

CITY OF HAILEY, IDAHO

Financial Statements

Year Ended September 30, 2009

CITY OF HAILEY, IDAHO
Financial Statements
For the year ended September 30, 2009

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DB DENNIS R. BROWN
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

November 23, 2009

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

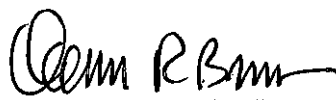
I have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Hailey, Idaho, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hailey, Idaho's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the business-type activities of the City of Hailey, Idaho as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 23, 2009, on my consideration of the City of Hailey, Idaho's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information, on pages 2-6 and 27-31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Also, the information presented as supplementary information on pages 31-33 is not a required part of the basic financial statements. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.


DENNIS R. BROWN
Certified Public Accountant

City of Hailey

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

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, 2009. 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, 2009 by \$22,331,321. Of this amount \$2,861,312 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2009 the City's total net assets decreased \$1,775,598. Net assets of the governmental activities increased \$ 1,137,195 and net assets of business type activities decreased \$2,912,793. The decrease in business type assets is explained in note 10 in the accompanying notes to the financial statements.
- Total fund balance of governmental funds at September 30, 2009 was \$3,446,575 compared to a total governmental fund balance at September 30, 2008 of \$2,990,553.
- The City has \$6,029,835 in long-term debt, including debt still remaining on a water system loan, sewer revenue bond, equipment purchases of snow blower and loader, and accrued compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government- Wide Financial Statements

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

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

The Statement of Net Assets presents all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This accrual basis of accounting requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred. Items such as uncollected taxes, unpaid vendor invoices for items received in the previous year, and earned but unused paid time off will be included in the statement of activities as revenues and expenses, even though the cash associated with these items will not yet be received or distributed.

Management's Discussion and Analysis, Continued

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Examples of the government type activities of the City of Hailey include general government 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 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, state taxes, franchises and fees for services, thereby funding operations.

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

Capital Improvement Fund – The Capital Improvement Fund is used to account for financial resources to be used for the acquisition of major capital facilities. It is shown, in the financial statements, as a restricted fund, created in 2009 by the Hailey City Council.

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

Notes to the Financial Statements

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

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.

Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS OF THE CITY OF HAILEY AS A WHOLE

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

ASSETS	2007-2008	2008-2009
Current and other Assets	8,596,378	9,118,153
Capital Assets - Net	19,888,752	19,923,863
Total Assets	28,485,130	29,042,016
LIABILITIES		
Long Term Liabilities	3,696,136	6,029,835
Other Liabilities	682,073	680,860
Total Liabilities	4,378,209	6,710,695
NET ASSETS		
Invested in Capital Assets, Net of Debt	16,231,671	14,123,880
Restricted	1	5,346,129
Unrestricted	7,875,247	2,861,312
Total Net Assets	24,080,020	22,331,321

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, 2009 by \$22,331,321, a decrease of \$1,748,699 over the previous year's net asset balance of \$24,080,020. Of this amount \$2,861,312 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$5,013,935 less than the previous year's unrestricted amount of \$7,875,247. The unrestricted net assets equal 12.8% of net assets. This decrease is because the city has restricted assets in the capital improvement and enterprise funds of the city to meet future capital and debt service obligations.

The largest portion of the City's net assets, 63.2%, 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 decreased in value by \$894,889, which sum is comprised largely of the depreciation charged in the current period.

Changes in Net Assets

During the year the City's financial position decreased by \$1,748,699, compared to the previous year ending September 30, 2008, during which the City's financial position increased by \$1,378,405. The year prior to that, ending September 30, 2007, showed the City's financial position increasing by \$2,927,622. The 2007 spike was largely due to the timing of receipts from the State Revolving Loan Fund for a water storage tank project nearing construction completion during the summer of 2007 and the reclassifying of this as long-term debt in the current period as explained more fully in note 10 of the notes to the financial statements.

Management's Discussion and Analysis, Continued

Governmental Activities:

Governmental activities increased the City's net assets by \$1,137,195, compared to the previous year's \$1,372,877. The 2008 amount included approximately \$300,000 in annexation fees and \$242,000 in development impact fees, and the addition of the completed Keefer Park and Countryside Traffic Signal to Hailey's assets. During the 2009 fiscal year, Hailey received only \$980,000 in annexation fees and \$29,337.48 in development impact fees. Also, during 2009, capital improvement projects included only a few sidewalk projects, compared to the previous year's park and traffic light projects. Finally, the fact that operational expenses are now budgeted such that they don't exceed operational revenues contributes significantly to the decrease in governmental activities net assets from the previous year, as general fund operational revenues declined in this economic climate wherein few new building permits were issued and consumers generally spent less.

Business-Type Activities:

Business-type activities decreased net assets by \$2,912,793, compared to the previous year's increase of \$38,206. The 2009 decrease is affected by a period adjustment of \$2,400,000 to account for the debt incurred in November, 2008 to pay back the State Revolving Loan Fund (see Note 10) for a water storage tank project constructed largely in 2007. Nevertheless, the 2009 amount is significantly less than previous years, which can be attributed to refinements of our metered billing formulas now in place after water meters were activated, and reduction in water system expenses as less water is used by consumers now on metered rates.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund - the general fund is the City's governmental operations fund. The fund balance at September 30, 2008 was \$2,805,410. As planned, the City transferred \$2,250,000 to the capital fund to create a separation of the operating and capital funds. The general fund balance at September 30, 2009 was \$680,988 compared to a \$522,310 operations component the previous year. This amount contains a non-binding endowment for fireworks display, contributed to from donations, of \$117,547.

Capital Improvement Fund - the capital fund received a transfer of \$2,590,609 of annexation fees which had previously been accounted for in general, water, and wastewater operating funds, and reported a fund balance at September 30, 2009 of \$2,765,587.

Expenses in both governmental funds were held below revenues to increase the fund balance in both. During the previous year, prior to the separation of these two government funds, the combined balance of both had increased over the previous year by \$411,934. During 2009, the combined fund balance increased by \$115,413, with the general fund's revenues over expenses of \$98,678 and the capital fund's revenues over expenses of \$16,735.

General Fund Budgetary Highlights

Due to the declining economy, the City of Hailey monitored its expenses to remain below revenues, which continued to decline throughout the fiscal year. The general fund revenues were \$241,472 less than budgeted. General fund expenses were held at \$400,150 less than budgeted, for a year-end excess in revenues over expenses of \$158,678.

Management's Discussion and Analysis, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009 the City had \$19,923,863 invested in capital assets (net of accumulated depreciation) compared to last year's \$19,888,751, an increase of \$35,112 compared to the previous year's increase of \$ 480,077. Net capital assets of governmental activities increased by \$ 721,480 and those of business-type activities decreased by \$686,368 in the current period.

The City investment in capital assets includes land, park improvements, automobiles and equipment and street lights, and sidewalks.

Long-Term Debt

The City has a 20-year sewer revenue bond of \$4.5 million, a long-term debt obligation through 2021. The current amount on the debt is \$3,298,596. The permanent financing of the Quigley Canyon water storage facility of \$ 2,400,000 was recorded and the balance on this 20 year DEQ loan is \$ 2,357,712. The City has an agreement with D.L. Evans Bank for purchase of a loader over a four-year period ending December 2009, and another agreement with Mountain West Bank for purchase of a snow blower over a three-year period ending January, 2010.

FY10 BUDGETARY CONSIDERATIONS

The City of Hailey bases the budget on a revenue analysis and projection. In a time of declining revenues, the city manages its general fund cash such that a minimum fund balance of 10% of budget is required to meet its obligations throughout the year, particularly in the first quarter of each year. Expenses will continue to be budgeted moderately as the minimum fund balance target is increased to 20% of budget to create emergency contingencies within the general fund.

Hailey achieved a planned separation of capital improvement funds from general operating funds during the 2009 year. This separation of funds has benefited the city in several ways: 1) operational revenue and expenses are tracked and monitored against their own cash flow; 2) capital projects are budgeted and the funds spent without detriment to operations or operational cash flow; 3) a former practice of utilizing capital fund balance to defray first quarter operating expenses have been discontinued; and 4) the financial position of the City of Hailey is stated more clearly in its financial reports. The city has begun earnest efforts to launch planned capital improvements by leveraging its capital improvement funds into grant matches for eligible grants. Hailey hopes to construct a fire station and refurbish, renovate, and redefine its facilities, parks, street and fleet through grants matched from the capital fund.

With reduced staff and resources, Hailey has focused on a grant effort for operational expenses as well, and will reopen its budget during 2010 to appropriate grants awarded to replace staff reduced or redirected due to economic impacts upon the city. Hailey continues to be challenged to find opportunities to control expenses in this economic climate, and find even more efficient ways of delivering services to its constituents.

Requests for Information

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

CITY OF HAILEY, IDAHO
Statement of Net Assets
at September 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 233,058	\$ 918,148	\$ 1,151,206
Investments	680,466	889,929	1,570,395
Accounts Receivable	339,522	297,353	636,875
Taxes Receivable	45,922		45,922
Due From Other Governments	210,711		210,711
Inventory		156,915	156,915
Restricted Cash	2,529,619	2,816,510	5,346,129
Totals	<u>4,039,298</u>	<u>5,078,855</u>	<u>9,118,153</u>
Capital Assets:			
Land, Easements and Water Rights	2,431,674	235,391	2,667,065
Infrastructure	543,099	14,034,353	14,577,452
Buildings and Improvements	3,173,359	521,009	3,694,368
Equipment and Vehicles	5,033,775	4,246,515	9,280,290
Accumulated Depreciation	(3,711,749)	(6,583,563)	(10,295,312)
Total Capital Assets	<u>7,470,158</u>	<u>12,453,705</u>	<u>19,923,863</u>
Total Assets	<u>11,509,456</u>	<u>17,532,560</u>	<u>29,042,016</u>
<u>LIABILITIES</u>			
Accounts Payable	281,746	41,663	323,409
Accrued Payroll and Benefits Payable	93,750		93,750
Accrued Interest Payable		46,474	46,474
Surety and Security Bonds Payable	217,227		217,227
Long-term Liabilities:			
Portion due or payable within one year:			
Bonds Payable		281,101	281,101
Capital Leases	143,675		143,675
Portion due or payable after one year:			
Bonds and Loans Payable		5,375,207	5,375,207
Capital Leases			0
Compensated Absences	190,963	38,889	229,852
Total Liabilities	<u>927,361</u>	<u>5,783,334</u>	<u>6,710,695</u>
<u>NET ASSETS</u>			
Invested in Capital Assets - net of related debt	7,326,483	6,797,397	14,123,880
Restricted For:			
Debt Service		2,816,510	2,816,510
Capital Improvements	2,529,619		2,529,619
Unrestricted	725,993	2,135,319	2,861,312
Total Net Assets	<u>\$ 10,582,095</u>	<u>\$ 11,749,226</u>	<u>\$ 22,331,321</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Activities
For the Year Ended September 30, 2009

Activities:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental:						
General Government	\$ 1,004,419	\$ 1,069,614	\$ 149,651	\$ 214,846		\$ 214,846
Public Protection:						
Public Safety	1,733,361	275,124		(1,458,237)		(1,458,237)
Streets	915,376			(915,376)		(915,376)
Parks and Recreation	149,820	15,833		(133,987)		(133,987)
Library	459,294	20,286		(439,008)		(439,008)
Unallocated Depreciation	411,706			(411,706)		(411,706)
Total Governmental Activities	4,673,976	1,380,857	149,651	(3,143,468)		(3,143,468)
Business Type:						
Water	1,341,832	1,117,758	158,227		\$ (65,847)	(65,847)
Wastewater	1,353,560	1,311,592	89,988		48,020	48,020
Interest - on long-term debt	232,692				(232,692)	(232,692)
Total Business-type Activities	2,928,084	2,429,350	248,215		(250,519)	(250,519)
Total City of Hailey, Idaho	\$ 7,602,060	\$ 3,810,207	\$ 397,866	(3,143,468)	(250,519)	(3,393,987)

General Revenues:

Property taxes	1,866,341		1,866,341
Local Option sales taxes	313,305		313,305
Franchises, licenses, permits	504,228		504,228
State of Idaho revenue sharing	456,954		456,954
State of Idaho sales tax	83,308		83,308
State of Idaho liquor receipts	156,963		156,963
State highway user collections	269,657		269,657
Penalty and interest on property taxes	15,336		15,336
County court fines	55,136		55,136
Earnings on investments	119,891	77,255	197,146
Miscellaneous	94,435		94,435
Gain on Sale of Assets	4,500	1,080	5,580
Total general revenues	3,940,054	78,335	4,018,389
Net Transfers In (Out)	340,609	(340,609)	0
Prior Period Adjustment		(2,400,000)	(2,400,000)
Changes in net assets	1,137,195	(2,912,793)	(1,775,598)
Net Assets - Beginning	9,444,900	14,662,019	24,106,919
Net Assets - Ending	\$ 10,582,095	\$ 11,749,226	\$ 22,331,321

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Balance Sheet
Governmental Funds
for the year ended September 30, 2009

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ 72,401	\$ 160,657	\$ 233,058
Investments	680,466	2,529,619	3,210,085
Accounts Receivable	265,322	74,200	339,522
Due From Other Governments	210,711		210,711
Property Taxes Receivable	<u>44,811</u>	<u>1,111</u>	<u>45,922</u>
Total Assets	<u>1,273,711</u>	<u>2,765,587</u>	<u>4,039,298</u>
LIABILITIES:			
Accounts Payable	281,746		281,746
Accrued Payroll Expenses	93,750		93,750
Surety and Security Bonds Payable	<u>217,227</u>		<u>217,227</u>
Total Liabilities	<u>592,723</u>	<u>0</u>	<u>592,723</u>
FUND BALANCE:			
General Fund	680,988		680,988
Capital Project Funds		<u>2,765,587</u>	<u>2,765,587</u>
Total Fund Balance	<u>680,988</u>	<u>2,765,587</u>	<u>3,446,575</u>
Total Liabilities and Fund Balance	<u>\$ 1,273,711</u>	<u>\$ 2,765,587</u>	<u>\$ 4,039,298</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
for the year ended September 30, 2009

Total Governmental Fund Balances (Page 9)	\$ 3,446,575
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$ 11,181,907 less accumulated depreciation \$ 3,711,749	7,470,158
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Long-term liabilities, including bonds, capital leases payable and compensated absences are not payable in the current period and therefore are not reported in the governmental funds	(334,638)
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Net Assets of Governmental Activities (Page 7)	<u>\$ 10,582,095</u>
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The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended September 30, 2009

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
REVENUE:			
Property taxes	\$ 1,860,302	\$ 6,039	\$ 1,866,341
Local Option sales taxes	313,305		313,305
Franchises, licenses, permits	504,228		504,228
State of Idaho shared revenue	456,954		456,954
State of Idaho sales tax	83,308		83,308
State of Idaho liquor receipts	156,963		156,963
State highway user collections	269,657		269,657
Penalty and interest on property taxes	14,037	1,299	15,336
County court fines	55,136		55,136
Fees, fines and charges for services	370,175	1,010,682	1,380,857
Grants and contributions	10,963	138,688	149,651
Earnings on investments	119,891		119,891
Miscellaneous	94,435	4,500	98,935
	<u>4,309,354</u>	<u>1,161,208</u>	<u>5,470,562</u>
Total Revenue			
EXPENDITURES:			
General Government	952,825		952,825
Public Safety	1,733,361		1,733,361
Streets	915,376		915,376
Parks and Recreation	149,820		149,820
Library	459,294		459,294
Capital outlay		1,144,473	1,144,473
Debt Service			0
	<u>4,210,676</u>	<u>1,144,473</u>	<u>5,355,149</u>
Total Expenditures			
EXCESS REVENUE (EXPENDITURES)	98,678	16,735	115,413
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds		2,590,609	2,590,609
Operating transfers (to) other funds	(2,250,000)		(2,250,000)
NET CHANGE IN FUND BALANCES	(2,151,322)	2,607,344	456,022
FUND BALANCE - BEGINNING	2,832,310	158,243	2,990,553
FUND BALANCE - ENDING	\$ <u>680,988</u>	\$ <u>2,765,587</u>	\$ <u>3,446,575</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
for the year ended September 30, 2009

Net Change in Fund Balance - Total Governmental Funds (Page 11)	\$ 456,022
<p>Governmental funds report capital outlays as current year expenditures. In the Statement of Activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of current capital outlay for new fixed assets.</p>	
This is the amount of current year depreciation.	(411,706)
This is the amount of new Governmental Fund assets.	947,952
This is the amount of disposed of Governmental Fund assets.	(8,060)
<p>Long term liabilities are not recorded in the Governmental funds. Capital lease payments are expensed in the period that the payments are paid. Capital leases are recorded as liabilities in the Statement of Net Assets. Current year payments reduce the amount of the debt.</p>	
This is the amount of current year payments of capital leases.	157,050
<p>Liability for personal leave days are not recorded in Governmental funds.</p>	
This is the increase in compensated leave during the year.	<u>(4,063)</u>
Change in Net Assets of Governmental Activities (Page 8)	<u>\$ 1,137,195</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Net Assets
Proprietary Funds
at September 30, 2009

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 542,900	\$ 375,248	\$ 918,148
Investments	755,243	134,686	889,929
Accts receivable - customers	170,367	126,986	297,353
Inventory	156,915		156,915
	<u>1,625,425</u>	<u>636,920</u>	<u>2,262,345</u>
Restricted Current Assets:			
Cash and cash equivalents	<u>1,729,600</u>	<u>1,086,910</u>	<u>2,816,510</u>
Total Current Assets	<u>3,355,025</u>	<u>1,723,830</u>	<u>5,078,855</u>
Capital Assets:			
Plant and equipment	9,797,807	9,239,461	19,037,268
Accumulated depreciation	<u>(3,084,404)</u>	<u>(3,499,159)</u>	<u>(6,583,563)</u>
Net Plant and equipment	<u>6,713,403</u>	<u>5,740,302</u>	<u>12,453,705</u>
Total Assets	<u>10,068,428</u>	<u>7,464,132</u>	<u>17,532,560</u>
Liabilities:			
Current Liabilities:			
Accounts and Interest Payable	76,137	12,000	88,137
Current portion long-term debt	<u>86,101</u>	<u>195,000</u>	<u>281,101</u>
Total current liabilities	<u>162,238</u>	<u>207,000</u>	<u>369,238</u>
Noncurrent Liabilities:			
Bonds Payable	2,271,611	3,103,596	5,375,207
Compensated Absences Payable	<u>11,972</u>	<u>26,917</u>	<u>38,889</u>
Total noncurrent liabilities	<u>2,283,583</u>	<u>3,130,513</u>	<u>5,414,096</u>
Total Liabilities	<u>2,445,821</u>	<u>3,337,513</u>	<u>5,783,334</u>
Net Assets:			
Investment in capital assets net of related debt	4,355,691	2,441,706	6,797,397
Restricted	1,729,600	1,086,910	2,816,510
Unrestricted	<u>1,537,316</u>	<u>598,003</u>	<u>2,135,319</u>
Total Net Assets	<u>\$ 7,622,607</u>	<u>\$ 4,126,619</u>	<u>\$ 11,749,226</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Revenues, Expenditures, and Changes in Net Assets
Proprietary Funds
for the year ended September 30, 2009

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues:			
Charges for services	\$ 1,077,720	\$ 1,285,405	\$ 2,363,125
Hookups and connections	33,105	26,187	59,292
Reimbursements and Misc.	6,933		6,933
	<u>1,117,758</u>	<u>1,311,592</u>	<u>2,429,350</u>
Total Operating Revenue			
	<u>1,117,758</u>	<u>1,311,592</u>	<u>2,429,350</u>
Operating Expenses:			
Salaries and benefits	536,649	584,883	1,121,532
Administrative and supplies	487,795	387,139	874,934
Depreciation	317,388	381,538	698,926
	<u>1,341,832</u>	<u>1,353,560</u>	<u>2,695,392</u>
Total Operating Expenses			
	<u>1,341,832</u>	<u>1,353,560</u>	<u>2,695,392</u>
Operating Income (Loss)	<u>(224,074)</u>	<u>(41,968)</u>	<u>(266,042)</u>
Nonoperating Revenues (Expenses):			
Interest Income	48,619	28,636	77,255
Interest Expense	(76,160)	(156,532)	(232,692)
Gain (Loss) on asset disposal	1,080		1,080
Other Grants and Miscellaneous	158,227	89,988	248,215
	<u>131,766</u>	<u>(37,908)</u>	<u>93,858</u>
Total Nonoperating			
	<u>131,766</u>	<u>(37,908)</u>	<u>93,858</u>
Income (Loss) before transfers	<u>(92,308)</u>	<u>(79,876)</u>	<u>(172,184)</u>
Transfers in			
Transfers out	(231,669)	(108,940)	(340,609)
	<u>(231,669)</u>	<u>(108,940)</u>	<u>(340,609)</u>
Net Income (Loss)	<u>(323,977)</u>	<u>(188,816)</u>	<u>(512,793)</u>
Other Adjustments:			
Prior Period Adjustment	(2,400,000)		(2,400,000)
	<u>(2,400,000)</u>		<u>(2,400,000)</u>
Total Net Assets - Beginning	<u>10,346,584</u>	<u>4,315,435</u>	<u>14,662,019</u>
Total Net Assets - Ending	<u>\$ 7,622,607</u>	<u>\$ 4,126,619</u>	<u>\$ 11,749,226</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Cash Flows
Proprietary Funds
for the year ended September 30, 2009

	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Receipts from customers	\$ 1,141,947	\$ 1,310,481	\$ 2,452,428
Payments to suppliers	(406,703)	(459,074)	(865,777)
Payments to employees	(536,649)	(584,883)	(1,121,532)
Other receipts	159,307	89,988	249,295
Net cash provided (used) by operations	<u>357,902</u>	<u>356,512</u>	<u>714,414</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase and construction of capital assets	0	(12,588)	(12,588)
Transfer to Capital Improvement Fund	(231,669)	(108,940)	(340,609)
Principal paid on capital debt	(42,288)	(201,433)	(243,721)
Interest paid on capital debt	<u>(76,160)</u>	<u>(156,532)</u>	<u>(232,692)</u>
Net cash provided (used) by capital and related financing activities	<u>(350,117)</u>	<u>(479,493)</u>	<u>(829,610)</u>
Cash Flows From Investing Activities:			
Interest Income	<u>48,619</u>	<u>28,636</u>	<u>77,255</u>
Net Increase (Decrease) in Cash and Equivalents	56,404	(94,345)	(37,941)
Balances - Beginning of the year	<u>2,971,339</u>	<u>1,691,189</u>	<u>4,662,528</u>
Balances - Ending of the year	<u>\$ 3,027,743</u>	<u>\$ 1,596,844</u>	<u>\$ 4,624,587</u>
Displayed as:			
Pooled Cash and Investments	1,298,143	509,934	1,808,077
Restricted Assets	<u>1,729,600</u>	<u>1,086,910</u>	<u>2,816,510</u>
Balances - Ending of the year	<u>\$ 3,027,743</u>	<u>\$ 1,596,844</u>	<u>\$ 4,624,587</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	(92,308)	(79,876)	(172,184)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	317,388	381,538	698,926
Changes in assets and liabilities:			
Receivables, net	24,189	25,076	49,265
Inventory	49,376		49,376
Accounts and other payables	<u>59,257</u>	<u>29,774</u>	<u>89,031</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 357,902</u>	<u>\$ 356,512</u>	<u>\$ 714,414</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. Financial Reporting Entity

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

2. Government-Wide and Fund Financial Statements

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

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

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

3. Measurement Focus and Basis of Accounting

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

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

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

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

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

4. Fund Accounting

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

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009**

Continued...

GOVERNMENTAL FUNDS

The City reports the following major governmental funds:

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

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

PROPRIETARY FUNDS

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

OTHER FUND TYPES

The City also reports the following fund types:

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

5. Budgetary Data

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

- a. Prior to September 1, the city clerk submits to the city council a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

- 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.

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

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

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.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

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

Concentration of Credit Risk — The City places no limit on the amount 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:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash on Hand	\$ 300	\$ 300
Mountain West - Cash Management Checking	(43,129)	(43,129)
Bank of America - Interest Bearing Checking	6,793	6,793
Chase - Checking	6,255	6,255
Certificates of Deposit:		
Wells Fargo Bank	252,604	252,604
Magic Valley Bank	169,866	169,866
DL Evans Bank	253,333	253,333
US Bank	253,219	253,219
Bank of America	253,125	253,125
Zions Bank	251,892	251,892
Bank of the West	252,291	252,291
State of Idaho Investment Pool	4,392,300	4,392,300
Piper Jaffray Investments	2,018,881	2,018,881
Total Cash and Investments	\$ 8,067,730	\$ 8,067,730

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

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

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

Balances are held in each category as follows:

	Categories			Carrying
	1	2	3	Amount
Deposits	1,699,678	(43,129)		1,656,549
Investment in Piper Jaffray				2,018,881
Investments in State of Idaho's Investment Pool				4,392,300
Total Cash and Investments				<u>\$ 8,067,730</u>

Funds held in the Water and Waste Water Funds (Enterprise funds) in the amount of \$2,816,510 and \$2,529,619 in the General Capital Improvement Fund are reserved for repairs and replacement of the existing systems and equipment.

NOTE 3 - TAXES RECEIVABLE

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

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

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

NOTE 4 - ACCOUNTS RECEIVABLE

The City charges for water and 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 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.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009, is as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental Activities:				
<i>Capital Assets not being depreciated:</i>				
Land, Easements, Water Rights	\$ 1,501,674	\$ 930,000	\$	\$ 2,431,674
Construction in Progress				
Total	<u>1,501,674</u>	<u>930,000</u>	<u>0</u>	<u>2,431,674</u>
<i>Capital Assets being depreciated:</i>				
Buildings & Improvements	3,173,359			3,173,359
Infrastructure	393,274	149,825		543,099
Vehicles and Equipment	4,989,154	61,421	(16,800)	5,033,775
Total	8,555,787	211,246	(16,800)	8,750,233
Less: Accumulated Depreciation:	3,308,783	411,706	(8,740)	3,711,749
Total Net Depreciated Assets	<u>5,247,004</u>	<u>(200,460)</u>	<u>(8,060)</u>	<u>5,038,484</u>
Governmental capital assets, net	\$ <u>6,748,678</u>	\$ <u>729,540</u>	\$ <u>(8,060)</u>	\$ <u>7,470,158</u>
Business-type activities:				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 235,391	\$	\$	\$ 235,391
Construction in Progress				0
Total	<u>235,391</u>	<u>0</u>	<u>0</u>	<u>235,391</u>
<i>Capital Assets being depreciated:</i>				
Buildings & Improvements	521,009			521,009
Infrastructure	14,034,353			14,034,353
Vehicles and Equipment	4,233,957	12,558		4,246,515
Total	18,789,319	12,558	0	18,801,877
Less: Accumulated Depreciation	5,884,637	698,926		6,583,563
Total Net Depreciated Assets	<u>12,904,682</u>	<u>(686,368)</u>	<u>0</u>	<u>12,218,314</u>
Business-type capital assets, net	\$ <u>13,140,073</u>	\$ <u>(686,368)</u>	\$ <u>0</u>	\$ <u>12,453,705</u>

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

NOTE 6 - VOUCHERS PAYABLE AND ACCRUED LIABILITIES

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

NOTE 7 - ACCRUED COMPENSATED ABSENCES

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

NOTE 8 - LONG-TERM OBLIGATIONS

The City has entered into the following agreements. 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.

<u>Description</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Amount Outstanding 9/30/2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 9/30/2009</u>	<u>Amount Due in 1 Year</u>
GENERAL FUND							
Capital Leases:							
2006 Loader	12/15/09	4.43%	\$ 167,763		\$ 83,781	\$ 83,982	\$ 83,982
Snowblower	02/01/10	5.41%	119,403		59,710	59,693	59,693
Other:							
Accrued Compensated Absences	N/A		186,900	\$ 4,063		190,963	
Total General Fund			<u>474,066</u>	<u>4,063</u>	<u>143,491</u>	<u>334,638</u>	<u>143,675</u>
PROPRIETARY FUND							
Bonds and Loans Payable:							
Sewer Revenue Bond	03/01/21	Var.	3,500,028		201,432	3,298,596	195,000
Water DEQ Loan	11/12/28	3.50%		2,400,000	42,288	2,357,712	86,101
Other:							
Accrued Compensated Absences	N/A		37,156	1,733		38,889	
Total Proprietary Fund			<u>\$ 3,537,184</u>	<u>\$ 2,401,733</u>	<u>\$ 243,720</u>	<u>\$ 5,695,197</u>	<u>\$ 281,101</u>

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

NOTE 9 -SEWER REVENUE BONDS

On April 17, 2001, the City of Hailey issued revenue bonds to advance refund a Department of Environmental Quality (DEQ) loan of \$4,500,000. The 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 issued bonds is contained in the schedule on page 32 of these financial statements.

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	\$ 3,200,000
Unamortized Interest Expense	98,596
	<hr/>
	\$ 3,298,596

NOTE 10 – WATER LOAN PAYABLE (Prior Period Adjustment)

In 2007 the City of Hailey constructed a two million gallon drinking water storage facility in Quigley Canyon with monies borrowed from the State of Idaho Revolving Loan Fund. The proceeds of this loan were recognized as revenue during the 2007 operating cycle in the Water Fund. This loan has been satisfied during the current period with permanent financing through an Idaho Department of Environmental Quality Drinking Water Revolving Loan Program promissory note in the amount of \$2,400,000. The loan requires semi-annual principle and interest payments over a twenty (20) year period. The loan bears a fixed interest rate of 3.50%. A prior period adjustment has been made in the fund balance section of the Enterprise Fund (Water Fund) to reclassify the original loan advances in the amount of \$2,400,000.

Revenues of the Water Fund serve as collateral for loan payments. A loan maturity and interest schedule of the issued loan is contained in the schedule on page 33 of these financial statements.

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009**

Continued...

NOTE 11 - 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, 2008, 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 \$ 304,757, \$297,254 and \$292,647 for the three years ended September 30, 2009, 2008, and 2007 respectively.

NOTE 12 - INVESTMENT IN JOINT VENTURE - FRIEDMAN MEMORIAL AIRPORT

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

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

Audited financial statements of the Friedman Memorial Airport Authority for the year ended September 30, 2009 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2009

Continued...

NOTE 13 -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.

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- General Fund
for the year ended September 30, 2009

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Property taxes	\$ 1,807,411	\$ 1,860,302	\$ 52,891
Local Option sales taxes	360,000	313,305	(46,695)
Franchises, licenses, permits:			
Alcohol Catering Licenses	1,640	1,616	(24)
Police Security	12,000	480	(11,520)
Building Permits	242,000	80,026	(161,974)
Business Licenses	43,000	39,128	(3,872)
Encroachment Permits	10,600	8,750	(1,850)
Franchises - Cable TV	81,000	80,378	(622)
Banner Fees	5,600	5,100	(500)
Franchises - Idaho Power	49,500	45,145	(4,355)
Franchises - Intermountain Gas	103,500	96,918	(6,582)
Franchises - Rubbish Company	82,500	75,678	(6,822)
Sign Permits	2,600	3,220	620
Fire Dept Permits	26,150	13,555	(12,595)
Subdivision Inspection Permits	650	491	(159)
Zoning Applications	38,000	47,421	9,421
Maps, Copies, and Postage	2,000	6,323	4,323
State of Idaho shared revenue	530,000	456,954	(73,046)
State of Idaho sales tax	101,119	83,308	(17,811)
State of Idaho liquor receipts	110,000	156,963	46,963
State highway user collections	302,000	269,657	(32,343)
Penalty and interest on property taxes	7,000	14,037	7,037
County court fines	51,000	55,136	4,136
Fees, fines and charges for services:			
HPD Traffic School	42,000	41,698	(302)
Library Fines and Memberships	17,000	20,232	3,232
Library Meeting Room Rentals	0	54	54
Park Rental Fees	13,500	12,097	(1,403)
RV Dump Fees	265	430	165
Rubbish Bookkeeping Contract	82,500	75,796	(6,704)
Police Security Contracts	172,291	154,312	(17,979)
Police Security Contr-School	65,000	65,556	556
Grants and contributions	22,000	10,964	(11,036)
Earnings on investments	152,000	119,891	(32,109)
Miscellaneous:			
Property Sales	0	2,503	2,503
Refunds and Reimbursements	10,000	12,305	2,305
Mutual Aid Reimbursements	5,000	5,250	250
Other		74,375	74,375
Total Revenue	<u>4,550,826</u>	<u>4,309,354</u>	<u>(241,472)</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- General Fund
for the year ended September 30, 2009

Continued.....

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES:			
General Government:			
Legislative Department	242,915	226,691	16,224
Finance and Records	284,460	272,482	11,978
Planning	227,875	219,467	8,408
Building	186,216	152,571	33,645
Public Works	92,035	81,614	10,421
Public Safety:			
Police	1,416,223	1,266,692	149,531
Fire Protection	484,007	466,668	17,339
Streets	1,036,090	915,376	120,714
Library	477,307	459,294	18,013
Parks and Recreation	163,698	149,821	13,877
Total Expenditures	<u>4,610,826</u>	<u>4,210,676</u>	<u>400,150</u>
 EXCESS REVENUE (EXPENDITURES)	 (60,000)	 98,678	 158,678
 OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds	<u>(2,250,000)</u>	<u>(2,250,000)</u>	<u>0</u>
 NET CHANGE IN FUND BALANCES	 (2,310,000)	 (2,151,322)	 <u>158,678</u>
 FUND BALANCE - BEGINNING	 <u>2,832,310</u>	 <u>2,832,310</u>	
 FUND BALANCE - ENDING	 <u>\$ 522,310</u>	 <u>\$ 680,988</u>	

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Capital Improvement Fund
for the year ended September 30, 2009

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Property taxes	\$ 0	\$ 6,039	\$ 6,039
Local Option sales taxes			
Franchises, licenses, permits			
State of Idaho shared revenue			
State of Idaho sales tax			
State of Idaho liquor receipts			
State highway user collections			
Penalty and interest on property taxes	0	1,299	1,299
County court fines			
Fees, fines and charges for services	1,250,000	1,010,682	(239,318)
Grants and contributions		138,688	138,688
Earnings on investments			
Miscellaneous		4,500	4,500
		<u>4,500</u>	<u>4,500</u>
Total Revenue	<u>1,250,000</u>	<u>1,161,208</u>	<u>(88,792)</u>
EXPENDITURES:			
General Government			
Public Safety			
Streets			
Capital outlay		1,144,473	(1,144,473)
Parks and Recreation			
Transportation			
Affordable Housing			
Debt Service			
		<u>1,144,473</u>	<u>(1,144,473)</u>
Total Expenditures	<u>0</u>	<u>1,144,473</u>	<u>(1,144,473)</u>
EXCESS REVENUE (EXPENDITURES)	1,250,000	16,735	(1,233,265)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	2,590,609	2,590,609	0
Operating transfers (to) other funds			
	<u>2,590,609</u>	<u>2,590,609</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	3,840,609	2,607,344	(1,233,265)
FUND BALANCE - BEGINNING	<u>158,243</u>	<u>158,243</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 3,998,852</u>	<u>\$ 2,765,587</u>	<u>\$ (1,233,265)</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Water Fund
for the year ended September 30, 2009

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
User Fees	\$ 835,683	\$ 899,932	\$ 64,249
Capital Projects Bond Fees	169,031	168,117	(914)
Hook-up Fees	425,600	30,391	(395,209)
Service Charges	15,000	9,671	(5,329)
Meter Reimbursements	10,000	3,575	(6,425)
Idaho Power Hydroplant Revenues	8,000	3,358	(4,642)
Inspection/Live Tap Fees	3,000	450	(2,550)
Water Fill Tower Permits	2,000	1,700	(300)
Earnings on investments	45,000	48,619	3,619
Grants and Contributions	0	108,851	108,851
Miscellaneous	<u> </u>	<u>51,020</u>	<u>51,020</u>
Total Revenue	<u>1,513,314</u>	<u>1,325,684</u>	<u>(187,630)</u>
EXPENDITURES:			
Labor and Benefits	580,622	536,649	43,973
Administrative and supplies	626,309	487,795	138,514
Debt Service	169,031	83,973	85,058
Capital Outlay	<u>200,000</u>	<u>0</u>	<u>200,000</u>
Total Expenditures	<u>1,575,962</u>	<u>1,108,417</u>	<u>467,545</u>
EXCESS REVENUE (EXPENDITURES)	(62,648)	217,267	279,915
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	(231,669)	(231,669)	
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts	<u> </u>	<u>(309,575)</u>	
NET CHANGE IN FUND BALANCES	<u>(294,317)</u>	<u>(323,977)</u>	

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Wastewater Fund
for the year ended September 30, 2009

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
User Fees	\$ 1,125,106	\$ 1,048,216	\$ (76,890)
Capital Projects Bond Fees	241,527	237,188	(4,339)
Hook-up Fees	342,000	25,301	(316,699)
Service Charges	1,000		(1,000)
Inspection/Live Tap Fees	1,000	886	(114)
Earnings on investments	49,000	28,636	(20,364)
Grants and Contributions		89,988	89,988
Miscellaneous			0
	<u>1,759,633</u>	<u>1,430,215</u>	<u>(329,418)</u>
Total Revenue			
EXPENDITURES:			
Labor and Benefits	632,133	584,883	47,250
Administrative and supplies	576,751	387,139	189,612
Debt Service	412,195	362,248	49,947
Capital Outlay	133,000	12,558	120,442
	<u>1,754,079</u>	<u>1,346,828</u>	<u>407,251</u>
Total Expenditures			
EXCESS REVENUE (EXPENDITURES)	5,554	83,387	77,833
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	(108,940)	(108,940)	
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts		(163,263)	
	<u>(103,386)</u>	<u>(188,816)</u>	
NET CHANGE IN FUND BALANCES			

CITY OF HAILEY, IDAHO
Bond-Future Principal and Interest Requirements
at September 30, 2009

Annual Payment				
	<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
Sewer Revenue Bonds 2001				
\$4,500,000, April 17, 2001	4.500%	2010	\$ 195,000	\$ 163,575
4.50% - 5.625%	5.625%	2011	205,000	153,422
	5.625%	2012	220,000	141,469
	5.625%	2013	230,000	128,813
	5.625%	2014	245,000	115,453
	5.625%	2015	260,000	101,250
	5.625%	2016	270,000	86,344
	5.000%	2017	285,000	71,625
	5.000%	2018	300,000	57,000
	5.000%	2019	315,000	41,625
	5.000%	2020	330,000	25,500
	5.000%	2021	345,000	8,625
			<u>\$ 3,200,000</u>	<u>\$ 1,094,701</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Loan-Future Principal and Interest Requirements
at September 30, 2009

		Annual Payment			
		<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
Drinking Water Revolving Promissory Loan					
\$2,400,000, November 20, 2008		3.50%	2010	\$ 86,101	\$ 81,785
3.50%		3.50%	2011	89,141	78,745
		3.50%	2012	92,083	75,803
		3.50%	2013	95,539	72,347
		3.50%	2014	98,912	68,974
		3.50%	2015	102,405	65,481
		3.50%	2016	105,853	62,033
		3.50%	2017	109,757	58,129
		3.50%	2018	113,633	54,253
		3.50%	2019	117,644	50,242
		3.50%	2020	121,675	46,211
		3.50%	2021	126,094	41,792
		3.50%	2022	130,546	37,340
		3.50%	2023	135,155	32,731
		3.50%	2024	139,853	28,033
		3.50%	2025	144,864	23,022
		3.50%	2026	149,979	17,907
		3.50%	2027	155,274	12,612
		3.50%	2028	160,741	7,145
		3.50%	2029	82,462	1,455
				<u>\$ 2,357,712</u>	<u>\$ 916,039</u>

The accompanying notes are a part of these financial statements.

DB DENNIS R. BROWN
Certified Public Accountant

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 23, 2009

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

I have audited the financial statements of the governmental activities and business-type activities of the City of Hailey, Idaho, as of and for the year ended September 30, 2009, which collectively comprise the City of Hailey Idaho's basic financial statements and have issued my report thereon dated November 23, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

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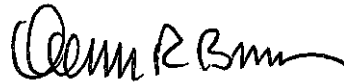
deficiencies that are also considered to be material weaknesses. However, I consider the significant deficiency described in item 2009-1 of the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hailey, Idaho's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in my audit is described in the accompanying schedule of findings. I did not audit the City's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the City Council, management, others within the organization, and state and federal government oversight authorities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



DENNIS R. BROWN
Certified Public Accountant

CITY OF HAILEY, IDAHO
Schedule of Findings and Responses
For the Year Ended September 30, 2009

Finding 2009-1: Lack of ability to independently prepare financial statements and related footnote disclosures.

Condition: The City does not have the resources to independently prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

Criteria: Inherent in an adequate internal control structure is the ability to independently prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

Effect: The lack of this ability may result in more than a remote likelihood that a misstatement of the financial statements will not be prevented or detected by the City's internal control.

Recommendation: It is suggested the City budget for sufficient training of accounting personnel in order to provide them with the expertise necessary to prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles. Alternatively, the City could contract with an individual or firm other than the audit firm to prepare the financial statements and related footnote disclosures.

Response: We, the management of the City of Hailey, Idaho, understand the circumstances that we and many small governments nationwide inevitably find ourselves in because of budget constraints. We acknowledge the fact that we do not have the necessary funding to staff additional accounting personnel to enable us to keep current with all accounting and auditing pronouncements and provisions to independently prepare financial statements and footnote disclosures. We believe the benefits of allocating such resources would be outweighed by the cost of maintaining or training our own accounting personnel and or contracting with another individual or firm to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles. We have requested that the auditors assist in drafting the financial statements and related footnote disclosures during the course of the audit. We have reviewed, approved and accepted responsibility for those financial statements prior to their issuance. We did not perform a detailed review of the financial statements, however, we are satisfied that our review was sufficient to allow us to accept responsibility for them.