

**CITY OF HAILEY, IDAHO**

**Financial Statements**

**Year Ended September 30, 2016**

**CITY OF HAILEY, IDAHO**  
**Financial Statements**  
**For the year ended September 30, 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

December 9, 2016

To the City Council  
City of Hailey, Idaho

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hailey, Idaho, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hailey, Idaho's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hailey, Idaho, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and public employee pension information on pages 3-9 and 35-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

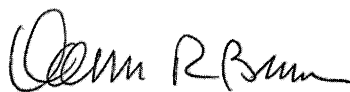
### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information on pages 40-43 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information along with the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the City of Hailey, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hailey, Idaho's internal control over financial reporting and compliance.



DENNIS R BROWN  
Certified Public Accountant  
Twin Falls, Idaho

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

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, 2016. 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, 2016 by \$ 29,345,331. Of this amount \$ 3,406,736 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2016 the City's total net position increased \$ 1,530,461. Net position of the governmental activities increased \$ 430,725 and net position of business type activities increased \$1,099,736. These increases are largely due to an increase in capital fixed assets from projects.
- Total fund balance of governmental funds at September 30, 2016 was \$ 2,379,646 compared to a total governmental fund balance at September 30, 2015 of \$ 2,168,388.
- The City has \$ 12,483,272 in permanent debt, including debt still remaining on a water system loan (storage tank), sewer revenue bond (treatment plant), sewer revenue bond (bio-solids facility upgrade), general obligation bond (arena/skate-park), capital leases payable on public safety vehicles, net pension liabilities, 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 Position presents all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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.

These two government-wide financial statements distinguish functions of the City that are principally

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

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 governmental, administrative and community development services, public safety and emergency services, and street maintenance, parks and library operations. The major business-type activities of the City include the water and wastewater systems.

### **Fund Financial Statements**

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

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

The City of Hailey has four governmental funds:

General Fund – The General Operating Fund of the City derives most of its income from property tax, state taxes, franchises and fees for services. Its function is operations and maintenance.

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

Capital Improvement Fund – The Capital Improvement Fund is used to account for financial resources to be used for the acquisition of major capital facilities, equipment and assets. It is shown in the financial statements as assigned resources, created in 2009 by the Hailey City Council, with the intent that it not be used for operation and maintenance. After property and facilities are acquired or constructed using resources from the Capital Fund, the new capital assets then become depreciable assets in their respective General or Proprietary Funds, where operation and maintenance of these assets occur.

Grant Fund – In 2010, the Hailey City Council established a Grant Fund, developed for the purpose of transparency and accountability in tracking City-wide grant programs, including grant revenues, in-kind and cash matches from appropriate City funds, and total grant expenditures. The Grant Fund was idle during FY 2016, as no large or multi-year projects were the subject of grant revenue and expense in the period.

Proprietary Fund: User fees finance activities in the proprietary funds. The City of Hailey only has one type of propriety fund, the enterprise fund. The water, wastewater and bio-solids 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 financial data from the current and prior years.

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

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

	FY 2016			FY 2015
	Governmental Activities	Business- type Activities	Total Primary Government	Total Primary Government
<b>ASSETS</b>				
Current and Other Assets	\$ 3,242,547	\$ 8,569,152	\$ 11,811,699	\$ 14,751,549
Capital Assets - Net	15,489,510	15,556,292	31,045,802	27,799,595
<b>Total Assets</b>	<b>18,732,057</b>	<b>24,125,444</b>	<b>42,857,501</b>	<b>42,551,144</b>
Deferred Outflows of Resources	729,106	269,074	998,180	599,435
<b>LIABILITIES</b>				
Current Liabilities	1,240,339	433,414	1,673,753	2,185,262
Long Term Liabilities	2,762,515	9,432,631	12,195,146	12,302,491
<b>Total Liabilities</b>	<b>4,002,854</b>	<b>9,866,045</b>	<b>13,868,899</b>	<b>14,487,753</b>
Deferred Inflows of Resources	472,997	168,454	641,451	847,956
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Debt	13,960,827	11,363,273	25,324,100	21,268,944
Restricted	41,750	572,745	614,495	622,886
Unrestricted	982,735	2,424,001	3,406,736	5,923,040
<b>Total Net Position</b>	<b>\$ 14,985,312</b>	<b>\$ 14,360,019</b>	<b>\$ 29,345,331</b>	<b>\$ 27,814,870</b>

### Net Position

Net position measures 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, 2016 by \$29,345,331, an increase of \$1,530,461 over the previous year's net position balance of \$ 27,814,870. Of this amount \$ 3,406,736 is unrestricted and available to meet the City's on-going obligations to citizens and creditors. The unrestricted net position equal 11.61% of total net position.

The largest portion of the City's net position, \$25,324,100 or 86.30%, 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

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

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's net fixed assets increased in book value \$ 3,246,207, this sum is comprised of capitalized asset additions, and the largest portion is the continuing construction of the City's Bio-Solids facility.

### **Changes in Net Position**

During the year the City's financial position increased by \$ 1,530,461, compared to the previous year ending September 30, 2015, during which the City's financial position increased by \$ 776,034.

### **Governmental Activities:**

Governmental activities increased the City's net position by \$ 211,258, compared to the previous year's decrease of \$ 1,066,568. This increase is due largely to an increase in revenue which exceeded budgeted expenses.

**Business-Type Activities:** Business-type activities increased net position by \$1,099,736, compared to the previous year's increase of \$290,534. This increase is also due to higher revenues, especially utility connection fees which are collected for future spending, as well as an increase in capital fixed assets due to current projects.

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

### **Governmental Funds**

**General Fund** - The general fund balance at September 30, 2016 was \$1,274,192, compared to \$1,036,695 the previous year. This amount contains a non-binding endowment for fireworks display of \$37,853, contributed from donations in previous years.

**Capital Improvement Fund** – The capital fund was established in fiscal year 2009 with a transfer of annexation fees which had previously been accounted for in general, water, and wastewater operating funds. Development impact fees are collected within the capital fund. The capital fund balance at September 30, 2016 decreased by \$32,344 to \$1,088,487, as budgeted capital projects were completed.

**Debt Service Fund** -- The debt service fund was established in 2010 to account for the bond proceeds of the arena, skatepark, and Welcome Center, collectively known as Wertheimer Park. These bonds are general obligation and will be paid from the general funds of the City over a ten-year period.

**Grant Fund** –The grant fund has been created to track large or multi-year grants, including revenues, in-kind and cash matches from appropriate City funds, and total grant expenditures. Within the fund, each grant project is tracked separately. At fiscal year end these captured project amounts are transferred out to the government fund or enterprise fund in which the grant activity or depreciable asset should reside. The Grant Fund was idle during FY 2016, as no large or multi-year projects were the subject of grant revenue and expense in the period.

### **General Fund Budgetary Highlights**

The City of Hailey amended its general fund budget during 2016 to appropriate \$111,770, comprised of \$95,000 fund balance and \$16,770 grant revenue. The Business fund budgets were also amended to appropriate \$2,918,000, comprised of \$2,900,000 wastewater construction fund balance and \$18,000 water grant revenue. Increased revenues during FY 2016 contributed to a year-end General operating fund balance increase of \$237,497, compared to the previous year's increase of \$28,681. The fund balance of the Water funds increased by \$503,510, and the fund balance of the Wastewater funds increased by \$482,391. The water and wastewater operating funds, per bond covenants, are required to be 125% of net revenue.



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

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

During FY 2016, the City passed a 2-year tax levy which will increase revenue for specific street projects by \$400,000 per year over the next two year. The City's successful execution of \$800,000 in projects will determine the tone of a future community dialogue about the City's need for increases in property taxes or local option taxes to fund capital needs.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal year 2016 the City had \$ 25,324,100 invested in capital assets (net of accumulated depreciation) compared to last year's \$21,268,944, an increase of \$ 4,055,156 compared to the previous year's decrease of \$281,251. Net capital assets of governmental activities decreased by \$ 79,621 and those of business-type activities increased by \$ 3,325,828 in the current period. The City investment in capital assets includes land, facilities, park improvements, automobiles and equipment, street lights, and sidewalks.

### **Long-Term Debt**

In November 2014, the City adopted a new sewer revenue bond ordinance authorizing up to \$6,545,000 additional bonded indebtedness for a wastewater biosolids treatment facility. The current amount owed on this debt is \$6,175,000. In 2012 the City refinanced a 20-year sewer revenue bond. The current amount owed on the debt is \$1,210,000. These two sewer revenue bonds were combined under one bond agreement with the Idaho Bond Bank Authority. The City also refinanced its debt on the Quigley canyon water storage facility in 2012, with a term through 2028, paying off a DEQ State Revolving Fund Loan. The current amount owed on this debt is \$1,370,000. In 2010 the City sold general obligation bonds of \$3,425,000 to finance the Werthheimer Park project over a 10-year term. The current amount owed on this debt is \$1,480,000. The City's maximum general obligation debt capacity is 2% of the taxable assessed value of properties within the City limits. At the end of September, 2016, the City's taxable assessed value was \$868,048,866, thereby giving the City a current general obligation bond debt capacity of \$15,880,977. Hailey has met the principal and interest payments on outstanding bonds and other indebtedness in the past 10 years when due. Additionally, no refunding bonds have been issued for the purpose of preventing an impending default.

Hailey's ability to pay its general obligation long-term debt is reliant on property tax payments. The top ten taxpayers within the City of Hailey comprise 6.17% of the total district taxpayers. They are:

**City of Hailey Idaho, Top Ten Taxpayer Accounts**

<b>Taxpayer</b>	<b>Type of Business</b>	<b>Taxable Assessed Value</b>	<b>% of Districts Taxable Assessed Value</b>
Old Cutters, LLC	Real Estate	\$9,637,748	1.11%
Power Engineers, Inc.	Engineering Firm	9,111,304	1.05%
Balmoral Limited	Property Development	7,733,684	0.89%
Spring Meadow, LLC	Property Development	6,579,894	0.76%
Sun Valley Aviation	Airport Hangers	4,040,012	0.47%
ABS ID-O, LLC	Grocery Stores	3,889,976	0.45%
Alturas Partners	Property Development	3,218,332	0.37%
Flowing Wells, LLC	Property Development	3,197,986	0.37%
Wilderness, LLC	Property Development	3,177,855	0.36%
Marketrn, Inc	Media Software	2,929,779	0.34%
Top 10 Taxpeyers		\$ 53,516,570	6.17%
All Other District Taxpayers		814,532,296	93.83%
Total District Taxpayers (Tax Year 2015)		\$ 868,048,866	100.00%

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

<b>Tax Year</b>	<b>Full Market Value</b>	<b>Homeowner's Exemption</b>	<b>Net Taxable Value</b>	<b>General Tax Levied</b>	<b>Bond Tax Levied</b>	<b>General Tax Collected for previous year</b>	<b>Bond Tax Collected for previous year</b>
2016	1,033,409,386	165,360,520	868,048,866	2,804,865	400,159	1,585,958	225,061
2015	978,820,821	149,399,730	829,421,091	2,327,787	398,400	1,342,911	228,893
2014	899,452,674	132,686,308	766,766,366	2,179,638	395,992	2,192,102	391,938
2013	838,969,921	121,942,031	717,027,890	2,113,978	395,829	2,085,753	390,055
2012	836,968,625	126,881,067	710,087,558	2,065,121	400,828	2,064,883	400,783
2011	1,010,681,642	149,911,921	860,769,721	1,989,837	398,989	1,995,930	398,989
2010	1,233,552,955	170,457,415	1,063,095,540	1,928,539	399,703	1,887,491	381,688
2009	1,460,667,411	181,921,576	1,278,745,835	1,925,951	—	1,789,714	—
2008	1,580,943,641	176,823,018	1,404,120,623	1,870,361	—	1,803,834	—
2007	1,590,462,395	155,321,416	1,435,140,979	1,812,638	—	1,721,818	—

Source: Blaine County Treasurer, John David Davidson; Collection data as of January 12, 2017

There are overlapping taxing districts within the City which have statutory power to levy regular property taxes. Representative 2015 levy rates for each overlapping district from the County are listed below.

**City of Hailey  
Representative Levy Rates per \$1000 Taxable market Value  
Tax Year 2015**

<b>Taxing District</b>	<b>Levy per \$1,000 Taxable Assessed Value</b>
City of Hailey Total	3.190371
Hailey City	2.715806
Hailey Levy	.474565
Blaine County	1.157151
Blaine County School District No. 61	4.242661
Ambulance	.216587
Hailey Cemetery	.138879
Blaine County Recreation District & Override	.139246

Source: State of Idaho, Associated Taxpayers of Idaho, January 12, 2017 Note: Tax Year 2015 is most current data available, Tax Year 2016 data to be available March 2017.

**FY 2017 BUDGETARY CONSIDERATIONS**

The City of Hailey establishes the budgets in each of its funds from estimated revenue. A minimum fund balance of 10% of budget is needed in the General Fund to meet obligations throughout the year, particularly in the first quarter of each year. The Hailey City Council considers it prudent to maintain a fund balance of 20% of budget, for emergencies and first-quarter carryover. The FY 2017 general fund budget is \$6,237,113. A 20% fund balance target is \$1,247,422 and the general fund balance at fiscal year-end is \$1,274,192. The fund balance above 20%, which in this case is approximately \$27,000, helps to ensure that the budgeted LOT expenses within FY 2017 can be met in light of the highly estimated FY2017 revenue.

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

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

Rate structures within the enterprise funds have incrementally been amended over several years to encourage water conservation and to afford users better personal management of their impact upon the City's water and wastewater system and its budget. Consumption of water has decreased, and expenses have been adjusted to the City's rate-based income. The FY 2016 budget contains a large portion of the Wastewater Bio-Solids Facility construction project, which was begun in FY 2015. A new wastewater rate structure was implemented in 2015 that allocates bond costs by the amount of usage rather than the amount of meters. A new water rate structure was implemented at the beginning of FY 2016.

### **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 Position**  
**at September 30, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Component Unit Urban Renewal Agency</u>
<b><u>ASSETS</u></b>				
Cash and Deposits	\$ 2,397,618	\$ 7,412,369	\$ 9,809,987	\$ 42,365
Accounts Receivable	480,396	481,756	962,152	
Taxes Receivable	65,752		65,752	586
Due From Other Governments	257,031		257,031	
Due From Other Funds			0	
Inventory		102,282	102,282	
Restricted Cash, Deposits and Investments	41,750	572,745	614,495	
Totals	<u>3,242,547</u>	<u>8,569,152</u>	<u>11,811,699</u>	<u>42,951</u>
Capital Assets:				
Land, Easements and Water Rights	2,451,021	235,391	2,686,412	
Construction in Progress	9,997	5,166,257	5,176,254	
Infrastructure	10,872,018	15,504,834	26,376,852	
Buildings and Improvements	3,403,436	1,033,573	4,437,009	
Equipment and Vehicles	4,570,248	4,784,188	9,354,436	
Accumulated Deprecation	(5,817,210)	(11,167,951)	(16,985,161)	
Total Capital Assets	<u>15,489,510</u>	<u>15,556,292</u>	<u>31,045,802</u>	<u>0</u>
<b>Total Assets</b>	<u>18,732,057</u>	<u>24,125,444</u>	<u>42,857,501</u>	<u>42,951</u>
Deferred Outflows of Resources:				
Deferred Outflows from Pension Activity	<u>729,106</u>	<u>269,074</u>	<u>998,180</u>	
<b><u>LIABILITIES</u></b>				
Accounts Payable	559,677		559,677	0
Accrued Payroll and Benefits Payable	150,053		150,053	
Accrued Interest Payable		14,028	14,028	
Due To Other Funds			0	
Surety and Security Bonds Payable	153,171	39,386	192,557	
Long-term Liabilities:				
Portion due or payable within one year:				
Capital Leases Payable	22,438		22,438	
Bonds Payable	355,000	380,000	735,000	
Portion due or payable after one year:				
Capital Leases Payable	0		0	
Bonds Payable	1,125,000	8,375,000	9,500,000	
Unamortized Bond Premium	26,245	443,067	469,312	
Compensated Absences	184,482	80,097	264,579	
Net Pension Liability	<u>1,426,788</u>	<u>534,467</u>	<u>1,961,255</u>	
<b>Total Liabilities</b>	<u>4,002,854</u>	<u>9,866,045</u>	<u>13,868,899</u>	<u>0</u>
Deferred Inflows of Resources				
Deferred Inflows from Pension Activity	<u>472,997</u>	<u>168,454</u>	<u>641,451</u>	
<b><u>NET POSITION</u></b>				
Invested in Capital Assets - net of related debt	13,960,827	11,363,273	25,324,100	0
Restricted For:				
Debt Service		572,745	572,745	0
Other Purposes	41,750		41,750	0
Unrestricted	<u>982,735</u>	<u>2,424,001</u>	<u>3,406,736</u>	<u>42,951</u>
<b>Total Net Position</b>	<u>\$ 14,985,312</u>	<u>\$ 14,360,019</u>	<u>\$ 29,345,331</u>	<u>\$ 42,951</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Activities**  
**For the Year Ended September 30, 2016**

Activities:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets			Component Unit - Urban Renewal Agency
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total	
<b>Governmental:</b>							
General Government	\$ 846,015	\$ 276,715	\$ 26,857	\$ (542,443)		\$ (542,443)	
Public Protection:							
Public Safety	1,952,192	251,054	18,520	(1,682,618)		(1,682,618)	
Streets	1,136,529		189,500	(947,029)		(947,029)	
Parks and Recreation	342,661	31,369		(311,292)		(311,292)	
Library	501,018	16,616	4,716	(479,686)		(479,686)	
Interest - on long-term debt	53,375			(53,375)		(53,375)	
Unallocated Depreciation	553,077			(553,077)		(553,077)	
Total Governmental Activities	<u>5,384,867</u>	<u>575,754</u>	<u>239,593</u>	<u>(4,569,520)</u>		<u>(4,569,520)</u>	
<b>Business Type:</b>							
Water	1,389,049	1,927,527			\$ 538,478	538,478	
Wastewater	1,259,155	1,742,173			483,018	483,018	
Bio-Solids	0	330,000			330,000	330,000	
Interest - on long-term debt	350,589				(350,589)	(350,589)	
Total Business-type Activities	<u>2,998,793</u>	<u>3,999,700</u>	<u>0</u>		<u>1,000,907</u>	<u>1,000,907</u>	
Total City of Hailey, Idaho	<u>\$ 8,383,660</u>	<u>\$ 4,575,454</u>	<u>\$ 239,593</u>	<u>(4,569,520)</u>	<u>1,000,907</u>	<u>(3,568,613)</u>	
Component Units:							
Urban Renewal Agency	\$ 7,145						\$ (7,145)
Total							(7,145)
General Revenues:							
Property taxes				2,673,575		2,673,575	70,995
Local Option sales taxes				541,816		541,816	
Franchises, licenses, permits				555,393		555,393	
State of Idaho revenue sharing				447,253		447,253	
State of Idaho sales tax				132,614		132,614	
State of Idaho liquor receipts				172,658		172,658	
State highway user collections				376,227		376,227	
Penalty and interest on property taxes				14,898		14,898	183
County court fines				45,105		45,105	
Earnings on investments				14,748	41,708	56,456	7
Miscellaneous				77,045		77,045	
Premium Earned on Bond Refinancing				12,422	58,122	70,544	
Gain (Loss) on Pension Activities				(63,509)	(24,345)	(87,854)	
Gain (Loss) on Sale of Assets					23,344	23,344	
Total general revenues and transfers				<u>5,000,245</u>	<u>98,829</u>	<u>5,099,074</u>	<u>71,185</u>
Changes in net position				430,725	1,099,736	1,530,461	64,040
Net Position - Beginning				<u>14,554,587</u>	<u>13,260,283</u>	<u>27,814,870</u>	<u>(21,089)</u>
Net Position - Ending				<u>\$ 14,985,312</u>	<u>\$ 14,360,019</u>	<u>\$ 29,345,331</u>	<u>\$ 42,951</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Balance Sheet**  
**Governmental Funds**  
**for the year ended September 30, 2016**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Cash and Deposits	\$ 1,343,898	\$ 1,088,487	\$ 6,983	\$ 2,439,368
Accounts Receivable	394,596	85,800		480,396
Due From Other Governments	257,031			257,031
Property Taxes Receivable	<u>55,768</u>		<u>9,984</u>	<u>65,752</u>
Total Assets	<u>2,051,293</u>	<u>1,174,287</u>	<u>16,967</u>	<u>3,242,547</u>
<b>LIABILITIES:</b>				
Accounts Payable	473,877	85,800		559,677
Accrued Payroll Expenses	150,053			150,053
Due To Other Funds				0
Surety and Security Bonds Payable	<u>153,171</u>			<u>153,171</u>
Total Liabilities	<u>777,101</u>	<u>85,800</u>	<u>0</u>	<u>862,901</u>
<b>FUND BALANCE:</b>				
Non-spendable				0
Restricted	41,750			41,750
Committed	14,630		16,967	31,597
Assigned		1,088,487		1,088,487
Unassigned	<u>1,217,812</u>			<u>1,217,812</u>
Total Fund Balance	<u>1,274,192</u>	<u>1,088,487</u>	<u>16,967</u>	<u>2,379,646</u>
Total Liabilities and Fund Balance	<u>\$ 2,051,293</u>	<u>\$ 1,174,287</u>	<u>\$ 16,967</u>	<u>\$ 3,242,547</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 Position**  
**for the year ended September 30, 2016**

Total Governmental Fund Balances (Page 12)	\$ 2,379,646
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Amounts reported for governmental activities in the statement of net position  
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 \$ 21,306,720 less accumulated depreciation \$ 5,817,210	15,489,510
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Long-term liabilities, including net pension liability, bonds, capital leases payable and compensated absences are not payable in the current period and therefore are not reported in the governmental funds	(2,883,844)
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Net Position of Governmental Activities (Page 10)	<u>\$ 14,985,312</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, 2016**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUE:</b>				
Property taxes	\$ 2,272,077	\$	\$ 401,498	\$ 2,673,575
Local Option sales taxes	541,816			541,816
Franchises, licenses, permits	555,393			555,393
State of Idaho shared revenue	447,253			447,253
State of Idaho sales tax	132,614			132,614
State of Idaho liquor receipts	172,658			172,658
State highway user collections	376,227			376,227
Penalty and interest on property taxes	12,651		2,247	14,898
County court fines	45,105			45,105
Fees, fines and charges for services	369,683	206,071		575,754
Grants	20,569	189,500		210,069
Contributions	29,524			29,524
Earnings on investments	9,684	4,329	735	14,748
Miscellaneous	77,045			77,045
	<u>5,062,299</u>	<u>399,900</u>	<u>404,480</u>	<u>5,866,679</u>
Total Revenue				
<b>EXPENDITURES:</b>				
General Government	901,999			901,999
Public Safety	1,978,617			1,978,617
Streets	1,068,683			1,068,683
Parks and Recreation	361,838			361,838
Library	513,665			513,665
Capital outlay		432,244		432,244
Debt Service			398,375	398,375
	<u>4,824,802</u>	<u>432,244</u>	<u>398,375</u>	<u>5,655,421</u>
Total Expenditures				
<b>EXCESS REVENUE (EXPENDITURES)</b>	237,497	(32,344)	6,105	211,258
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers from other funds				0
Operating transfers (to) other funds				0
	<u>237,497</u>	<u>(32,344)</u>	<u>6,105</u>	<u>211,258</u>
NET CHANGE IN FUND BALANCES				
FUND BALANCE - BEGINNING	1,036,695	1,120,831	10,862	2,168,388
FUND BALANCE - ENDING	\$ <u>1,274,192</u>	\$ <u>1,088,487</u>	\$ <u>16,967</u>	\$ <u>2,379,646</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, 2016**

Net Change in Fund Balance - Total Governmental Funds (Page 14)	\$ 211,258
<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.	(553,077)
This is the amount of new Governmental Fund assets.	473,456
This is the amount of disposed of Governmental Fund assets.	0
<p>Long term liabilities are not recorded in the Governmental funds. Principle and interest paid on capital debt are recorded as expenditures in the Governmental Funds. Principle amounts paid are not recorded as expenditures in the Statement of Net Assets.</p>	
This is the amount of current year principle payments on capital debt.	355,000
This is the amount of changes in net pension liabilities	(73,575)
<p>Liability for personal leave days are not recorded in Governmental funds.</p>	
This is the decrease in compensated leave during the year.	<u>17,663</u>
Change in Net Position of Governmental Activities (Page 11)	<u>\$ 430,725</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Net Position**  
**Proprietary Funds**  
**at September 30, 2016**

<b>Assets:</b>	<b>Water</b>	<b>Wastewater</b>	<b>Wastewater Bio-Solids</b>	<b>Totals</b>
<b>Current Assets:</b>				
Cash and deposits	\$ 3,584,384	\$ 2,236,049	\$ 1,591,936	\$ 7,412,369
Accounts receivable	287,136	194,620		481,756
Inventory	102,282			102,282
	3,973,802	2,430,669	1,591,936	7,996,407
<b>Restricted Current Assets:</b>				
Cash and deposits		211,061	361,684	572,745
<b>Total Current Assets</b>	<b>3,973,802</b>	<b>2,641,730</b>	<b>1,953,620</b>	<b>8,569,152</b>
<b>Non Current Assets:</b>				
Plant and equipment	11,617,239	10,010,331	5,096,673	26,724,243
Accumulated depreciation	(5,702,970)	(5,464,981)		(11,167,951)
<b>Net Non Current Assets</b>	<b>5,914,269</b>	<b>4,545,350</b>	<b>5,096,673</b>	<b>15,556,292</b>
<b>Total Assets</b>	<b>9,888,071</b>	<b>7,187,080</b>	<b>7,050,293</b>	<b>24,125,444</b>
<b>Deferred Outflows of Resources:</b>				
Deferred Outflows from Pensions	139,850	129,224		269,074
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Accrued Payroll and Benefits Payable				0
Accrued Interest Payable	2,479	1,821	9,728	14,028
Customer Deposits	39,386			39,386
Current portion long-term debt	90,000	225,000	65,000	380,000
<b>Total current liabilities</b>	<b>131,865</b>	<b>226,821</b>	<b>74,728</b>	<b>433,414</b>
<b>Noncurrent Liabilities:</b>				
Bonds Payable, Less Current	1,280,000	985,000	6,110,000	8,375,000
Premium on Bonds Payable	166,656	70,880	205,531	443,067
Compensated Absences Payable	23,214	56,883		80,097
Net Pension Liability	273,666	260,801		534,467
Due To (From) Wastewater Fund		(371,528)	371,528	0
<b>Total noncurrent liabilities</b>	<b>1,743,536</b>	<b>1,002,036</b>	<b>6,687,059</b>	<b>9,432,631</b>
<b>Total Liabilities</b>	<b>1,875,401</b>	<b>1,228,857</b>	<b>6,761,787</b>	<b>9,866,045</b>
<b>Deferred Inflows of Resources:</b>				
Deferred Inflows from Pensions	90,702	77,752		168,454
<b>Net Position:</b>				
Investment in capital assets net of related debt	4,375,134	3,262,649	3,725,490	11,363,273
Restricted	0	211,061	361,684	572,745
Unrestricted	3,686,684	2,535,985	(3,798,668)	2,424,001
<b>Total Net Position</b>	<b>\$ 8,061,818</b>	<b>\$ 6,009,695</b>	<b>\$ 288,506</b>	<b>\$ 14,360,019</b>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**for the year ended September 30, 2016**

	<u>Water</u>	<u>Wastewater</u>	<u>Wastewater Bio-Solids</u>	<u>Totals</u>
<b>Operating Revenues:</b>				
Charges for services	\$ 1,766,656	\$ 1,650,052	\$ 330,000	\$ 3,746,708
Hookups, connections and fees	<u>160,871</u>	<u>92,121</u>		<u>252,992</u>
Total Operating Revenue	<u>1,927,527</u>	<u>1,742,173</u>	<u>330,000</u>	<u>3,999,700</u>
<b>Operating Expenses:</b>				
Salaries and benefits	527,105	563,308		1,090,413
Administrative and supplies	511,613	406,812		918,425
Depreciation	<u>350,331</u>	<u>289,035</u>		<u>639,366</u>
Total Operating Expenses	<u>1,389,049</u>	<u>1,259,155</u>	<u>0</u>	<u>2,648,204</u>
Operating Income	<u>538,478</u>	<u>483,018</u>	<u>330,000</u>	<u>1,351,496</u>
<b>Nonoperating Revenues (Expenses):</b>				
Interest Income	12,615	12,580	16,513	41,708
Interest Expense	(63,172)	(52,742)	(234,675)	(350,589)
Grants				0
Premium Earned on Bond Refinancing	27,773	28,352	1,997	58,122
Gain (Loss) on Pension Activity	(12,184)	(12,161)		(24,345)
Gain (Loss) on Fixed Asset Transfers				0
Gain on Sale of Assets		<u>23,344</u>		<u>23,344</u>
Total Nonoperating	<u>(34,968)</u>	<u>(627)</u>	<u>(216,165)</u>	<u>(251,760)</u>
Income before transfers	503,510	482,391	113,835	1,099,736
Transfers in				0
Transfers out				<u>0</u>
Net Income	503,510	482,391	113,835	1,099,736
Total Net Position - Beginning	<u>7,558,308</u>	<u>5,527,304</u>	<u>174,671</u>	<u>13,260,283</u>
Total Net Position - Ending	<u>\$ 8,061,818</u>	<u>\$ 6,009,695</u>	<u>\$ 288,506</u>	<u>\$ 14,360,019</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, 2016**

	<u>Water</u>	<u>Wastewater</u>	<u>Wastewater Bio-Solids</u>	<u>Total</u>
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers	\$ 1,817,065	\$ 1,741,343	\$ 330,000	\$ 3,888,408
Payments to suppliers	(519,142)	(397,341)	0	(916,483)
Payments to employees	(543,197)	(579,502)	0	(1,122,699)
Payments from (to) other funds		43,989	(43,989)	0
Other receipts				0
Net cash provided (used) by operations	<u>754,726</u>	<u>808,489</u>	<u>286,011</u>	<u>1,849,226</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Purchase and construction of capital assets	(137,320)	(426,791)	(3,434,939)	(3,999,050)
Disposition of Assets		56,000		56,000
Principal paid on capital debt	(90,000)	(220,000)	(60,000)	(370,000)
Proceeds from Bonds				0
Premium on bonds payable				0
Interest paid on capital debt	<u>(63,322)</u>	<u>(53,109)</u>	<u>(234,726)</u>	<u>(351,157)</u>
Net cash provided (used) by capital and related financing activities	<u>(290,642)</u>	<u>(643,900)</u>	<u>(3,729,665)</u>	<u>(4,664,207)</u>
<b>Cash Flows From Investing Activities:</b>				
Grant Income				0
Interest Income	12,615	12,580	16,514	41,709
Net cash provided (used) by investing	<u>12,615</u>	<u>12,580</u>	<u>16,514</u>	<u>41,709</u>
<b>Net Increase (Decrease) in Cash and Deposits</b>	476,699	177,169	(3,427,140)	(2,773,272)
<b>Balances - Beginning of the year</b>	<u>3,107,685</u>	<u>2,269,941</u>	<u>5,380,760</u>	<u>10,758,386</u>
<b>Balances - Ending of the year</b>	<u>\$ 3,584,384</u>	<u>\$ 2,447,110</u>	<u>\$ 1,953,620</u>	<u>\$ 7,985,114</u>
Displayed as:				
Pooled Cash and Investments	3,584,384	2,236,049	1,591,936	7,412,369
Restricted Assets		211,061	361,684	572,745
<b>Balances - Ending of the year</b>	<u>\$ 3,584,384</u>	<u>\$ 2,447,110</u>	<u>\$ 1,953,620</u>	<u>\$ 7,985,114</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Income	538,478	483,018	330,000	1,351,496
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	350,331	289,035	0	639,366
Changes in assets and liabilities:				
Receivables, net	(110,497)	830		(109,667)
Inventory	(9,059)			(9,059)
Accrued Payables	(16,092)	(16,653)		(32,745)
Compensated absences	1,600	8,270		9,870
Payments from (to) other funds		43,989	(43,989)	0
Customer deposits	<u>(35)</u>			<u>(35)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 754,726</u>	<u>\$ 808,489</u>	<u>\$ 286,011</u>	<u>\$ 1,849,226</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

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

The City of Hailey, Idaho (City) 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 Position 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, 2016**

Continued...

**3. Discretely Presented Component Unit**

The Component unit column in the financial statements includes the financial data of the City's only discretely presented component unit, the Hailey Urban Renewal Agency. It is reported in a separate column to emphasize that it is separate from the City's operations.

**4. 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 includes 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, recognizes revenues 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 THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

Continued...

**5. 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.

The City has adopted GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54) which defines how fund balances of the governmental funds are presented in the financial statements. There are five classifications of fund balances as presented below:

Non-spendable – These funds are not available for expenditures based on legal or contractual requirements. In this category, one would see inventory, long-term receivables, unless proceeds are restricted, committed, or assigned and legally or contractually required to be maintained intact (corpus or a permanent fund).

Restricted – These funds are governed by externally enforceable restrictions. In this category, one would see restricted purpose grant funds, debt service or capital projects.

Committed – Fund balances in this category are limited by the governments' highest level of decision making. Any changes of designation must be done in the same manner that it was implemented and should occur prior to end of the fiscal year, though the exact amount may be determined subsequently.

Assigned – These funds are intended to be used for specific purposes, intent is expressed by governing body or an official delegated by the governing body.

Unassigned – This classification is the default for all funds that do not fit into the other categories. This, however, should not be a negative number for the general fund. If it is, the assigned fund balance must be adjusted.

Order of Use of Fund Balance – The City's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances for specific purposes are determined.

**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.

**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

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**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.

**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.

### **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, Waste Water, and Bio-Solids funds.

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

### **7. 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.



**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

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**8. 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.

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

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

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

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

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

**10. Long-Term Debt**

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

**11. Deferred Outflows/Inflows of Resources**

In 2007, the Governmental Accounting Standards Board (GASB) released Concepts Statement No. 4 *Elements of Financial Statements* which provides a framework for determining the nature of financial accounting or reporting issues. Since the release of the framework, GASB has been looking at the assets and liabilities on the balance sheet to determine if they should continue to be reflected as

**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

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such. GASB has concluded that, in order to improve financial reporting, there are assets and liabilities that no longer should be reflected as assets and liabilities. These changes are included in the recently-issued GASB Statement No. 65, *Items Previously Reported as Asset and Liabilities*.

These changes include two new items that are reflected on the Statement of Net Position.

- Deferred outflow of resources – the current *consumption* of net assets that is applicable to a *future* reporting period.
- Deferred inflows of resources – the current *acquisition* of net assets that is applicable to a *future* reporting period.

The City's financial statements may report a separate section for deferred inflows of resources which reflects an increase in resources that applies to a future period.

## **12. Compensated Absences**

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

## **13. Pensions**

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **NOTE 2 - CASH AND CASH EQUIVALENTS**

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

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

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

**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

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Custodial Credit Risk, Deposits — Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The City's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The cash is recorded in terms of US currency and consists of: 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:

	Bank Balance Categories		
	1	2	3
Deposits	\$ 383,355	\$ 300	
State of Idaho LGIP			\$ 10,040,827
Investments	<u>          </u>	<u>          </u>	<u>          </u>
Total Cash and Investments	\$ <u>383,355</u>	\$ <u>300</u>	\$ <u>10,040,827</u>

Funds held in the Water and Wastewater Funds (Enterprise funds) in the amount of \$ 572,745 are reserved for repayment of existing debt. Funds held in the General Fund of \$ 41,750 are reserved for specific requirements from donations and employee flexible spending accounts.

**NOTE 3 - TAXES RECEIVABLE**

Property taxes are levied in November of each year and recognized as revenue when the tax notices are printed. Taxes are due in two equal installments at December and June following the levy date. If payment is not received upon the due dates, a 2% penalty is charged and taxes are classified as past due subject to 12% interest. Taxes receivable are stated at taxes levied less amounts collected and canceled. The City has not experienced any significant loss of delinquent taxes receivable in past years, and, therefore, does not consider it necessary to establish any allowance for uncollectible taxes receivable.

**NOTE 4 - ACCOUNTS RECEIVABLE**

The City charges for water and wastewater services and garbage collection on the first of the month. The water is metered and charged according to actual usage. The wastewater rate is based upon actual winter (non-irrigation) water usage. Water and wastewater are billed in arrears; garbage collection is prepaid. The balance of accounts receivable is for billings occurring Sept 30 and prior. Due to water and wastewater services that would be terminated if an account goes 60 days overdue, very few accounts become uncollectible.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2016**

Continued...

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2016 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 2,451,021	\$	\$	\$ 2,451,021
Construction in Progress	440,593	9,997	440,593	9,997
Total	<u>2,891,614</u>	<u>9,997</u>	<u>440,593</u>	<u>2,461,018</u>
<i>Capital Assets being depreciated:</i>				
Buildings & Improvements	3,292,693	110,743		3,403,436
Infrastructure	10,122,280	749,738		10,872,018
Vehicles and Equipment	4,886,803	43,571	360,126	4,570,248
Total	18,301,776	904,052	360,126	18,845,702
Less: Accumulated Depreciation:	<u>(5,624,259)</u>	<u>(553,077)</u>	<u>360,126</u>	<u>(5,817,210)</u>
Total Net Depreciated Assets	<u>12,677,517</u>	<u>350,975</u>	<u>0</u>	<u>13,028,492</u>
Governmental capital assets, net	\$ <u>15,569,131</u>	\$ <u>360,972</u>	\$ <u>440,593</u>	\$ <u>15,489,510</u>
<b>Business-type activities:</b>				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 235,391	\$	\$	\$ 235,391
Construction in Progress	1,731,318	3,434,939		5,166,257
Total	<u>1,966,709</u>	<u>3,434,939</u>	<u>0</u>	<u>5,401,648</u>
<i>Capital Assets being depreciated:</i>				
Buildings & Improvements	1,033,573			1,033,573
Infrastructure	15,478,937	25,897		15,504,834
Vehicles and Equipment	4,501,938	538,213	255,963	4,784,188
Total	21,014,448	564,110	255,963	21,322,595
Less: Accumulated Depreciation	<u>(10,750,693)</u>	<u>(639,366)</u>	<u>222,108</u>	<u>(11,167,951)</u>
Total Net Depreciated Assets	<u>10,263,755</u>	<u>(75,256)</u>	<u>33,855</u>	<u>10,154,644</u>
Business-type capital assets, net	\$ <u>12,230,464</u>	\$ <u>3,359,683</u>	\$ <u>33,855</u>	\$ <u>15,556,292</u>

**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.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2016**

Continued...

**NOTE 7 - ACCRUED COMPENSATED ABSENCES**

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

**NOTE 8 - LONG-TERM OBLIGATIONS**

The City has entered into the following agreements.

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amount Outstanding 9/30/2016</u>	<u>Amount Due 1 Year</u>
<b>GENERAL FUND</b>							
<b>Capital Leases Payable</b>							
Police Vehicles	11/7/2017	Variable	\$ 45,275	\$	\$ (22,837)	\$ 22,438	\$ 0
<b>Bonds Payable:</b>							
General Obligation							
Bonds 2010	8/1/2020	Variable	1,825,000	0	(345,000)	1,480,000	355,000
<b>Other:</b>							
Accrued Compensated Absences	NA		166,819	17,663		184,482	
<b>Total General Fund</b>			<u>\$ 2,037,094</u>	<u>\$ 17,663</u>	<u>\$ (367,837)</u>	<u>\$ 1,686,920</u>	<u>\$ 355,000</u>
<b>PROPRIETARY FUND</b>							
<b>Bonds and Loans Payable:</b>							
2012 Sewer Refunding	9/15/2021	Variable	\$ 1,430,000	0	\$ (220,000)	\$ 1,210,000	\$ 225,000
2014 Sewer Bio-Solids Bonds	9/15/2034	Variable	6,235,000	0	(60,000)	6,175,000	65,000
2012 Water Refunding	9/28/2028	Variable	1,460,000	0	(90,000)	1,370,000	90,000
<b>Other:</b>							
Accrued Compensated Absences	NA		70,227	9,870		80,097	
<b>Total Proprietary Fund</b>			<u>\$ 9,195,227</u>	<u>\$ 9,870</u>	<u>\$ (370,000)</u>	<u>\$ 8,835,097</u>	<u>\$ 380,000</u>

On December 20, 2012, the City of Hailey refinanced revenue bonds to satisfy the original bond with a new bond in the amount of \$2,085,000. The bond was sold at a premium resulting in a decrease of the principal balance by \$212,641 compared to the principal balance of the satisfied bond. The premium amount will be amortized over the life of the bond.

**CITY OF HAILEY, IDAHO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT SEPTEMBER 30, 2016**

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This Sewer Revenue Bond requires semi-annual interest payments in March and September with an annual principal payment in September. The bond has a variable interest rate and will mature in September of 2021.

On November 6, 2014, the City of Hailey sold \$6,335,000 of Sewer Revenue Bonds to finance a new Bio-Solids processing facility. The bond was sold at a premium resulting in a decrease of the principal balance by \$210,856 compared to the principal balance of the satisfied bond. The premium will be amortized over the life of the bond. This Sewer Revenue Bond requires semi-annual interest payments in March and September with an annual principal payment in September. The bond has a variable interest rate and will mature in September of 2034.

In 2007 the City of Hailey constructed a two million gallon drinking water storage facility in Quigley Canyon. The City obtained permanent financing through an Idaho Department of Environmental Quality Drinking Water Revolving Loan Program promissory note. The loan was refinanced in December of 2012 with a Water Revenue Bond. The bond requires semi-annual interest payments in March and September with an annual principal payment in September. The bond has a variable interest rate and will mature in September of 2028.

In 2010 the City of Hailey sold \$ 3,425,000 of General Obligation Bonds to construct the project entitled Rodeo Park. This project has reconstructed the rodeo grounds, improved the skate park and constructed an ice skating facility. These bonds will be repaid from the general revenues of the City. These bonds were sold at a premium that will be amortized over the life of the bonds.

Bond maturity and interest schedules of the issued bonds is contained in the schedule on pages 40-43 of these financial statements.

Fiscal Year	Wastewater Revenue Refunding Bonds 2012		Wastewater Revenue Refunding Bonds 2014	
	Interest	Principal	Interest	Principal
2017	\$ 43,700	\$ 225,000	\$ 233,475	\$ 65,000
2018	34,700	235,000	232,175	65,000
2019	30,000	240,000	230,875	65,000
2020	20,400	250,000	228,925	70,000
2021	10,400	260,000	225,425	70,000
2022-2026	0	0	927,875	1,910,000
2027-2031	0	0	495,475	2,335,000
2032-2034	0	0	111,587	1,595,000
Fiscal Year	Water Revenue Refunding Bonds 2012		General Obligation Bonds, Series 2010	
	Interest	Principal	Interest	Principal
2017	\$ 59,500	\$ 90,000	\$ 44,400	\$ 355,000
2018	55,900	95,000	33,750	365,000
2019	54,000	100,000	22,800	375,000
2020	50,000	100,000	11,550	385,000
2021	46,000	105,000	0	0
2022-2026	160,300	600,000	0	0
2027-2028	21,250	280,000	0	0

CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016

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**NOTE 12 – EMPLOYEE RETIREMENT PLAN**

*Plan Description*

The City of HAILEY contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

*Pension Benefits*

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age and highest average salary. Members become fully vested in their retirement benefits with five years of credited services (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

*Member and Employer Contributions*

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of employer rate for general employees and 72% for police and firefighters. As of June 30, 2016, it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The City's contributions were \$ 312,849 for the year ended September 30, 2016.

**CITY OF HAILEY, IDAHO**  
**Notes to the Financial Statements**  
**September 30, 2016**

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*Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*

At September 30, 2016, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the City's proportion was 0.0967492 percent.

For the year ended September 30, 2016, the City recognized pension expense (revenue) of \$87,854. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 476,607	\$ 195,425
Changes in assumptions or other inputs	\$ 47,163	
Net difference between projected and actual earnings on pension plan investments	\$ 477,976	\$ 446,026
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	\$ ( 90,446)	
City's contributions subsequent to the measurement date	\$ 86,880	
Total	\$ 998,180	\$ 641,451

\$ 86,880 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2017.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2016 the beginning of the measurement period ended June 30, 2016 is 4.9 and 5.5 for the measurement period June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:



**CITY OF HAILEY, IDAHO**  
**Notes to the Financial Statements**  
**September 30, 2016**

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**Year ended September 30, 2016:**

2017	\$ 1,993
2018	\$ 1,993
2019	\$ 227,539
2020	\$ 125,205
2021 and Therafter	\$ 0

*Actuarial Assumptions*

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.5 – 10.25%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**CITY OF HAILEY, IDAHO**  
**Notes to the Financial Statements**  
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Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets. The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

**Capital Market Assumptions**

	<u>Expected Return</u>	<u>Expected Risk</u>	<u>Strategic Normal</u>	<u>Strategic Ranges</u>
Equities:			70%	66%-77%
Broad Domestic Equity	9.15%	19.00%	55%	50%-65%
International	9.25%	20.20%	15%	10%-20%
Fixed Income:	3.05%	3.75%	30%	23%-33%
Cash	2.25%	0.90%	0%	0%-5%

	<u>Expected Return</u>	<u>Expected Inflation</u>	<u>Expected Real Return</u>	<u>Expected Risk</u>
<b>Total Fund</b>				
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

\* Expected arithmetic return net of fees and expenses

**Actuarial Assumptions:**

Assumed Inflation - Standard Deviation	3.25%
Portfolio Arithmetic Mean Return	2.00%
	8.42%
Portfolio Long-Term Expected Geometric Rate of Return	
Assumed Investment Expenses	7.50%
<b>Long-Term Expected Geometric Rate of Return</b>	
<b>Net of Investment Expenses</b>	<u>0.40%</u>
	7.10%

**CITY OF HAILEY, IDAHO**  
**Notes to the Financial Statements**  
**September 30, 2016**

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*Discount Rate*

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

*Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.*

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

	<b>1% Decrease (6.10%)</b>	<b>Current Discount Rate (7.10%)</b>	<b>1% Increase (8.10%)</b>
Employer's proportionate share of the net pension liability (asset)	\$2,157,381	\$1,961,255	\$1,765,130

*Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov)

*Payables to the pension plan*

At September 30, 2016, the City reported payables to the defined benefit pension plan of \$ 12,698 for legally required employer contributions and \$ 8,063 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

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

Effective October 1, 1994, Blaine County, Idaho and the City of Hailey, Idaho entered into a Joint Powers Agreement creating the Friedman Memorial Airport Authority for the purpose of operating and managing airport activities in the City of Hailey, Idaho. The Authority is a public entity of the State of Idaho and therefore the Authority's income is exempt from Federal and Idaho income taxes.

**CITY OF HAILEY, IDAHO  
NOTES TO THE FINANCIAL STATEMENTS  
AT SEPTEMBER 30, 2016**

Continued...

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, 2016 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

**NOTE 11 -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 a per occurrence deductible. 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 12 – LITIGATION**

The City, at the financial statement date, is not involved in any legal actions.

**NOTE 13 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- General Fund**  
**for the year ended September 30, 2016**

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUE:</b>			
Property taxes	\$ 2,288,530	\$ 2,272,077	\$ (16,453)
Local Option sales taxes	430,000	541,816	111,816
Franchises, licenses, permits:			
Alcohol Catering Licenses	1,600	2,400	800
Police Security	10,000	960	(9,040)
Building Permits	123,600	190,401	66,801
Business Licenses	40,000	43,766	3,766
Encroachment Permits	5,000	10,445	5,445
Franchises - Cable TV	74,351	75,794	1,443
Banner Fees	6,000	4,600	(1,400)
Franchises - Idaho Power	58,000	58,152	152
Franchises - Intermountain Gas	69,064	67,295	(1,769)
Franchises - Rubbish Company	70,718	70,644	(74)
Sign Permits	2,000	1,280	(720)
Fire Dept Permits	7,210	13,738	6,528
Subdivision Inspection Permits	500	400	(100)
Zoning Applications	14,000	13,628	(372)
Maps, Copies, and Postage	2,600	1,890	(710)
State of Idaho shared revenue	428,582	447,253	18,671
State of Idaho sales tax	125,338	132,614	7,276
State of Idaho liquor receipts	151,916	172,658	20,742
State highway user collections	339,902	376,227	36,325
Penalty and interest on property taxes	10,000	12,651	2,651
County court fines	35,000	45,105	10,105
Fees, fines and charges for services:			
WR Fire Asst Chief Contract			0
Library Fines and Memberships	18,000	16,616	(1,384)
Park Rental Fees	20,000	12,645	(7,355)
Rodeo Park Fees	17,000	17,963	963
RV Dump Fees	600	761	161
Rubbish Bookkeeping Contract	70,728	70,644	(84)
Recycling Outreach Contract	11,786	11,774	(12)
Police Security Contracts	54,435	3,264	(51,171)
Police Security Contr-School	160,000	165,150	5,150
Police Security Contr-BMO	82,640	82,640	0
Grants	3,395	20,569	17,174
Donations and contributions	41,770	29,524	(12,246)
Earnings on investments	2,000	9,684	7,684
Miscellaneous:			
Property Sales		392	392
Refunds and Reimbursements	12,000	17,021	5,021
Mutual Aid Reimbursements	25,933	47,858	21,925
Other			0
<b>Total Revenue</b>	<b>4,814,198</b>	<b>5,062,299</b>	<b>248,101</b>

**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- General Fund**  
**for the year ended September 30, 2016**

Continued.....

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>EXPENDITURES:</b>			
General Government:			
Legislative Department	260,520	265,376	(4,856)
Finance and Records	314,470	254,439	60,031
Community Development	282,880	264,436	18,444
Public Works	125,372	117,748	7,624
Public Safety:			
Police	1,473,454	1,430,013	43,441
Fire Protection	532,824	548,604	(15,780)
Streets	1,039,381	1,068,683	(29,302)
Library	518,123	513,665	4,458
Parks and Recreation	362,173	361,838	335
Total Expenditures	<u>4,909,197</u>	<u>4,824,802</u>	<u>84,395</u>
<b>EXCESS REVENUE (EXPENDITURES)</b>	(94,999)	237,497	332,496
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds			
Operating transfers (to) other funds			
<b>NET CHANGE IN FUND BALANCES</b>	(94,999)	237,497	<u>332,496</u>
<b>FUND BALANCE - BEGINNING</b>	<u>1,036,695</u>	<u>1,036,695</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 941,696</u>	<u>\$ 1,274,192</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, 2016**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
Capital Projects Grant Revenue	\$ 146,500	\$ 189,500	\$ 43,000
Penalties and interest on Bond			
Annexation Fees	0	4,000	4,000
In-Lieu Fees for Capital Projects	0	54,073	54,073
DIF Parks	5,500	2,760	(2,740)
DIF Transportation	26,500	91,812	65,312
DIF Police	5,500	9,824	4,324
DIF Fire and EMS	11,000	39,290	28,290
DIF CIP Cost	1,500	4,313	2,813
Property Sales			
Donations			0
Earnings on investments	5,000	4,328	(672)
Reimbursements and Other	0		0
	<u>201,500</u>	<u>399,900</u>	<u>198,400</u>
<b>Total Revenue</b>			
<b>EXPENDITURES:</b>			
General Government			
Public Safety	615,000	59,205	
Streets			
Capital outlay	256,000	325,244	(69,244)
Parks and Recreation	53,300	22,795	
Transportation			
Library	25,000	25,000	
Debt Service			
	<u>949,300</u>	<u>432,244</u>	<u>(69,244)</u>
<b>Total Expenditures</b>			
<b>EXCESS REVENUE (EXPENDITURES)</b>	(747,800)	(32,344)	129,156
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds	0	0	0
Operating transfers (to) other funds			
<b>NET CHANGE IN FUND BALANCES</b>	(747,800)	(32,344)	<u>\$ 129,156</u>
<b>FUND BALANCE - BEGINNING</b>	<u>1,120,831</u>	<u>1,120,831</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 373,031</u>	<u>\$ 1,088,487</u>	



**CITY OF HAILEY, IDAHO**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual -- Debt Service Fund**  
**for the year ended September 30, 2016**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUE:</b>			
Property taxes	\$ 398,025	\$ 401,498	\$ 3,473
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	2,247	2,247
County court fines			
Fees, fines and charges for services			
Grants and contributions			
Earnings on investments	0	735	735
Miscellaneous - Sale of G.O. Bonds			
	<u>398,025</u>	<u>404,480</u>	<u>6,455</u>
Total Revenue	<u>398,025</u>	<u>404,480</u>	<u>6,455</u>
<b>EXPENDITURES:</b>			
General Government			
Public Safety			
Streets			
Capital outlay			
Parks and Recreation			
Transportation			
Affordable Housing			
Debt Service	<u>398,025</u>	<u>398,375</u>	<u>(350)</u>
	<u>398,025</u>	<u>398,375</u>	<u>(350)</u>
Total Expenditures	<u>398,025</u>	<u>398,375</u>	<u>(350)</u>
<b>EXCESS REVENUE (EXPENDITURES)</b>	0	6,105	6,105
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds			
Operating transfers (to) other funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>	0	6,105	<u>\$ 6,105</u>
<b>FUND BALANCE - BEGINNING</b>	<u>10,862</u>	<u>10,862</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 10,862</u>	<u>\$ 16,967</u>	

**CITY OF HAILEY, IDAHO**  
**PUBLIC EMPLOYEE PENSION INFORMATION**  
For the year ended September 30, 2016

**Required Supplementary Information**

**Schedule of Employer's Share of Net Pension Liability**  
**PERSI - Base Plan**  
**Last 10 - Fiscal Years\***

	<u><b>2016</b></u>	<u><b>2015</b></u>
Employer's portion of the net pension liability	0.0967492%	.0963027%
Employer's proportionate share of the net pension liability	\$ 1,961,255	\$ 1,268,150
Employer's covered-employee payroll	\$ 2,731,511	\$ 2,776,130
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	71.80%	45.68%
Plan fiduciary net position as a percentage of the total pension liability	1496.25%	2193.00%

\* GASB Statement No. 68 required ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of June 30, 2016

**Schedule of Employer's Contributions**  
**PERSI - Base Plan**  
**Last 10 - Fiscal Years\***

	<u><b>2016</b></u>	<u><b>2015</b></u>
Statutorily required contributions	\$ 312,849	\$ 312,981
Contributions in relation to the statutorily required contribution	\$ (312,849)	\$ (312,981)
Contribution (deficiency) excess	\$ 0	\$ 0
Employer's covered-employee payroll	\$ 2,731,511	\$ 2,776,130
Contributions as a percentage of covered-employee payroll	11.45%	11.27%

**OTHER  
SUPPLEMENTARY INFORMATION**

**CITY OF HAILEY, IDAHO**  
**Loan-Future Principal and Interest Requirements**  
**at September 30, 2016**

Annual Payment			
Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Wastewater Revenue Refunding 2012 \$2,085,000, December 20, 2012 2.00% - 4.00%			
4.000%	2017	\$ 225,000	\$ 43,700
2.000%	2018	235,000	34,700
4.000%	2019	240,000	30,000
4.000%	2020	250,000	20,400
4.000%	2021	<u>260,000</u>	<u>10,400</u>
		\$ <u>1,210,000</u>	\$ <u>139,200</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Loan-Future Principal and Interest Requirements**  
**at September 30, 2016**

Annual Payment			
Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Wastewater Revenue Bonds 2014			
\$6,335,000, November 6, 2014			
2.00% - 5.00%			
2.000%	2017	\$ 65,000	\$ 233,475
2.000%	2018	65,000	232,175
3.000%	2019	65,000	230,875
5.000%	2020	70,000	228,925
5.000%	2021	70,000	225,425
5.000%	2022	345,000	221,925
5.000%	2023	365,000	204,675
5.000%	2024	380,000	186,425
5.000%	2025	400,000	167,425
5.000%	2026	420,000	147,425
3.000%	2027	440,000	126,425
3.000%	2028	455,000	113,225
3.000%	2029	465,000	99,575
3.125%	2030	480,000	85,625
3.250%	2031	495,000	70,625
3.250%	2032	515,000	54,537
3.500%	2033	530,000	37,800
3.500%	2034	550,000	19,250
		<u>\$ 6,175,000</u>	<u>\$ 2,685,812</u>

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Loan-Future Principal and Interest Requirements**  
**at September 30, 2016**

Annual Payment			
Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Water Revenue Refunding 2012 \$1,660,000, December 20, 2012 2.00% - 5.00%			
4.00%	2017	\$ 90,000	\$ 59,500
2.00%	2018	95,000	55,900
4.00%	2019	100,000	54,000
4.00%	2020	100,000	50,000
4.00%	2021	105,000	46,000
3.00%	2022	110,000	41,800
5.00%	2023	115,000	38,500
5.00%	2024	120,000	32,750
5.00%	2025	125,000	26,750
5.00%	2026	130,000	20,500
5.00%	2027	135,000	14,000
5.00%	2028	145,000	7,250
		\$ 1,370,000	\$ 446,950

The accompanying notes are a part of these financial statements.

**CITY OF HAILEY, IDAHO**  
**Loan-Future Principal and Interest Requirements**  
**at September 30, 2016**

Annual Payment			
Interest Rate	Fiscal Year	Principal Payment	Interest Payment
General Obligation Bonds, Series 2010 \$3,425,000, August 1, 2010 2.00% - 3.00%			
3.00%	2017	\$ 355,000	\$ 44,400
3.00%	2018	365,000	33,750
3.00%	2019	375,000	22,800
3.00%	2020	<u>385,000</u>	<u>11,550</u>
		\$ <u>1,480,000</u>	\$ <u>112,500</u>

The accompanying notes are a part of these financial statements.



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

December 9, 2016

To the City Council  
City of Hailey, Idaho

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hailey, Idaho, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hailey, Idaho's basic financial statements, and have issued our report thereon dated December 9, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Hailey, Idaho's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hailey, Idaho's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hailey, Idaho's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Dennis R. Brown". The signature is fluid and cursive, with the first name "Dennis" being more prominent than the last name "Brown".

DENNIS R. BROWN  
Certified Public Accountant  
Twin Falls, Idaho