cash on Hand	300	300
Chase – Checking	17,246	17,246
State of Idaho Investment Pool	4,289,062	4,289,062
Piper Jaffray Investment	<u>3,019,768</u>	<u>3,019,768</u>
 Total Cash and Investments	 <u><u>\$7,067,797</u></u>	 <u><u>\$7,593,989</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	\$20,504	\$(261,537)	-	\$(241,033)
Investment in Piper Jaffray				3,019,768
Investments in State of Idaho's Investment Pool				<u>4,289,062</u>
Total Cash and Investments				<u><u>\$7,067,797</u></u>

Funds held in the Water Replacement and Waste Water Replacement Funds (Enterprise Funds) in the amount of \$2,845,968 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, 2007**

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, 2007 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	\$ 50,154	\$ 253,263	\$ 170,033	\$473,450
State Highway Users Tax	70,425	-	-	70,425
State Sales Tax	160,709	-	-	160,709
State Liquor Distribution	27,125	-	-	27,125
Building and Connection Permits	6,618	2,162	-	8,780
Local Option Tax	31,700	-	-	31,700
Misc. and Misc. Grants	57,051	-	-	57,051
Total Receivables	\$ 403,782	\$ 255,425	\$ 170,033	\$829,240

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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	\$(195,651)	\$195,651

NOTE F – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, is as follows:

	<u>Balance</u> <u>9/30/2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>9/30/2007</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land, Easements and Collections	\$ 1,669,008	\$ -	\$ -	\$ 1,669,008
Capital Assets, Being Depreciated				
Buildings and improvements	3,134,185	-	-	3,134,185
Equipment	2,482,513	535,410	-	3,017,923
Infrastructure	67,202	-	-	67,202
Books	251,301	-	-	251,301
Trucks & Vehicles	637,471	59,256	-	696,727
Total Capital Assets, Being Depreciated	6,572,672	594,666	-	7,167,338
Less Accumulated Depreciation:				
Buildings and Improvements	(857,511)	(64,234)	-	(921,745)
Equipment	(1,437,291)	(149,027)	-	(1,586,318)
Infrastructure	(7,576)	(3,586)	-	(11,162)
Books	(151,068)	(19,480)	-	(170,548)
Trucks & Vehicles	(400,349)	(61,045)	-	(461,394)
Total Accumulated Depreciation	(2,853,795)	(297,372)	-	(3,151,167)
Capital Assets, Net	<u>\$ 5,387,885</u>	<u>\$ 297,294</u>	<u>\$ -</u>	<u>\$ 5,685,179</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	3,464,320	293,505	-	3,757,825
Infrastructure	10,725,697	3,308,656	-	14,034,353
Trucks & Vehicles	503,917	-	-	503,917
Total Capital Assets, Being Depreciated	15,167,963	3,602,161	-	18,770,124
Less Accumulated Depreciation:				
Buildings and Improvements	(100,785)	(17,913)	-	(118,698)
Equipment	(783,487)	(195,807)	-	(979,294)
Infrastructure	(3,598,391)	(331,382)	-	(3,929,773)
Trucks & Vehicles	(220,228)	(34,027)	-	(254,255)
Total Accumulated Depreciation	(4,702,891)	(579,129)	-	(5,282,020)
Capital Assets, Net	<u>\$ 10,700,463</u>	<u>\$ 3,023,032</u>	<u>\$ -</u>	<u>\$ 13,723,495</u>

**CITY OF HAILEY, IDAHO
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

NOTE F — CAPITAL ASSETS (cont.)

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

Finance	\$35,583	Streets	140,498
Law Enforcement	17,465	Library	26,866
Animal Control	3,506	Parks	24,788
Building Inspector	6,652	Fire	42,013
			\$297,371

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, 2007

NOTE J - LONG-TERM OBLIGATIONS (cont.)

<u>Description</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Amount Outstanding 09/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 09/30/07</u>	<u>Amount Due in One Year</u>
GENERAL FUND							
Capital Leases:							
2006 Loader	12/15/09	4.43%	\$ -	\$ -	\$ 76,872	\$ 230,616	\$ 76,824
Volvo 746B Grader & Mack	11/12/07	2.90%	50,923	-	50,923	-	-
2004 Fire Truck	02/11/08	3.81%	51,977	-	51,977	-	-
Bonds:							
2003 GO Refunding Bonds	N/A	N/A	370,000	-	185,000	185,000	185,000
Other:							
Acc. Comp. Absences	N/A		201,753	-	44,361	157,392	-
Total General Fund			\$ 674,653	\$ -	\$ 409,133	\$ 573,008	\$ 261,824
PROPRIETARY FUNDS							
Bonds:							
Sewer Bond	03/01/21	Various	\$ 3,883,453	\$ -	\$ 187,060	\$ 3,696,393	\$ 180,000
Other:							
Waste Water to Water	11/01/09	2.78%	195,651	-	50,000	145,651	50,000
Acc. Comp. Absences	N/A		36,786	4,236	-	32,550	-
Total Proprietary Fund			\$ 4,115,890	\$ 4,236	\$ 237,060	\$ 3,874,594	\$ 230,000

The purchase price of equipment reported as capital leases with remaining capital lease requirements is \$671,966.

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>
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	\$ 211,474	\$ 5,634	\$ 3,862,104	\$1,453,360

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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 Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Total</u>	<u>Total by Calendar Year</u>
02/01/08			\$ 2,312	\$ 2,312	
08/01/08	\$ 185,000	2.500%	2,313	187,313	\$ 189,625
	<u>\$ 185,000</u>		<u>\$ 4,625</u>	<u>\$ 189,625</u>	<u>\$ 189,625</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, 2007

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
03/01/08	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>3,565,000</u>		<u>1,447,051</u>	<u>5,012,051</u>	<u>5,012,051</u>

CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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	\$ 3,565,000
Unamortized Interest Expense	<u>131,393</u>
	<u>\$ 3,696,393</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, 2007, 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 \$292,647, \$278,725 and \$252,287 for the three years ended September 30, 2007, 2006, and 2005 respectively.

**CITY OF HAILEY, IDAHO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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, 2007 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

During the Airport Authority's fiscal year ending September 30, 2007, 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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property Taxes, Penalty and Interest	1,616,565	1,616,565	\$ 1,622,459	\$ 5,894
Fees and Fines	771,194	771,194	1,151,148	379,954
Licenses and Permits	978,500	978,500	205,560	(772,940)
Intergovernmental	1,204,000	1,204,000	1,436,460	232,460
Miscellaneous	148,121	148,121	253,074	104,953
Total Revenues	<u>4,718,380</u>	<u>4,718,380</u>	<u>4,668,701</u>	<u>(49,679)</u>
EXPENDITURES:				
Legislative	55,991	55,991	62,590	(6,599)
Chief Executive	141,734	141,734	146,845	(5,111)
Engineering	66,711	66,711	157,673	(90,962)
Financial and Administrative	160,740	160,740	140,757	19,983
Planning and Zoning	314,249	314,249	235,429	78,820
Law Enforcement	1,273,076	1,273,076	1,212,663	60,413
Animal Control	57,113	57,113	33,226	23,887
Building Inspector	189,268	189,268	164,590	24,678
Streets	1,300,064	1,300,064	1,308,010	(7,946)
Public Works	83,609	83,609	103,438	(19,829)
Library	425,539	425,539	416,470	9,069
Parks and Recreation	274,258	274,258	212,429	61,829
Fire Control	602,534	602,534	565,747	36,787
Capital Outlay	-	-	-	-
Total Expenditures	<u>4,944,886</u>	<u>4,944,886</u>	<u>4,759,867</u>	<u>185,019</u>
Excess (Deficit) Revenues Over Expenditures	(226,506)	(226,506)	(91,166)	135,340
Transfers In (Out)	-	-	-	-
Net Change in Fund Balance	<u>(226,506)</u>	<u>(226,506)</u>	<u>(91,166)</u>	<u>135,340</u>
FUND BALANCE BEGINNING OF YEAR	<u>2,484,639</u>	<u>2,484,639</u>	<u>2,484,639</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u><u>\$ 2,258,133</u></u>	<u><u>\$ 2,258,133</u></u>	<u><u>\$ 2,393,473</u></u>	<u><u>\$ 135,340</u></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, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES:				
Property Tax	\$ 193,620	\$ 193,620	\$ 194,319	\$ 699
Miscellaneous	-	-	6,933	6,933
Total Revenues	<u>193,620</u>	<u>193,620</u>	<u>201,252</u>	<u>7,632</u>
EXPENDITURES:				
Bond Interest	-	-	10,591	(10,591)
Bond Principal	193,620	193,620	183,419	10,201
Total Expenditures	<u>193,620</u>	<u>193,620</u>	<u>194,010</u>	<u>(390)</u>
Excess (Deficit) Revenues Over Expenditures	-	-	7,242	7,242
Transfers In (Out)	-	-	-	-
Net Change in Fund Balance	-	-	7,242	7,242
FUND BALANCE BEGINNING OF YEAR	<u>142,187</u>	<u>142,187</u>	<u>142,187</u>	<u>142,187</u>
FUND BALANCE END OF YEAR	<u><u>\$ 142,187</u></u>	<u><u>\$ 142,187</u></u>	<u><u>\$ 149,429</u></u>	<u><u>\$ 149,429</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
OPERATING REVENUES				
User Charges	\$ 1,146,576	\$ 1,146,576	\$ 1,257,969	111,393
Hook-Up and Inspection Fees	7,500	7,500	21,652	14,152
Miscellaneous	-	-	-	-
Total Operating Revenues	<u>1,154,076</u>	<u>1,154,076</u>	<u>1,279,621</u>	<u>125,545</u>
OPERATING EXPENSES				
Salaries and Benefits	695,145	695,145	496,486	198,659
Office Supplies and Postage	7,667	7,667	6,206	1,461
Chemical and Lab Testing	6,000	6,000	4,849	1,151
Advertising and Publishing	6,067	6,067	2,274	3,793
Legal and Audit	37,000	37,000	34,691	2,309
Insurance	36,567	36,567	34,164	2,403
Travel and Meetings	6,525	6,525	2,377	4,148
Dues and Subscriptions	3,400	3,400	3,793	(393)
Telephone	13,187	13,187	10,238	2,949
Utilities and Rent	71,940	71,940	63,213	8,727
Gas and Oil	15,480	15,480	9,475	6,005
Repairs and Maintenance	36,987	36,987	26,043	10,944
Depreciation	-	-	205,172	(205,172)
Services	60,032	60,032	39,272	20,760
Prevention Program	1,252	1,252	419	833
Reimbursements and Clothing	6,500	6,500	5,157	1,343
Education and Miscellaneous	10,767	10,767	2,684	8,083
Supplies	10,617	10,617	3,602	7,015
Special Project & Capital Outlay	410,963	410,963	32,342	378,621
Total Operating Expenses	<u>1,436,096</u>	<u>1,436,096</u>	<u>982,457</u>	<u>453,639</u>
Operating Income (Loss)	(282,020)	(282,020)	297,164	(328,094)
Non-Operating Revenues (Expenses)				
Grant Revenue	200,000	200,000	2,170,425	1,970,425
Interest Earned	20,000	20,000	13,765	(6,235)
Total Non-Operating Revenues (Expenses)	<u>220,000</u>	<u>220,000</u>	<u>2,184,190</u>	<u>1,964,190</u>
Income (Loss) Before Other Adjustments	(62,020)	(62,020)	2,481,354	1,636,096
Other Adjustments to Retained Earnings				
Transfer of Depreciable Property and Inventory	-	-	(12,120)	(12,120)
Transfer of Cash	-	-	15,332	15,332
Total Other Adjustments To Net Assets	<u>-</u>	<u>-</u>	<u>3,212</u>	<u>3,212</u>
Net Income (Loss), after Adjustments	(62,020)	(62,020)	2,484,566	1,639,308
Net Assets, Beginning of Period	<u>6,134,040</u>	<u>6,134,040</u>	<u>6,134,040</u>	<u>6,134,040</u>
Net Assets, End of Period	<u>\$ 6,072,020</u>	<u>\$ 6,072,020</u>	<u>\$ 8,618,606</u>	<u>\$ 7,773,348</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, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
OPERATING REVENUES				
User Charges	\$ 1,261,807	\$ 1,261,807	\$ 1,244,316	(17,491)
Hook-Up and Inspection Fees	5,000	5,000	1,000	(4,000)
Miscellaneous	-	-	-	-
Total Operating Revenues	<u>1,266,807</u>	<u>1,266,807</u>	<u>1,245,316</u>	<u>(21,491)</u>
OPERATING EXPENSES				
Salaries and Benefits	696,706	696,706	519,395	177,311
Office Supplies and Postage	11,667	11,667	9,360	2,307
Chemical and Lab Testing	14,000	14,000	13,472	528
Advertising and Publishing	3,867	3,867	2,141	1,726
Legal and Audit	37,000	37,000	34,856	2,144
Insurance	36,567	36,567	34,164	2,403
Travel and Meetings	8,650	8,650	5,050	3,600
Dues and Subscriptions	2,250	2,250	2,521	(271)
Telephone	7,927	7,927	9,575	(1,648)
Utilities and Rent	129,220	129,220	79,526	49,694
Gas and Oil	16,240	16,240	13,734	2,506
Repairs and Maintenance	62,267	62,267	49,871	12,396
Depreciation	-	-	373,957	(373,957)
Services	32,862	32,862	31,537	1,325
Prevention Program	3,052	3,052	2,838	214
Reimbursements and Clothing	7,500	7,500	6,315	1,185
Education and Miscellaneous	9,167	9,167	2,920	6,247
Supplies	16,017	16,017	7,504	8,513
Special Project & Capital Outlay	44,723	44,723	2,026	42,698
Total Operating Expenses	<u>1,139,682</u>	<u>1,139,682</u>	<u>1,200,762</u>	<u>(61,079)</u>
Operating Income (Loss)	127,125	127,125	44,554	39,588
Non-Operating Revenues (Expenses)				
Grant Revenue	-	-	-	-
Interest Earned	12,000	12,000	36,286	24,286
Principal Payments	-	-	(178,634)	178,634
Total Non-Operating Revenues (Expenses)	<u>12,000</u>	<u>12,000</u>	<u>(142,348)</u>	<u>202,920</u>
Income (Loss) Before Other Adjustments	139,125	139,125	(97,794)	242,508
Other Adjustments to Retained Earnings				
Transfer of Depreciable Property and Inventory	-	-	-	-
Transfer of Cash	-	-	267,973	267,973
Total Other Adjustments To Net Assets	<u>-</u>	<u>-</u>	<u>267,973</u>	<u>267,973</u>
Net Income (Loss), after Adjustments	139,125	139,125	170,179	510,481
Net Assets, Beginning of Period	<u>2,989,066</u>	<u>2,989,066</u>	<u>2,989,066</u>	<u>6,134,040</u>
Net Assets, End of Period	<u>\$ 3,128,191</u>	<u>\$ 3,128,191</u>	<u>\$ 3,159,245</u>	<u>\$ 6,644,521</u>

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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property Taxes, Penalty and Interest	\$ 1,616,565	\$ 1,616,565	\$ 1,622,456	\$ 5,891
Business Licenses and Local Option Tax	471,500	471,500	450,395	(21,105)
Permits	507,000	507,000	170,345	(336,655)
County Animal Control	28,725	28,725	19,038	(9,687)
Franchises	265,000	265,000	209,281	(55,719)
Fines and Forfeitures	85,000	85,000	67,743	(17,257)
Rubbish Bookkeeping	75,000	75,000	166,329	91,329
Refunds and Reimbursements	12,000	12,000	51,473	39,473
Annexation in-Lieu Fees	72,380	72,380	61,190	(11,190)
Interest Earned	114,121	114,121	170,568	56,447
State Shared Liquor Funds	110,000	110,000	149,161	39,161
Highway Users	300,000	300,000	297,039	(2,961)
Fees and Miscellaneous	39,250	39,250	49,676	10,426
Federal Grants	254,000	254,000	255,127	1,127
Applications	55,000	55,000	31,064	(23,936)
Rent and Contracts	172,839	172,839	162,683	(10,156)
State Sales Tax and Shared Revenue	540,000	540,000	735,133	195,133
Total Revenues	<u>4,718,380</u>	<u>4,718,380</u>	<u>4,668,701</u>	<u>(49,679)</u>
EXPENDITURES:				
Legislative Salaries and Benefits	18,791	18,791	16,763	2,028
Legislative	37,200	37,200	45,827	(8,627)
Chief Executive Salaries and Benefits	51,683	51,683	55,437	(3,754)
Chief Executive	85,601	85,601	91,005	(5,404)
Chief Executive Capital Outlay	4,450	4,450	403	4,047
Engineering Salaries and Benefits	37,681	37,681	37,325	356
Engineering	3,550	3,550	22,230	(18,680)
Engineering Capital Outlay	25,480	25,480	98,118	(72,638)
Financial and Administrative Salaries and Benefits	101,631	101,631	89,628	12,003
Financial and Administrative	53,476	53,476	49,626	3,850
Financial and Administrative Capital Outlay	5,633	5,633	1,503	4,130
Planning and Zoning Salaries and Benefits	261,739	261,739	208,079	53,660
Planning and Zoning	50,010	50,010	25,839	24,171
Planning and Zoning Capital Outlay	2,500	2,500	1,511	989
Law Enforcement Salaries and Benefits	1,058,176	1,058,176	1,000,110	58,066
Law Enforcement	176,900	176,900	160,858	16,042
Law Enforcement Capital Outlay	38,000	38,000	51,695	(13,695)
Animal Control Salaries and Benefits	51,998	51,998	31,470	20,528
Animal Control	5,115	5,115	1,756	3,359

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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Building Inspector Salaries and Benefits	160,683	160,683	153,260	7,423
Building Inspector	15,985	15,985	9,836	6,149
Building Inspector Capital Outlay	12,600	12,600	1,494	11,106
Streets Salaries and Benefits	548,890	548,890	486,185	62,705
Streets	333,940	333,940	425,962	(92,022)
Streets Capital Outlay	417,234	417,234	395,863	21,371
Public Works Salaries and Benefits	62,965	62,965	82,008	(19,043)
Public Works	19,804	19,804	20,824	(1,020)
Public Works Capital Outlay	840	840	606	234
Library Salaries and Benefits	329,681	329,681	325,377	4,304
Library	52,358	52,358	45,567	6,791
Library Capital Outlay	43,500	43,500	45,526	(2,026)
Parks and Recreation Salaries and Benefits	54,633	54,633	49,140	5,493
Parks and Recreation	92,245	92,245	109,450	(17,205)
Parks and Recreation Capital Outlay	127,380	127,380	53,839	73,541
Fire Control Salaries and Benefits	355,259	355,259	333,203	22,056
Fire Control	61,975	61,975	58,168	3,807
Fire Control Capital Outlay	185,300	185,300	174,376	10,924
Capital Outlay	-	-	-	-
Total Expenditures	4,944,886	4,944,886	4,759,867	185,019
Excess (Deficit) Revenues Over Expenditures	(226,506)	(226,506)	(91,166)	135,340
Transfers In (Out)	-	-	-	-
Net Change in Fund Balance	(226,506)	(226,506)	(91,166)	135,340
FUND BALANCE BEGINNING OF YEAR	2,484,639	2,484,639	2,484,639	-
FUND BALANCE END OF YEAR	<u>\$ 2,258,133</u>	<u>\$ 2,258,133</u>	<u>\$ 2,393,473</u>	<u>\$ 135,340</u>

See accompanying notes and accountants' report.