

CITY OF HAILEY, IDAHO

Financial Statements

Year Ended September 30, 2012

CITY OF HAILEY, IDAHO
Financial Statements
For the year ended September 30, 2012

Table of Contents

Independent Auditor's Report	1
Required Supplementary Information - Part I	
Management's Discussion and Analysis	2-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet	10
Reconciliation of the Balance Sheet of Governmental Funds to	
the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes	
in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Net Assets	15
Statement of Cash Flows	16
Notes to the Financial Statements	17-27
Required Supplementary Information - Part I	
General Fund Budgetary Comparison Schedule	28-29
Capital Improvement Fund Budgetary Comparison Schedule	30
Debt Service Fund Budgetary Comparison Schedule	31
Water Fund Budgetary Comparison Schedule	32
Wastewater Fund Budgetary Comparison Schedule	33
Supplementary Information - Part II	
Bond - Future Principal and Interest Requirements	34-36
Supplementary Information - Part III	
Schedule of Expenditures of Federal Awards	37
Schedule of Findings and Questioned Costs	38
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit	
of the General Purpose Financial Statements Performed in Accordance with	
Government Auditing Standards	39
Report on Compliance with Requirements Applicable to Each Major Program	
and on Internal Control over Compliance with OMB Circular A-133	40



828 Blue Lakes Boulevard North • P.O. Box 2367 • Twin Falls, Idaho 83303 • (208) 733-1161 • Fax: (208) 733-6100

INDEPENDENT AUDITOR'S REPORT

October 29, 2012

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

I have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Hailey, Idaho (City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hailey, Idaho's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the business-type activities of the City of Hailey, Idaho as of September 30, 2012, and changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 29, 2012, on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, and regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 7 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 28 to 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Hailey, Idaho. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

DENNIS R. BROWN
Certified Public Accountant

City of Hailey

115 MAIN STREET SOUTH, SUITE H
HAILEY, IDAHO 83333

(208) 788-4221
Fax: (208) 788-2924

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2012

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, 2012. 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, 2012 by \$26,332,417. Of this amount \$2,751,691 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2012 the City's total net assets increased \$ 3,272,518. Net assets of the governmental activities increased \$ 3,324,415 and net assets of business type activities decreased \$ 51,897. This increase in the governmental activities is due in large measure to federal grants received to improve property within the City limits.
- Total fund balance of governmental funds at September 30, 2012 was \$2,280,668 compared to a total governmental fund balance at September 30, 2011 of \$3,165,361.
- The City has \$7,704,199 in permanent debt, including debt still remaining on a water system loan (storage tank), sewer revenue bond (treatment plant), general obligation bond (arena/skatepark), and accrued compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government- Wide Financial Statements

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

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

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

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

Management's Discussion and Analysis, Continued

These two government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Examples of the government type activities of the City of Hailey include general 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 a restricted fund, 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. Each grant project is tracked separately within the fund, and the fund captures the city's entire grant program. At the end of each fiscal year the total revenues and expenses of each grant project are allocated to the respective General or Proprietary fund in one of two ways: 1) capital facilities developed by the grants become depreciable assets in the proper operating fund; or 2) operating programs developed through grants are either discontinued or assumed by the city under the proper department budget.

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

Notes to the Financial Statements

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

Management's Discussion and Analysis, Continued

Required Supplementary Information

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

FINANCIAL ANALYSIS OF THE CITY OF HAILEY AS A WHOLE

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

ASSETS	FY 2011	FY 2012
Current and Other Assets	\$ 9,301,121	\$ 8,502,126
Capital Assets - Net	<u>23,080,053</u>	<u>26,860,332</u>
Total Assets	32,381,174	35,362,458
LIABILITIES		
Current Liabilities	1,650,259	1,976,381
Long Term Liabilities	<u>7,671,016</u>	<u>7,053,660</u>
Total Liabilities	9,321,275	9,030,041
NET ASSETS		
Invested in Capital Assets, Net of Debt	15,010,606	19,406,598
Restricted	5,949,080	4,174,128
Unrestricted	<u>2,100,213</u>	<u>2,751,691</u>
Total Net Assets	\$ 23,059,899	\$ 26,332,417

Net Assets

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). The total assets of the City of Hailey exceeded its liabilities at September 30, 2012 by \$26,332,417, an increase of \$3,272,518 over the previous year's net asset balance of \$23,059,899. Of this amount \$2,751,691 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$651,478 more than the previous year's unrestricted amount of \$2,100,213. The unrestricted net assets equal 9.9% of net assets. This increase is due to the city having completed projects using restricted funds; specifically bond and/or development impact fees for the Skatepark and R.V. park, the Welcome Center, the Woodside roundabout, and acquisition of a fire truck. Additionally, the city does not restrict excess revenue over expense in its operating funds.

The largest portion of the City's net assets, 70.0%, 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

Management's Discussion and Analysis, Continued

and are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's net fixed assets increased in book value by \$3,780,279, which sum is comprised largely of the monies expended on the Woodside Blvd project, completion of the Welcome Center, and other smaller capital projects.

Changes in Net Assets

During the year the City's financial position increased by \$3,272,518, compared to the previous year ending September 30, 2011, during which the City's financial position increased by \$778,150.

Governmental Activities:

Governmental activities increased the City's net assets by \$3,324,415, compared to the previous year's increase of \$489,160. In both years, operational expenses were budgeted and managed such that they did not exceed operational revenues. Grant revenues were increased over the previous year, which funded an increase in fixed assets.

Business-Type Activities: Business-type activities decreased net assets by \$51,897, compared to the previous year's increase of \$288,990. Both a decrease in revenue and an increase in expenses effected this slight negative change. Grant revenues decreased over the previous year, which funded less of an increase in fixed assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund - The general fund balance at September 30, 2012 was \$803,441 compared to a \$772,114 operations component the previous year. This amount contains a non-binding endowment for fireworks display, contributed from donations, of \$80,520 and \$14,504 of park accumulated donations for recreational purposes.

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, and reported an accumulated fund balance at September 30, 2011 of \$1,760,771. In 2012 several capital projects were continuing that decreased the capital fund balance at September 30, 2012 to \$1,081,285.

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

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

General Fund Budgetary Highlights

The City of Hailey monitored its expenses to remain below revenues throughout the fiscal year. The general fund revenues were \$297,818 more than budgeted. General fund expenses were held at \$266,491 more than budgeted, for a year-end excess in revenues over expenses of \$31,327, compared to the previous year's surplus of \$60,726.

Capital Improvement Fund Budgetary Highlights

Hailey launched two multi-million dollar capital projects in 2010, spending \$3,143,203 on a new arena and skatepark in 2011, of which amount \$2,946,195 was funded through a transfer in from the voter approved bond

Management's Discussion and Analysis, Continued

fund and \$308,050 in donations were accepted for the project. This project continued into 2012 with further expenses of \$530,043 of bond funds on construction of a Welcome Center and interpretive exhibits and another \$500 in donated funds. The second large project entailed design and engineering expenses for the Woodside Boulevard Complete Streets Initiative Project in 2011 of \$828,152. Further engineering occurred in 2012, as well as the bulk of the construction, amounting to \$3,096,171 being spent on the Woodside Boulevard project during 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012 the City had \$26,860,332 invested in capital assets (net of accumulated depreciation) compared to last year's \$23,080,053, an increase of \$3,780,279 compared to the previous year's increase of \$3,443,901. Net capital assets of governmental activities increased by \$3,936,523 and those of business-type activities decreased by \$156,244 in the current period. The City investment in capital assets includes land, facilities, park improvements, automobiles and equipment, street lights, and sidewalks.

Long-Term Debt

The City has a 20-year sewer revenue bond of \$4.5 million, a long-term debt obligation through 2021. The current amount owed on the debt is \$2,580,000. The permanent financing of the Quigley Canyon water storage facility of \$2,400,000 was recorded and the balance on this 20 year DEQ loan is \$2,090,642, a long term obligation through 2029. The City sold general obligation bonds of \$3,425,000 at a premium of \$136,648 in 2010 to finance the arena/skatepark project over 10 years.

The City's maximum general obligation debt capacity is 2% of the taxable assessed value of properties within the city limits. At the end of September, 2012, the city's taxable assessed value was \$703,646,441. The 2% general obligation bond debt capacity of \$14,072,929 is now reduced by the outstanding general bond obligation of \$2,820,000, leaving the City with a general obligation bond debt capacity remaining of \$11,252,929.

Hailey has met the principal and interest payments on outstanding bonds and other indebtedness in the past 10 years when due. Additionally, no refunding bonds have been issued for the purpose of preventing an impending default. Hailey's ability to pay its general obligation long-term debt is reliant on property tax payments.

The assessed net taxable value of properties within the city has been in decline since a peak in values in 2008.

Assessed Market Values of Taxable Property and Tax Collection Record

Year	Full Market Value	Homeowner's Exemption	Net Taxable Value	General Tax Levied	Bond Tax Levied	General Tax Collected for previous year	Bond Tax Collected for previous year
Sep 12	830,527,508	126,881,067	703,646,441	-	-	-	-
Jan 12	1,004,408,428	149,911,921	854,496,507	1,989,837	398,989	1,995,930	398,989
Jan 11	1,236,317,415	170,874,128	1,065,443,287	1,928,539	399,703	1,887,491	381,688
Jan 10	1,460,667,411	181,921,576	1,278,745,835	1,925,951		1,789,714	
Jan 09	1,580,943,641	176,823,018	1,404,120,623	1,870,361		1,803,834	
Jan 08	1,590,462,395	155,321,416	1,435,140,979	1,812,638		1,721,818	

FY12 BUDGETARY CONSIDERATIONS

The City of Hailey estimates revenue to establish the budgets in each of its funds. 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 fund balance target is 20% of budget, which the Hailey City Council considers prudent

Management's Discussion and Analysis, Continued

for emergency contingencies within the general fund. With the FY 2012 general fund adopted budget at \$4,459,750, and the increase in fund balance now at \$803,441, the current fund balance is 17% of the FY 2012 budget. The City Council will consider loaning \$50,000 of this fund balance to the Hailey Urban Renewal Agency to assist in the establishment of a vital Urban Renewal Area for economic development within Hailey. After the URA tax increments begin to accumulate, that money will be returned to the city's general fund.

The enterprise fund cash reserves have decreased since 2008, after the City completed a water meter installation project and began city-wide metered billing. Since then, rates have incrementally been amended 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 so has the City's rate-based income. Correspondingly, the enterprise fund labor expenses have been reduced. Expert consultants have been utilized intermittently as needed for specific projects. Hailey plans to utilize consultants to help manage treatment plant discharge requirement under a new NPDES Permit issued by the EPA to Hailey in August, 2012, and to design a more efficient bio-solids management system within the wastewater treatment process.

The enterprise fund balances have remained sufficiently high, however, to allow the City to consider refinancing both its water system loan and its sewer revenue bond. The City applied to the Idaho Bond Bank in August 2012 for refunding bonds on both, in hopes of obtaining significant cash savings in excess of \$500,000 through lowered interest rates within the same term. These applications were approved because the City had sufficient cash reserves to pay down the principal balance on both. This pay-down will bring the wastewater system's Net Revenue to Bond Payment to 125%, and to insure that the water fund Net Revenue remain above 150% of Bond Payment, to allow release of the water system's Debt Service Reserve Fund required under the existing State Revolving Fund Loan.

The City of Hailey has identified that two future new bond measures may be necessary to improve services to Hailey residents. A Wastewater System Revenue Bond may be brought before voters to construct a more efficient bio-solids management system within the wastewater treatment process. A Capital Levy measure may be brought before voters to establish a consistent revenue source for the Capital Improvement Fund. The City has utilized a significant portion of the Capital Improvement Fund as matching funds for grants. This successful program has increased the City's net assets, its livability and quality of life.

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.

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

Requests for Information

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

CITY OF HAILEY, IDAHO
Statement of Net Assets
at September 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<u>ASSETS</u>			
Cash and Deposits	\$ 529,685	\$ 431,956	\$ 961,641
Investments - Unrestricted	577,460	1,419,436	1,996,896
Accounts Receivable	203,502	305,338	508,840
Taxes Receivable	137,826		137,826
Due From Other Governments	1,583,610		1,583,610
Inventory		119,093	119,093
Restricted Cash, Deposits, and Investments	475,666	2,718,554	3,194,220
Totals	<u>3,507,749</u>	<u>4,994,377</u>	<u>8,502,126</u>
Capital Assets:			
Land, Easements and Water Rights	2,431,674	235,391	2,667,065
Construction Projects in Process		88,742	88,742
Infrastructure	8,909,432	14,524,970	23,434,402
Buildings and Improvements	3,588,234	683,247	4,271,481
Equipment and Vehicles	5,516,532	4,535,635	10,052,167
Accumulated Depreciation	(5,094,245)	(8,559,280)	(13,653,525)
Total Capital Assets	<u>15,351,627</u>	<u>11,508,705</u>	<u>26,860,332</u>
Total Assets	<u>18,859,376</u>	<u>16,503,082</u>	<u>35,362,458</u>
<u>LIABILITIES</u>			
Accounts Payable	1,000,161		1,000,161
Accrued Payroll and Benefits Payable	47,183	14,776	61,959
Accrued Interest Payable		41,406	41,406
Surety and Security Bonds Payable	179,737	42,579	222,316
Long-term Liabilities:			
Portion due or payable within one year:			
Bonds Payable	325,000	325,539	650,539
Portion due or payable after one year:			
Bonds and Loans Payable	2,495,000	4,345,103	6,840,103
Unamortized Bond (Premium) Discount	(93,790)	56,882	(36,908)
Compensated Absences	217,062	33,403	250,465
Total Liabilities	<u>4,170,353</u>	<u>4,859,688</u>	<u>9,030,041</u>
<u>NET ASSETS</u>			
Invested in Capital Assets - net of related debt	12,625,417	6,781,181	19,406,598
Restricted For:			
Debt Service	374,289	2,718,554	3,092,843
Capital Improvements	1,081,285		1,081,285
Unrestricted	608,032	2,143,659	2,751,691
Total Net Assets	<u>\$ 14,689,023</u>	<u>\$ 11,643,394</u>	<u>\$ 26,332,417</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Activities
For the Year Ended September 30, 2012

Activities:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental:						
General Government	\$ 870,822	\$ 465,062	\$ 2,551,686	\$ 2,145,926		\$ 2,145,926
Public Protection:						
Public Safety	1,658,453	556,055	106,668	(995,730)		(995,730)
Streets	835,336		50,555	(784,781)		(784,781)
Parks and Recreation	270,615	22,825		(247,790)		(247,790)
Library	439,862	17,596		(422,266)		(422,266)
Interest on Long-Term Debt	52,132			(52,132)		(52,132)
Unallocated Depreciation	524,154			(524,154)		(524,154)
Total Governmental Activities	<u>4,651,374</u>	<u>1,061,538</u>	<u>2,708,909</u>	<u>(880,927)</u>		<u>(880,927)</u>
Business Type:						
Water	1,202,289	1,159,749	56,977		\$ 14,437	14,437
Wastewater	1,289,959	1,336,649	56,977		103,667	103,667
Interest - on long-term debt	202,684				(202,684)	(202,684)
Total Business-type Activities	<u>2,694,932</u>	<u>2,496,398</u>	<u>113,954</u>		<u>(84,580)</u>	<u>(84,580)</u>
Total City of Hailey, Idaho	<u>\$ 7,346,306</u>	<u>\$ 3,557,936</u>	<u>\$ 2,822,863</u>	<u>(880,927)</u>	<u>(84,580)</u>	<u>(965,507)</u>

General Revenues:		
Property taxes	2,394,920	2,394,920
Local Option sales taxes	333,743	333,743
Franchises, licenses, permits	413,467	413,467
State of Idaho revenue sharing	427,169	427,169
State of Idaho sales tax	85,595	85,595
State of Idaho liquor receipts	146,359	146,359
State highway user collections	267,254	267,254
Penalty and interest on property taxes	26,811	26,811
County court fines	62,857	62,857
Earnings on investments	21,132	32,683
Miscellaneous	23,635	23,635
Gain on Sale of Assets	2,400	2,400
Total general revenues	<u>4,205,342</u>	<u>4,238,025</u>
Net Transfers In (Out)		0
Changes in net assets	3,324,415	(51,897)
Net Assets - Beginning	<u>11,364,608</u>	<u>11,695,291</u>
Net Assets - Ending	<u>\$ 14,689,023</u>	<u>\$ 26,332,417</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, 2012

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Deposits	\$ 828,850	\$ (1,283,056)	\$ 311,217	\$ (142,989)
Investments	672,484	990,243	63,073	1,725,800
Accounts Receivable	203,502			203,502
Due From Other Governments	209,512	1,374,098		1,583,610
Property Taxes Receivable	<u>116,174</u>		<u>21,652</u>	<u>137,826</u>
Total Assets	<u>2,030,522</u>	<u>1,081,285</u>	<u>395,942</u>	<u>3,507,749</u>
LIABILITIES:				
Accounts Payable	1,000,161			1,000,161
Accrued Payroll Expenses	47,183			47,183
Surety and Security Bonds Payable	<u>179,737</u>			<u>179,737</u>
Total Liabilities	<u>1,227,081</u>	<u>0</u>	<u>0</u>	<u>1,227,081</u>
FUND BALANCE:				
General Fund	803,441			803,441
Capital Project Funds		1,081,285		1,081,285
Debt Service Fund			<u>395,942</u>	<u>395,942</u>
Total Fund Balance	<u>803,441</u>	<u>1,081,285</u>	<u>395,942</u>	<u>2,280,668</u>
Total Liabilities and Fund Balance	<u>\$ 2,030,522</u>	<u>\$ 1,081,285</u>	<u>\$ 395,942</u>	<u>\$ 3,507,749</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
for the year ended September 30, 2012

Total Governmental Fund Balances (Page 10)	\$ 2,280,668
--	--------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$ 20,445,872 less accumulated depreciation \$ 5,094,245	15,351,627
---	------------

Long-term liabilities, including bonds, capital leases payable and compensated absences are not payable in the current period and therefore are not reported in the governmental funds	(2,943,272)
--	-------------

Net Assets of Governmental Activities (Page 8)	<u>\$ 14,689,023</u>
--	----------------------

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended September 30, 2012

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUE:				
Property taxes	\$ 1,995,930	\$	\$ 398,990	\$ 2,394,920
Local Option sales taxes	333,743			333,743
Franchises, licenses, permits	413,467			413,467
State of Idaho shared revenue	427,169			427,169
State of Idaho sales tax	85,595			85,595
State of Idaho liquor receipts	146,359			146,359
State highway user collections	267,254			267,254
Penalty and interest on property taxes	24,734		2,077	26,811
County court fines	62,857			62,857
Fees, fines and charges for services	721,426	340,112		1,061,538
Grants	222,550	2,460,436		2,682,986
Contributions	24,416	1,506		25,922
Earnings on investments	6,034	12,292	2,806	21,132
Miscellaneous	26,035			26,035
	<u>4,757,569</u>	<u>2,814,346</u>	<u>403,873</u>	<u>7,975,788</u>
Total Revenue				
EXPENDITURES:				
General Government	934,219			934,219
Public Safety	2,183,888			2,183,888
Streets	897,658			897,658
Parks and Recreation	270,615			270,615
Library	439,862			439,862
Capital outlay		3,732,914		3,732,914
Debt Service			401,325	401,325
	<u>4,726,242</u>	<u>3,732,914</u>	<u>401,325</u>	<u>8,860,481</u>
Total Expenditures				
EXCESS REVENUE (EXPENDITURES)	31,327	(918,568)	2,548	(884,693)
OTHER FINANCING SOURCES (USES):				
Operating transfers from other funds		239,082		239,082
Operating transfers (to) other funds			(239,082)	(239,082)
NET CHANGE IN FUND BALANCES	31,327	(679,486)	(236,534)	(884,693)
FUND BALANCE - BEGINNING	<u>772,114</u>	<u>1,760,771</u>	<u>632,476</u>	<u>3,165,361</u>
FUND BALANCE - ENDING	\$ <u><u>803,441</u></u>	\$ <u><u>1,081,285</u></u>	\$ <u><u>395,942</u></u>	\$ <u><u>2,280,668</u></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, 2012

Net Change in Fund Balance - Total Governmental Funds (Page 12)	\$ (884,693)
---	--------------

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.

This is the amount of current year depreciation.	(524,154)
--	-----------

This is the amount of new Governmental Fund assets.	4,431,483
---	-----------

This is the amount of disposed of Governmental Fund assets.	0
---	---

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.

This is the amount of current year principle payments on capital debt.	320,000
--	---------

Liability for personal leave days are not recorded in Governmental funds.

This is the increase in compensated leave during the year.	<u>(18,221)</u>
--	-----------------

Change in Net Assets of Governmental Activities (Page 9)	\$ <u><u>3,324,415</u></u>
--	----------------------------

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Net Assets
Proprietary Funds
at September 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Assets:			
Current Assets:			
Cash and Deposits	\$ 240,549	\$ 191,407	\$ 431,956
Investments - Unrestricted	975,798	443,638	1,419,436
Accts receivable - customers	182,994	122,344	305,338
Inventory	119,093		119,093
	<u>1,518,434</u>	<u>757,389</u>	<u>2,275,823</u>
Restricted Current Assets:			
Cash, Deposits, and Investments	<u>1,920,340</u>	<u>798,214</u>	<u>2,718,554</u>
Total Current Assets	<u>3,438,774</u>	<u>1,555,603</u>	<u>4,994,377</u>
Capital Assets:			
Plant and equipment	10,264,368	9,803,617	20,067,985
Accumulated depreciation	<u>(4,027,467)</u>	<u>(4,531,813)</u>	<u>(8,559,280)</u>
Net Plant and equipment	<u>6,236,901</u>	<u>5,271,804</u>	<u>11,508,705</u>
Total Assets	<u>9,675,675</u>	<u>6,827,407</u>	<u>16,503,082</u>
Liabilities:			
Current Liabilities:			
Accounts and Interest Payable	79,746	19,015	98,761
Current portion long-term debt	<u>95,539</u>	<u>230,000</u>	<u>325,539</u>
Total current liabilities	<u>175,285</u>	<u>249,015</u>	<u>424,300</u>
Noncurrent Liabilities:			
Bonds Payable	1,995,103	2,350,000	4,345,103
Unamortized Bond Discount		56,882	56,882
Compensated Absences Payable	<u>6,529</u>	<u>26,874</u>	<u>33,403</u>
Total noncurrent liabilities	<u>2,001,632</u>	<u>2,433,756</u>	<u>4,435,388</u>
Total Liabilities	<u>2,176,917</u>	<u>2,682,771</u>	<u>4,859,688</u>
Net Assets:			
Investment in capital assets net of related debt	4,146,259	2,634,922	6,781,181
Restricted	1,920,340	798,214	2,718,554
Unrestricted	<u>1,432,159</u>	<u>711,500</u>	<u>2,143,659</u>
Total Net Assets	<u>\$ 7,498,758</u>	<u>\$ 4,144,636</u>	<u>\$ 11,643,394</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Revenues, Expenditures, and Changes in Net Assets
Proprietary Funds
for the year ended September 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues:			
Charges for services	\$ 1,107,216	\$ 1,291,540	\$ 2,398,756
Hookups and connections	42,062	42,709	84,771
Reimbursements and Misc.	10,471		10,471
	<u>1,159,749</u>	<u>1,334,249</u>	<u>2,493,998</u>
Total Operating Revenue			
	<u>1,159,749</u>	<u>1,334,249</u>	<u>2,493,998</u>
Operating Expenses:			
Salaries and benefits	447,619	496,785	944,404
Administrative and supplies	443,618	463,491	907,109
Depreciation	311,052	329,683	640,735
	<u>1,202,289</u>	<u>1,289,959</u>	<u>2,492,248</u>
Total Operating Expenses			
	<u>1,202,289</u>	<u>1,289,959</u>	<u>2,492,248</u>
Operating Income (Loss)	<u>(42,540)</u>	<u>44,290</u>	<u>1,750</u>
Nonoperating Revenues (Expenses):			
Interest Income	19,793	12,890	32,683
Interest Expense	(74,768)	(127,916)	(202,684)
Gain (Loss) on asset disposal		2,400	2,400
Other Grants and Miscellaneous	56,977	56,977	113,954
	<u>2,002</u>	<u>(55,649)</u>	<u>(53,647)</u>
Total Nonoperating			
	<u>2,002</u>	<u>(55,649)</u>	<u>(53,647)</u>
Income (Loss) before transfers	<u>(40,538)</u>	<u>(11,359)</u>	<u>(51,897)</u>
Transfers in			
Transfers out			0
			<u>0</u>
Net Income (Loss)	(40,538)	(11,359)	(51,897)
Total Net Assets - Beginning	<u>7,539,296</u>	<u>4,155,995</u>	<u>11,695,291</u>
Total Net Assets - Ending	<u>\$ 7,498,758</u>	<u>\$ 4,144,636</u>	<u>\$ 11,643,394</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, 2012

	Water Fund	Wastewater Fund	Total
Cash Flows From Operating Activities:			
Receipts from customers	\$ 1,173,764	\$ 1,285,825	\$ 2,459,589
Payments to suppliers	(441,902)	(470,777)	(912,679)
Payments to employees	(447,619)	(496,785)	(944,404)
Other receipts	10,471		10,471
Net cash provided (used) by operations	<u>294,714</u>	<u>318,263</u>	<u>612,977</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase and construction of capital assets	(395,752)	(62,039)	(457,791)
Grants	56,977	56,977	113,954
Principal paid on capital debt	(92,265)	(220,000)	(312,265)
Interest paid on capital debt	<u>(74,768)</u>	<u>(127,916)</u>	<u>(202,684)</u>
Net cash provided (used) by capital and related financing activities	<u>(505,808)</u>	<u>(352,978)</u>	<u>(858,786)</u>
Cash Flows From Investing Activities:			
Interest Income	<u>19,793</u>	<u>12,890</u>	<u>32,683</u>
Net Increase (Decrease) in Cash and Equivalents	(191,301)	(21,825)	(213,126)
Balances - Beginning of the year	<u>3,327,988</u>	<u>1,455,084</u>	<u>4,783,072</u>
Balances - Ending of the year	<u><u>\$ 3,136,687</u></u>	<u><u>\$ 1,433,259</u></u>	<u><u>\$ 4,569,946</u></u>
Displayed as:			
Pooled Cash and Investments	1,216,347	635,045	1,851,392
Restricted Assets	<u>1,920,340</u>	<u>798,214</u>	<u>2,718,554</u>
Balances - Ending of the year	<u><u>\$ 3,136,687</u></u>	<u><u>\$ 1,433,259</u></u>	<u><u>\$ 4,569,946</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	(40,538)	(11,359)	(51,897)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	311,052	329,683	640,735
Changes in assets and liabilities:			
Receivables, net	26,936	(5,715)	21,221
Inventory	(4,026)	0	(4,026)
Compensated Absences	(4,452)	3,043	(1,409)
Accounts and other payables	<u>5,742</u>	<u>2,611</u>	<u>8,353</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 294,714</u></u>	<u><u>\$ 318,263</u></u>	<u><u>\$ 612,977</u></u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. Financial Reporting Entity

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

2. Government-Wide and Fund Financial Statements

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

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

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

3. Measurement Focus and Basis of Accounting

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

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

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

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

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

4. Fund Accounting

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

GOVERNMENTAL FUNDS

The City reports the following major governmental funds:

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

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

PROPRIETARY FUNDS

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

OTHER FUND TYPES

The City also reports the following fund types:

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

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

5. Budgetary Data

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

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

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

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

6. Cash and Cash Equivalents

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

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

7. Inventory

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

8. Capital Assets, Depreciation, and Amortization

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

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

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

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

9. Long-Term Debt

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

NOTE 2 - CASH AND CASH EQUIVALENTS

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

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

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

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

	<u>Carrying</u> <u>Amount</u>	<u>Bank</u> <u>Balance</u>
Cash on Hand	\$ 300	\$ 300
Mountain West – Checking	6,139	6,139
Bank of America - Checking	6,353	6,353
Bank of the West- Checking	7,383	7,383
Certificates of Deposit:		
Wells Fargo Bank	276,175	276,175
Bank of the West	273,101	273,101
Mountain West Bank	168,457	168,457
State of Idaho LGIP	<u>5,414,849</u>	<u>5,414,849</u>
Totals	\$ <u><u>6,152,757</u></u>	\$ <u><u>6,152,757</u></u>

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

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

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

Balances are held in each category as follows:

		Carrying Amount		
		Categories		
		1	2	3
Deposits	\$	737,908	\$	0
Investment State of Idaho LGIP				\$ 5,414,849
Total Cash and Investments	\$	<u>737,908</u>	\$	<u>0</u> \$ <u>5,414,849</u>

Funds held in the Water and Wastewater Funds (Enterprise funds) in the amount of \$2,718,554 are reserved for repairs and replacement of the existing systems and equipment as well as repayment of existing debt. Funds held in the Capital Improvement Fund of \$1,081,284 are reserved for capital construction projects in general. The General Obligation Bond Fund reserve in the amount of \$374,289 is reserved for the construction of the Rodeo Park Project. A separate Debt Service Fund of the same amount has been established for collecting the levies to repay the bond interest and principal payments for 10 years.

NOTE 3 - TAXES RECEIVABLE

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

NOTE 4 - ACCOUNTS RECEIVABLE

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

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 2,431,674	\$	\$	\$ 2,431,674
Construction in Progress				
Total	<u>2,431,674</u>	<u>0</u>	<u>0</u>	<u>2,431,674</u>
<i>Capital Assets being depreciated:</i>				
Buildings & Improvements	3,173,359	414,875		3,588,234
Infrastructure	5,169,129	3,740,303		8,909,432
Vehicles and Equipment	5,211,033	305,499		5,516,532
Total	13,553,521	4,460,677	0	18,014,198
Less: Accumulated Depreciation:	<u>(4,570,091)</u>	<u>(524,154)</u>		<u>(5,094,245)</u>
Total Net Depreciated Assets	<u>8,983,430</u>	<u>3,936,523</u>	<u>0</u>	<u>12,919,953</u>
Governmental capital assets, net	\$ <u>11,415,104</u>	\$ <u>3,939,523</u>	\$ <u>0</u>	\$ <u>15,351,627</u>
Business-type activities:				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 235,391	\$	\$	\$ 235,391
Construction in Progress	88,742			88,742
Total	<u>324,133</u>	<u>0</u>	<u>0</u>	<u>324,133</u>
<i>Capital Assets being depreciated:</i>				
Buildings & Improvements	683,247			683,247
Infrastructure	14,136,446	388,524		14,524,970
Vehicles and Equipment	4,439,668	95,967		4,535,635
Total	19,259,361	484,491	0	19,743,852
Less: Accumulated Depreciation	<u>(7,918,545)</u>	<u>(640,735)</u>		<u>(8,559,280)</u>
Total Net Depreciated Assets	<u>11,340,816</u>	<u>(156,244)</u>	<u>0</u>	<u>11,184,572</u>
Business-type capital assets, net	\$ <u>11,664,949</u>	\$ <u>(156,244)</u>	\$ <u>0</u>	\$ <u>11,508,705</u>

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

NOTE 6 - VOUCHERS PAYABLE AND ACCRUED LIABILITIES

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

NOTE 7 - ACCRUED COMPENSATED ABSENCES

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

NOTE 8 - LONG-TERM OBLIGATIONS

The City has entered into the following agreements.

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amount Outstanding 9/30/2012</u>	<u>Amount Due 1 Year</u>
GENERAL FUND							
Bonds Payable:							
General Obligation							
Bonds 2010	8/1/2020	Variable	\$ 3,140,000	\$	\$ (320,000)	\$ 2,820,000	\$ 325,000
Other:							
Accrued Compensated							
Absences	N/A		198,840	18,222	(0)	217,062	
Total General Fund			\$ 3,338,840	\$ 18,222	\$ (320,000)	\$ 3,037,062	\$ 325,000
PROPRIETARY FUND							
Bonds and Loans Payable:							
Sewer Revenue Bond	3/1/2021	Variable	\$ 2,800,000		\$ (220,000)	\$ 2,580,000	\$ 230,000
Water DEQ Loan	11/12/2028	3.50%	2,182,907		(92,265)	2,090,642	95,539
Other:							
Accrued Compensated							
Absences	N/A		34,812	\$ 0	(1,409)	33,403	
Total Proprietary Fund			\$ 5,017,719	\$ 0	\$ (313,674)	\$ 4,704,045	\$ 325,539

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

NOTE 9 -SEWER REVENUE BONDS

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

Revenues of the Waste Water Fund serve as collateral for bond payments. A bond maturity and interest schedule of the issued bonds is contained in the schedule on page 34 of these financial statements.

The Sewer Revenue Bond payable is comprised of the following:

Sewer Revenue Bonds Outstanding	\$ 2,580,000
Unamortized Interest Expense	<u>56,882</u>
Total	<u>\$ 2,636,882</u>

NOTE 10 – WATER LOAN PAYABLE

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

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

NOTE 11 – GENERAL OBLIGATION BONDS PAYABLE

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

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012**

Continued...

NOTE 12 - EMPLOYEE RETIREMENT PLAN

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

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

The contribution requirements of the City of Hailey and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2012, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighters. The City of Hailey contributions required and paid were \$305,899, \$281,111 and \$303,376 for the three years ended September 30, 2012, 2011, and 2010 respectively.

NOTE 13 - INVESTMENT IN JOINT VENTURE - FRIEDMAN MEMORIAL AIRPORT

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

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

Audited financial statements of the Friedman Memorial Airport Authority for the year ended September 30, 2012 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2012

Continued...

NOTE 14 -RISK MANAGEMENT

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

NOTE 15 – LITIGATION

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

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- General Fund
for the year ended September 30, 2012

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Property taxes	\$ 1,989,976	\$ 1,995,930	\$ 5,954
Local Option sales taxes	300,000	333,743	33,743
Franchises, licenses, permits:			
Alcohol Catering Licenses	1,500	1,300	(200)
Police Security	13,000	7,405	(5,595)
Building Permits	53,000	61,497	8,497
Business Licenses	40,000	39,524	(476)
Encroachment Permits	5,000	3,250	(1,750)
Franchises - Cable TV	70,000	72,010	2,010
Banner Fees	7,000	5,890	(1,110)
Franchises - Idaho Power	48,000	46,413	(1,587)
Franchises - Intermountain Gas	80,000	68,415	(11,585)
Franchises - Rubbish Company	72,000	71,618	(382)
Sign Permits	2,500	170	(2,330)
Fire Dept Permits	7,000	5,069	(1,931)
Subdivision Inspection Permits	700	0	(700)
Zoning Applications	10,000	28,938	18,938
Maps, Copies, and Postage	4,000	1,968	(2,032)
State of Idaho shared revenue	430,273	427,169	(3,104)
State of Idaho sales tax	74,178	85,595	11,417
State of Idaho liquor receipts	132,000	146,359	14,359
State highway user collections	261,551	267,254	5,703
Penalty and interest on property taxes	11,673	24,734	13,061
County court fines	55,000	62,857	7,857
Fees, fines and charges for services:			
HPD Traffic School	48,000	53,294	5,294
Library Fines and Memberships	21,000	17,596	(3,404)
Park Rental Fees	10,000	9,997	(3)
Rodeo Park Fees	25,000	12,117	(12,883)
RV Dump Fees	500	711	211
Rubbish Bookkeeping Contract	72,000	71,656	(344)
Police Security Contracts	155,000	173,466	18,466
Police Security Contr-School	68,000	69,770	1,770
Police Security Contr-BMO	312,819	312,819	0
Grants		222,550	222,550
Donations and contributions	22,000	24,416	2,416
Earnings on investments	8,000	6,034	(1,966)
Miscellaneous:			
Property Sales		3,616	3,616
Refunds and Reimbursements	15,000	10,694	(4,306)
Mutual Aid Reimbursements	24,081	7,118	(16,963)
Other	10,000	4,607	(5,393)
 Total Revenue	 <u>4,459,751</u>	 <u>4,757,569</u>	 <u>297,818</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- General Fund
for the year ended September 30, 2012

Continued.....

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES:			
General Government:			
Legislative Department	198,823	198,862	(39)
Finance and Records	261,144	325,500	(64,356)
Community Development	238,979	276,703	(37,724)
Public Works	80,986	133,154	(52,168)
Public Safety:			
Police	1,763,416	1,738,733	24,683
Fire Protection	421,343	445,155	(23,812)
Streets	917,448	897,658	19,790
Library	440,333	439,862	471
Parks and Recreation	137,279	270,615	(133,336)
	<u>4,459,751</u>	<u>4,726,242</u>	<u>(266,491)</u>
Total Expenditures			
	4,459,751	4,726,242	(266,491)
EXCESS REVENUE (EXPENDITURES)	0	31,327	31,327
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			0
	<u>0</u>	<u>31,327</u>	<u>31,327</u>
NET CHANGE IN FUND BALANCES	0	31,327	31,327
FUND BALANCE - BEGINNING	<u>772,114</u>	<u>772,114</u>	
FUND BALANCE - ENDING	<u>\$ 772,114</u>	<u>\$ 803,441</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, 2012

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Capital Projects Bond Revenue	\$ 3,500,000	\$ 2,460,436	\$ (1,039,564)
Penalties and interest on Bond			
Annexation Fees	829,087	267,809	(561,278)
In-Lieu Fees for Capital Projects	45,000	48,240	3,240
DIF Parks and Rodeo Park	6,000	7,038	1,038
DIF Transportation	10,000	8,848	(1,152)
DIF Police	3,000	2,711	(289)
DIF Fire and EMS	10,000	5,323	(4,677)
DIF CIP Cost	1,000	643	(357)
Property Sales			
Contributions	0	1,006	1,006
Earnings on investments	10,000	12,292	2,292
Reimbursements and Other	0		0
	<u>4,414,087</u>	<u>2,814,346</u>	<u>(1,599,741)</u>
Total Revenue			
EXPENDITURES:			
General Government			
Public Safety			
Streets			
Capital outlay	4,414,087	3,732,914	681,173
Parks and Recreation			
Transportation			
Rodeo Park			
Debt Service			
	<u>4,414,087</u>	<u>3,732,914</u>	<u>681,173</u>
Total Expenditures			
EXCESS REVENUE (EXPENDITURES)	0	(918,568)	(918,568)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	239,082	239,082	0
Operating transfers (to) other funds			
	<u>239,082</u>	<u>(679,486)</u>	<u>\$ (918,568)</u>
NET CHANGE IN FUND BALANCES			
FUND BALANCE - BEGINNING	<u>1,760,771</u>	<u>1,760,771</u>	
FUND BALANCE - ENDING	<u>\$ 1,999,853</u>	<u>\$ 1,081,285</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, 2012

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Property taxes	\$ 398,980	\$ 398,990	\$ 10
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	2,077	2,077
County court fines			
Fees, fines and charges for services			
Grants and contributions			
Earnings on investments	0	2,806	2,806
Miscellaneous - Sale of G.O. Bonds			
	<u>398,980</u>	<u>403,873</u>	<u>4,893</u>
Total Revenue	<u>398,980</u>	<u>403,873</u>	<u>4,893</u>
EXPENDITURES:			
General Government			
Public Safety			
Streets			
Capital outlay			
Parks and Recreation			
Transportation			
Affordable Housing			
Debt Service	<u>398,980</u>	<u>401,325</u>	<u>(2,345)</u>
Total Expenditures	<u>398,980</u>	<u>401,325</u>	<u>(2,345)</u>
EXCESS REVENUE (EXPENDITURES)	0	2,548	2,548
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds	<u>(239,082)</u>	<u>(239,082)</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	(239,082)	(236,534)	\$ <u>2,548</u>
FUND BALANCE - BEGINNING	<u>632,476</u>	<u>632,476</u>	
FUND BALANCE - ENDING	\$ <u>393,394</u>	\$ <u>395,942</u>	

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Water Fund
for the year ended September 30, 2012

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
User Fees	\$ 872,472	\$ 940,991	\$ 68,519
Capital Projects Bond Fees	169,031	166,225	(2,806)
Hook-up Fees	70,000	24,126	(45,874)
Service Charges	10,000	18,236	8,236
Meter Reimbursements	2,000	4,191	2,191
Idaho Power Hydroplant Revenues	10,000	3,505	(6,495)
Inspection/Live Tap Fees	1,000	450	(550)
Water Fill Tower Permits	2,500	2,025	(475)
Earnings on investments	35,000	19,793	(15,207)
Grants and Contributions		56,977	56,977
Miscellaneous			0
	<u>1,172,003</u>	<u>1,236,519</u>	<u>64,516</u>
Total Revenue			
EXPENDITURES:			
Labor and Benefits	482,827	496,785	(13,958)
Administrative and supplies	337,550	463,491	(125,941)
Debt Service	169,031	168,386	645
Capital Outlay	333,817	382,266	(48,449)
	<u>1,323,225</u>	<u>1,510,928</u>	<u>(187,703)</u>
Total Expenditures			
EXCESS REVENUE (EXPENDITURES)	(151,222)	(274,409)	(123,187)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts		233,871	233,871
	<u>151,222</u>	<u>40,538</u>	<u>\$ 110,684</u>
NET CHANGE IN FUND BALANCES			
FUND BALANCE - BEGINNING	<u>7,539,296</u>	<u>7,539,296</u>	
FUND BALANCE - ENDING	<u>\$ 7,388,074</u>	<u>\$ 7,498,758</u>	

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Wastewater Fund
for the year ended September 30, 2012

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
User Fees	\$ 1,174,684	\$ 1,055,050	\$ (119,634)
Capital Projects Bond Fees	241,517	236,490	(5,027)
Hook-up Fees	70,000	23,849	(46,151)
Service Charges		18,510	18,510
Inspection/Live Tap Fees	1,000	350	(650)
Earnings on investments	15,000	12,890	(2,110)
Grants and Contributions		56,977	56,977
Miscellaneous		2,400	2,400
	<u>1,502,201</u>	<u>1,406,516</u>	<u>(95,685)</u>
Total Revenue			
EXPENDITURES:			
Labor and Benefits	572,551	496,785	75,766
Administrative and supplies	531,617	463,491	68,126
Debt Service	359,695	362,969	(3,274)
Capital Outlay	895,000	84,917	810,083
	<u>2,358,863</u>	<u>1,408,162</u>	<u>950,701</u>
Total Expenditures			
EXCESS REVENUE (EXPENDITURES)	(856,662)	(1,646)	855,016
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts		(9,713)	(9,713)
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCES	(856,662)	(11,359)	<u>\$ 845,303</u>
FUND BALANCE - BEGINNING	<u>4,155,995</u>	<u>4,155,995</u>	
FUND BALANCE - ENDING	<u>\$ 3,299,333</u>	<u>\$ 4,144,636</u>	

CITY OF HAILEY, IDAHO
Bond-Future Principal and Interest Requirements
at September 30, 2012

		<u>Annual Payment</u>		
	<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
Sewer Revenue Bonds 2001				
\$4,500,000, April 17, 2001	5.625%	2013	\$ 230,000	\$ 128,813
4.50% - 5.625%	5.625%	2014	245,000	115,453
	5.625%	2015	260,000	101,250
	5.625%	2016	270,000	86,344
	5.000%	2017	285,000	71,625
	5.000%	2018	300,000	57,000
	5.000%	2019	315,000	41,625
	5.000%	2020	330,000	25,500
	5.000%	2021	<u>345,000</u>	<u>8,625</u>
			\$ <u><u>2,580,000</u></u>	\$ <u><u>636,235</u></u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Loan-Future Principal and Interest Requirements
at September 30, 2012

		Annual Payment		
	Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Drinking Water Revolving Promissory Loan				
\$2,400,000, November 20, 2008	3.50%	2013	\$ 95,539	\$ 72,347
	3.50%	2014	98,912	68,974
	3.50%	2015	102,405	65,481
	3.50%	2016	105,853	62,033
	3.50%	2017	109,757	58,129
	3.50%	2018	113,633	54,253
	3.50%	2019	117,645	50,242
	3.50%	2020	121,675	46,211
	3.50%	2021	126,094	41,792
	3.50%	2022	130,546	37,340
	3.50%	2023	135,155	32,731
	3.50%	2024	139,853	28,033
	3.50%	2025	144,864	23,022
	3.50%	2026	149,979	17,907
	3.50%	2027	155,274	12,612
	3.50%	2028	160,741	7,145
	3.50%	2029	82,717	1,455
			\$ 2,090,642	\$ 679,707

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Loan-Future Principal and Interest Requirements
at September 30, 2012

		<u>Annual Payment</u>		
	<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
General Obligation Bonds, Series 2010				
\$3,425,000, August 1, 2010	2.00%	2013	\$ 325,000	\$ 74,625
2.00% - 3.00%	2.00%	2014	330,000	68,125
	2.50%	2015	340,000	61,525
	2.50%	2016	345,000	53,025
	3.00%	2017	355,000	44,400
	3.00%	2018	365,000	33,750
	3.00%	2019	375,000	22,800
	3.00%	2020	<u>385,000</u>	<u>11,550</u>
			\$ <u>2,820,000</u>	\$ <u>369,800</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Blaine County, Idaho
Schedule of Expenditures of Federal Awards
for the year ended September 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Justice - AARA Community Oriented Policing Services (COPS)	16.710	\$ 62,322
U.S. Department of Energy Electricity Delivery and Energy Reliability	81.122	25,684
Federal Emergency Management Agency (FEMA) Assistance to Firefighters Grant	97.044	44,346
U.S. Environmental Protection Agency Climate Showcase Communities Grant Program	66.041	202,222
U.S. Department of Transportation Surface Transportation Infrastructure	20.933	2,451,383
Pass-Through Blaine County, Idaho Idaho Office of Energy Resources (U.S. Dept of Energy) Energy Efficiency/Conservation Block Grant Program	81.128	50,060
Total		<u>\$ 2,836,017</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Hailey, Idaho and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The examination of the records of the City of Hailey, Idaho for the year ended September 30, 2011, revealed no areas of comments.

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS

The examination of the records of the City of Hailey, Idaho for the year ended September 30, 2012, revealed no areas of comments, findings or questioned costs

CITY OF HAILEY, IDAHO
Year Ended September 30, 2012
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1 – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no
Significant deficiencies identified that are
not considered to be material weakness(es) ☐ yes ☒ none reported

Noncompliance material to financial statements
noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no
Significant deficiencies identified that are
not considered to be material weakness(es) ☐ yes ☒ none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

<u>Program Title</u>	<u>Federal CFDA Number</u>
U.S. Department of Justice – AARA Community Oriented Policing Services (COPS)	16.710
U.S. Department of Energy Electricity Delivery and Energy Reliability	81.122
Federal Emergency Management Agency (FEMA) Assistance to Firefighters Grant	97.044
U.S. Environmental Protection Agency Climate Showcase Communities Grant Program	66.041
U.S. Department of Transportation Surface Transportation Infrastructure	20.933
Pass-Through Blaine County, Idaho Idaho Office of Energy Resources (U.S. Dept. of Energy) Energy Efficiency/Conservation Block Grant Program	81.128
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Section II – Financial Statement Findings

No material weaknesses were reported.

Section III – Federal Award Findings and Questioned Costs

No material weaknesses were reported.



828 Blue Lakes Boulevard North • P.O. Box 2367 • Twin Falls, Idaho 83303 • (208) 733-1161 • Fax: (208) 733-6100

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

October 29, 2012

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

I have audited the financial statements of the City of Hailey, Idaho (City), as of and for the year ended September 30, 2012, and have issued my report thereon dated October 29, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

A handwritten signature in black ink, appearing to read "Dennis R. Brown". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

DENNIS R. BROWN
Certified Public Accountant



828 Blue Lakes Boulevard North • P.O. Box 2367 • Twin Falls, Idaho 83303 • (208) 733-1161 • Fax: (208) 733-6100

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 29, 2012

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

Compliance

I have audited the compliance of the City of Hailey, Idaho (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB Circular A-133 Compliance Supplement) that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The City of Hailey, Idaho's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City's compliance with those requirements.

In my opinion, the City of Hailey, Idaho, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

The management of the City of Hailey, Idaho is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the mayor, city council, management, others within the organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

DENNIS R. BROWN
Certified Public Accountant