



Independent Auditor's Report

The City Council
City of Sun Valley, Idaho
Sun Valley, Idaho

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Sun Valley, Idaho (the City) as of and for the year ended September 30, 2010, 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 Sun Valley, Idaho's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of City of Sun Valley, Idaho, as of September 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, certain errors resulting in understatement of previously reported fund balance as of September 30, 2009, were discovered by management during the current year. Accordingly, an adjustment has been made to fund balance and net assets to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 03, 2011, on our consideration of the City of Sun Valley, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Sincerely,

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
March 03, 2011

The City of Sun Valley's (the City) discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position (its ability to address subsequent year challenges), (4) identify any material deviations from the financial plan (the approved budget), and (5) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD &A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter and the City's financial statements.

Using the Financial Section of This Comprehensive Annual Report

The City's financial statements present two kinds of statements, each with a different snapshot of the City's finances. The focus of the financial statement is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government) and enhance the City's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to be corporate-like in that governmental activities are consolidated into columns that add to a total for the Primary Government. The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to be similar to bottom line results for the City. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long term obligations using the accrual basis of accounting and economic resources measurement focus.

The Statement of Activities is focused on both the gross and net cost of various activities that are supported by the City's general taxes and other resources. This is intended to summarize and simplify the user's analysis of the cost of various government services.

The Governmental Activities reflect the City's basic services; the general government. Property and Local Option Taxes finance the majority of these activities. The City does not operate any business-type operations.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City of Sun Valley are Governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all funds. The governmental funds include the General Fund, Debt Service Fund, Capital Projects Fund, Special Revenue Fund.

The City of Sun Valley approves a one-year budget for all funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with the FY 10 budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information including the major governmental fund budgetary schedules.

GOVERNMENT-WIDE STATEMENTS

Statement of Net Assets

The City's total net assets were \$10,819,831 on September 30, 2010. This amount represents a decrease of \$175,054 which factors in capital assets and long-term liabilities.

The City's unrestricted net assets for governmental activities, the part of net assets that can be used to finance day-to-day operations, were \$2,629,096.

Table 1 reflects the Statement of Net Assets.

Table 1
Statement of Net Assets
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Current assets	\$ 6,157,310	\$ 3,015,343	104.2%
Capital assets	8,745,859	9,498,698	-7.9%
Total assets	<u>14,903,169</u>	<u>12,514,041</u>	<u>19.1%</u>
Long-term debt outstanding	590,000	1,155,000	-48.9%
Other liabilities	3,493,338	364,156	859.3%
Total liabilities	<u>4,083,338</u>	<u>1,519,156</u>	<u>168.8%</u>
Net Assets			
Invested in capital assets, net of related debt	8,155,859	8,343,698	-2.3%
Restricted for debt service	34,876	26,774	30.3%
Unrestricted	2,629,096	2,624,413	0.2%
Total net assets	<u>\$ 10,819,831</u>	<u>\$ 10,994,885</u>	<u>-1.6%</u>

Normal Impacts

There are three basic (normal) transactions that will affect the comparability of the City's Statement of Net Assets summary presentation.

Net Results of Activities - which will impact (increase/decrease) current assets and unrestricted net assets.

Spending of Non-borrowed Current Assets on New Capital - which will (a) reduce current assets and increase capital assets and (b) will reduce unrestricted net assets and increase invested in capital assets, net of debt.

Reduction of Capital Assets through Depreciation - which will reduce capital assets and investments in capital assets, net of debt.

Table 2 focuses on the changes in net assets of the governmental activities.

Table 2
Changes in Net Assets
For the Fiscal Year Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues			
Program revenues			
Charges for services	\$ 247,657	\$ 247,568	0.0%
Capital grants and contributions	4,350	-	100.0%
General revenue			
Property taxes levied for general purposes	2,498,315	2,127,240	17.4%
Property taxes levied for debt service	628,461	915,185	-31.3%
Franchise fees	125,196	132,321	-5.4%
Local option tax	1,175,918	1,186,427	-0.9%
State shared revenue	666,252	656,538	1.5%
Interest earnings	9,134	44,563	-79.5%
Miscellaneous	17,577	30,982	-43.3%
Total revenues	<u>5,372,860</u>	<u>5,340,824</u>	<u>0.6%</u>
Expenses			
General government	952,454	987,637	-3.6%
Community development	350,297	355,214	-1.4%
Police	1,258,330	1,193,378	5.4%
Fire	769,069	690,551	11.4%
Culture and recreation	377,154	375,665	0.4%
Transportation	340,000	380,558	-10.7%
Building safety	152,202	192,444	-20.9%
Streets	720,325	1,067,326	-32.5%
Interest and fees on long-term debt	54,042	82,643	-34.6%
Unallocated depreciation expense	574,041	485,152	18.3%
Total expenses	<u>5,547,914</u>	<u>5,810,568</u>	<u>-4.5%</u>
Changes in Net Assets	<u>\$ (175,054)</u>	<u>\$ (469,744)</u>	<u>-62.7%</u>

Governmental Activities in FY 10

Governmental activities in FY 10 decreased the City's net assets by \$175,054. Key elements of this change in net assets are as follows:

Revenues

FY10 revenues increased by \$32,036 or 0.6% over FY 09 revenues. The difference is mostly attributed to a net increase in general property tax and debt service property tax of \$84,351. The increase is due to new construction and interest and penalties. There was a decrease in interesting earnings of \$35,429 due to lower interest rates, and a decrease in miscellaneous revenue of \$13,405.

Expenditures

FY10 expenditures were \$262,654 less than FY09 expenditures. The majority of the decrease is attributed to the street department. There was \$347,001 less in expenditures in the street department in FY10 due to the absence of capital improvement projects. There was an increase in depreciation expense of \$88,889.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Sun Valley uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds in FY 10

The purpose of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balance is currently reported in two basic categories—reserved and unreserved. Reserved fund balance represents resources that are not in a spendable form (such as prepaid expenses or long-term loans receivable) or that are legally segregated for a purpose more specific than the overall purpose of the fund (such as resources legally set aside for highway project in a broad capital projects fund). Unreserved fund balance is the remainder and can be used for any purpose of the fund. Designated Funds represent some or all of the unreserved fund balance to communicate the purposes for which it is intended to be used.

At September 30, 2010, the City's governmental funds reported combined ending fund balances of \$2,760,872, an increase of \$63,229 in comparison to the prior year. Of this amount, \$2,702,153 (98%) is unreserved fund balance. Unreserved fund balance is available for spending at the government's discretion. Of the unreserved fund balance, \$1,135,014 is available for subsequent year's expenditures. The remaining unreserved fund balance of \$1,567,139 has been designated by the City Council in compliance with the City's "Fiscal Policy Reserve". The policy states that no less than the equivalent of 16 weeks (\$1,567,139) and no more than the equivalent of 32 (\$3,134,278) weeks of regular General Fund operating expenditures, based on its annual General Fund budget are set aside to mitigate current and future risks and to ensure stable tax rates. The remainder of the fund balance is reserved. Reserved fund balance is not available for spending because it is committed for debt service in the amount of \$34,876 and prepaid expenses of \$23,843. Therefore, all governmental fund balances are either reserved or unreserved, and designated or undesignated.

The General Fund is the City's chief operating fund. At the end of the current fiscal year, the fund balance of the General Fund was \$2,080,950 which is all unreserved fund balance except for \$23,843 reserved for prepaid expenses. As a measure of the general fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 45% of the total General Fund expenditures.

The fund balance of the City's General Fund increased by \$143,816 during FY10. The revenues increased by 34% primarily due to a change in how property tax receipts were recognized. In previous years, property tax receipts were directly recognized in each separate fund as revenue. In FY 10, all property tax receipts were recognized in the general fund only and then moved as a transfer out to support other fund expenditures. Expenditures increased by 17% primarily due to the street department being added to the general fund. In previous years the street department was recognized as a separate fund.

The Debt Service Fund is used for the purpose of the payment of long-term debt and interest. The fund balance in the debt service fund increased by \$8,102 to a total fund balance of \$34,876, in the current fiscal year. The entire fund balance is reserved for debt service because certain minimum amounts must be accumulated and may be used only for the payment of principal, interest and debt service fees.

The Capital Project Fund accounts for all revenues and expenditures to finance assets that are tangible, have a useful life exceeding two years, significant value, or are used to construct or acquire capital facilities or for the acquisition of land by the City. The Capital Projects Fund balance decreased by \$98,499. The ending fund balance of \$444,025 is all unreserved fund balance. The decrease in fund balance is primarily due to the purchase of a police vehicle for the police department and expenses related to capital improvement plan project.

General Fund Budgetary Highlights in FY 10

Actual to budget comparisons are found following the Notes to the Financial Statements. Below is discussion regarding the general fund budget to actual comparison.

The City Council did not approve any revisions to the FY 10 General Fund budget.

Table 3
Budget to Actual Comparison – General Fund

	FY 2009	FY 2010
Original Budget	\$ 4,240,212	\$ 5,093,202
Final Budget	4,321,946	5,093,202
Actual Expenditures	3,944,656	4,623,400
Variiances	\$ 377,290	\$ 469,802

The variance between budgeted and actual expenditures is in general a result of an overall careful spending of dollars which resulted in most all departments under-spending budgeted dollars. Additional significant variances are detailed below:

- The general governmental budget included a contingency for unexpected expenditures of \$200,000. None of this was utilized and was rolled back into the general fund balance.
- The Legislation department under-spent budget by \$45,703. The primary variance was in Economic Development and Cultural Services for \$33,856.
- The Administration department under-spent budget by \$48,027. The primary variances were in salaries and wages for \$16,967 for an approved position that was not filled for which part-time help was utilized instead, computer consultants for \$8,762 and professional fees for \$9,434.
- The Police department under-spent budget by \$47,294. The primary variance was in overtime salaries for \$22,613.
- The Fire department under-spent budget by \$19,492. The primary variance was in salaries and wages for \$55,697 offset by unexpected expenditures in repairs and maintenance-automotive equipment by \$17,113 for an overhaul.
- The Building department under-spent budget by \$33,581. The primary variance was in salaries and wages – temporary employees by \$18,540.

Capital Assets

At fiscal year end, the City's investment in capital assets, net of accumulated depreciation, totals \$8,745,859. Capital asset investments include land, building and improvements, equipment, and infrastructure. The net decrease in the City's capital asset investment for the current fiscal year is \$752,839 and is shown in greater detail in Note 5 of the financial statements.

Table 4
Capital Assets for the year ended
September 30, 2010 and 2009

	2010	2009	Total % Change
Land	\$ 191,149	\$ 191,149	0.0%
Buildings and improvements	1,680,881	1,756,350	-4.3%
Infrastructure	5,567,537	6,077,462	-8.4%
Equipment and vehicles	1,306,292	1,473,737	-11.4%
	<u>\$ 8,745,859</u>	<u>\$ 9,498,698</u>	<u>-7.9%</u>

Police department equipment in the amount of \$29,207 was purchased and equipment of \$29,969 was retired. There were no other significant additions to capital assets. The decrease in capital assets is due to current year depreciation of \$748,842.

Long-term debt in FY 10

According to state statutes, all cities have a legal limitation on their general obligation debt equal to two percent of their market valuation. Using this formula, the City of Sun Valley has a legal debt margin of \$50,331,373 (2% times \$2,516,568,674).

At the end of the current fiscal year, the City had \$590,000 in outstanding debt consisting of a general obligation bond. The debt was secured by specific revenue sources. This information is shown in greater detail in Note 6 of the financial statements.

	2010	2009	Total % Change
Current portion of bonds payable	\$ 590,000	\$ 565,000	4.4%
Noncurrent portion of bonds payable	-	590,000	-100.0%
	\$ 590,000	\$ 1,155,000	-48.9%

Economic Factors

The City's composition is primarily residential with a major destination resort. The property tax revenue derived from the current housing stock is stable. The commercial component includes lodging, retail and restaurant sales. Because the majority of revenue collected by the City is based on property taxes, short-term fluctuations in the economy do not severely impact the City's revenue flow.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Michelle Frostenson, Treasurer/Finance Manager, City of Sun Valley, P.O. Box 416, Sun Valley, Idaho 83353.

City of Sun Valley
Statement of Net Assets
September 30, 2010

	Governmental Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 72,429
Investments	2,479,056
Receivables	
Property taxes	3,303,349
Local option taxes	106,162
Intergovernmental	165,159
Franchise fees	7,312
Prepays	23,843
Total current assets	6,157,310
Noncurrent Assets	
Capital assets	
Land and other assets not depreciated	191,149
Buildings, property and equipment, infrastructure, net of depreciation	8,554,710
Total noncurrent assets	8,745,859
Total assets	\$ 14,903,169
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 50,775
Accrued liabilities	58,602
Deferred revenue	3,249,902
Accrued interest	4,917
Current portion of long-term debt	590,000
Current portion of compensated absences	100,000
Total current liabilities	4,054,196
Noncurrent Liabilities	
Compensated absences	29,142
Total liabilities	4,083,338
Net Assets	
Invested in Capital Assets, Net of Related Debt	8,155,859
Restricted for	
Debt Service	34,876
Unrestricted	2,629,096
Total net assets	10,819,831
Total liabilities and net assets	\$ 14,903,169

See Notes to Financial Statements

City of Sun Valley
Statement of Activities
Year Ended September 30, 2010

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants	Capital Grants	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities
Primary Government					
Governmental Activities					
General government	\$ 952,454	\$ 24,336	\$ -	\$ -	\$ (928,118)
Community development	350,297	-	-	-	(350,297)
Police	1,258,330	10,608	-	-	(1,247,722)
Fire	769,069	-	-	4,350	(764,719)
Culture and recreation	377,154	16,348	-	-	(360,806)
Transportation	340,000	-	-	-	(340,000)
Building safety	152,202	196,365	-	-	44,163
Streets	720,325	-	-	-	(720,325)
Interest and fees on long-term debt	54,042	-	-	-	(54,042)
*Unallocated depreciation expense	574,041	-	-	-	(574,041)
Total governmental activities	\$ 5,547,914	\$ 247,657	\$ -	\$ 4,350	\$ (5,295,907)
General Revenues					
Taxes					
Property taxes, levied for general purposes					\$ 2,498,315
Property taxes, levied for debt service					628,461
Franchise fees					125,196
Local option tax					1,175,918
State shared revenue					666,252
Interest earnings					9,134
Miscellaneous					17,577
Total general revenues					5,120,853
Change in Net Assets					(175,054)
Net Assets,					
Beginning of year					10,994,885
End of year					\$ 10,819,831

* Unallocated depreciation that excludes depreciation which is included in the direct expenses of various programs.

See Notes to Financial Statements

City of Sun Valley
Balance Sheet – Governmental Funds
September 30, 2010

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 1,871,563	\$ 34,876	\$ 444,025	\$ 201,021	\$ 2,551,485
Property taxes receivable	2,672,910	630,439	-	-	3,303,349
Local option taxes receivable	106,162	-	-	-	106,162
Due from other government	165,159	-	-	-	165,159
Franchise fee receivable	7,312	-	-	-	7,312
Prepaid expenses	23,843	-	-	-	23,843
	<u>\$ 4,846,949</u>	<u>\$ 665,315</u>	<u>\$ 444,025</u>	<u>\$ 201,021</u>	<u>\$ 6,157,310</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 50,775	\$ -	\$ -	\$ -	\$ 50,775
Accrued liabilities	58,602	-	-	-	58,602
Deferred revenue	2,656,622	630,439	-	-	3,287,061
Total liabilities	<u>2,765,999</u>	<u>630,439</u>	<u>-</u>	<u>-</u>	<u>3,396,438</u>
Fund Balances					
Reserved					
Prepaid expenses	23,843	-	-	-	23,843
Debt service	-	34,876	-	-	34,876
Unreserved					
Designated	1,567,139	-	-	-	1,567,139
Undesignated	489,968	-	444,025	201,021	1,135,014
Total fund balances	<u>2,080,950</u>	<u>34,876</u>	<u>444,025</u>	<u>201,021</u>	<u>2,760,872</u>
	<u>\$ 4,846,949</u>	<u>\$ 665,315</u>	<u>\$ 444,025</u>	<u>\$ 201,021</u>	<u>\$ 6,157,310</u>
Reconciliation of Total Government Fund Balance					
Total Government Fund Balances					\$ 2,760,872
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 funds.					8,745,859
Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.					37,159
Long-term liabilities, including accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.					
Compensated absences				(129,142)	
General obligation bonds				(590,000)	
Interest payable				(4,917)	
				<u>(724,059)</u>	
Net assets of governmental activities					<u>\$ 10,819,831</u>

See Notes to Financial Statements

City of Sun Valley
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2010

	Governmental Funds				Total (Governmental Funds)
	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
Revenues					
Property tax	\$ 2,533,623	\$ 631,852	\$ -	\$ -	\$ 3,165,475
Local option tax	1,175,918				1,175,918
Franchise fees	125,196	-	-	-	125,196
Licenses and permits	149,018	-	-	-	149,018
Intergovernmental	666,252	-	-	-	666,252
Charges for services	81,746	-	-	16,348	98,094
Fines and forfeitures	545	-	-	-	545
Investment earnings	9,134	-	-	-	9,134
Miscellaneous	25,924	-	-	-	25,924
Total revenues	<u>4,767,356</u>	<u>631,852</u>	<u>-</u>	<u>16,348</u>	<u>5,415,556</u>
Expenditures					
General government	933,420	-	-	-	933,420
Community development	325,000	-	-	-	325,000
Police	1,185,404	-	-	-	1,185,404
Fire	683,078	-	-	-	683,078
Culture and recreation	377,154	-	-	-	377,154
Transportation	340,000	-	-	-	340,000
Building safety	140,762	-	-	-	140,762
Streets	386,355	-	-	-	386,355
Capital outlay	252,227	-	98,639	6,538	357,404
Debt services					
Principal retirement	-	565,000	-	-	565,000
Interest	-	57,750	-	-	57,750
Other	-	1,000	-	-	1,000
Total expenditures	<u>4,623,400</u>	<u>623,750</u>	<u>98,639</u>	<u>6,538</u>	<u>5,352,327</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>143,956</u>	<u>8,102</u>	<u>(98,639)</u>	<u>9,810</u>	<u>63,229</u>
Other Financing Sources (Uses)					
Transfers in	-	-	140	-	140
Transfers out	(140)	-	-	-	(140)
Total other financing sources (uses)	<u>(140)</u>	<u>-</u>	<u>140</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	143,816	8,102	(98,499)	9,810	63,229
Fund Balances					
Beginning of year	<u>1,937,134</u>	<u>26,774</u>	<u>542,524</u>	<u>191,211</u>	<u>2,697,643</u>
End of year	<u>\$ 2,080,950</u>	<u>\$ 34,876</u>	<u>\$ 444,025</u>	<u>\$ 201,021</u>	<u>\$ 2,760,872</u>

See Notes to Financial Statements

City of Sun Valley
 Reconciliation of the Statement of Revenues and Changes in Fund Balance of Governmental Funds to the
 Statement of Activities
 Year Ended September 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 63,229
<p>The amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>	(748,842)
<p>In the statement of activities, only the gain or loss on disposal of assets is reported, whereas in the governmental funds, the entire proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets disposed of.</p>	(3,997)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	565,000
<p>Interest expense accrued but not paid reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	4,708
<p>Expenditures related to the long-term portion of accrued vacation do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	(16,453)
<p>Some property tax revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>	<u>(38,699)</u>
Change in net assets of governmental activities	<u><u>\$ (175,054)</u></u>

INTRODUCTION

The City of Sun Valley, Idaho, (the City) was chartered in 1947 under the laws of the State of Idaho. The City is governed by an elected mayor and a four-member council who are compensated for their services.

The City provides public safety (police and fire), community development, building safety, streets, planning and zoning, and general administrative services to its citizens.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City conform to generally accepted accounting principles as promulgated in the various statements and interpretations issued by the Governmental Accounting Standards Board, and other authoritative pronouncements.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the GASB, the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

Financial Reporting Entity

For financial reporting purposes, in conformity with GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements for the City include all organizations for which the City is financially accountable, and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City contributes to the multi-employer Public Employee Retirement System of Idaho (System). The System is administered by the State of Idaho and the City is not the major participant in the plan, therefore, the plan financial statements are not included in this report.

Government-wide Financial Statements

The City has presented a Statement of Net Assets and Statement of Activities for the City as a whole. Government-wide accounting is designed to provide a more comprehensive view of the government's operations and financial position as a single economic entity.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental activities are those financed through taxes, intergovernmental revenues and other non-exchange revenues and are usually reported in governmental and internal service funds. Business activities are financed in whole or in part through fees charged for goods or services to the general public and are usually reported in proprietary funds. The City has no business-type activities and, therefore, this column is eliminated.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis Of Accounting, And Financial Statement Presentation

The government-wide statements are reported using an economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of governmental-type activities are included in the Statement of Net Assets. Revenues are recognized when earned, and expenses are recognized at the time the liabilities are incurred, regardless of the timing of related cash flows. In these statements, capital assets are reported and depreciated in each fund.

In the fund statements, governmental funds of the City are reported using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases and decreases in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available when collected within 60 days of year end. Expenditures for capital assets are reported as current expenses, and such assets are not depreciated. Expenditures are recognized when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds account for all of the City's general activities, including the collection and disbursement of specific or legally-restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term obligations:

General Fund — This fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund — This Fund accounts for all revenues and expenditures to finance assets that are tangible, have a useful life exceeding two (2) or more years and cost more than \$5,000. It also accounts for financial resources for the acquisition of land by the City or the construction or acquisition of capital improvements or facilities.

Debt Service Fund — This Fund is used for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Cash and Cash Equivalents

The City pools cash resources of its funds to facilitate management of cash. Cash applicable to a particular fund is readily identifiable. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements, and the Idaho State Treasurer Local Government Investment Pool.

Investments are stated at fair value as determined by quoted market prices. The City pools its investible funds to maximize interest income. The City allocates interest income on investments to the various funds based on the average balance of the net contribution of the respective fund.

Property Taxes Receivable and Deferred Revenue

Within the governmental fund financial statement, property taxes are recognized as revenue when the amount of taxes levied is measurable, and proceeds are available to finance current period expenditures.

Available tax proceeds include property tax receivables expected to be collected within sixty days after year-end. Property taxes are levied during the first week of September and are payable in two installments on December 20th and June 20th of the following year. Since the City is on a September 30 fiscal year-end, property taxes levied during September for the succeeding year's collection are recorded as deferred revenue at the City's year-end and recognized as revenue in the following fiscal year. Blaine County bills and collects property taxes for the City.

Capital Assets

Capital assets, which include tangible and/or intangible assets used in operations with an initial useful life that extends beyond one year and an initial, individual cost of more than \$5,000 are reported in the governmental activities column in the government-wide financial statements. Infrastructure assets such as streets and paths are also capitalized. Capital assets are recorded at their historical cost or where historical cost is not available, estimated historical cost based on replacement cost. Depreciation is recorded using the straight-line method over useful lives of the assets as follows:

Buildings	20-40 years	Vehicles	3-25 years
Equipment	7-15 years	Infrastructure	20-50 years

Maintenance, repairs and minor renewals are charged to operations as incurred. When an asset is disposed of, accumulated depreciation is deducted from the original cost, and any gain or loss arising from its disposal is credited or charged to operations.

Risk Management

The City is exposed to various risks of loss related to theft of, damage to, or destruction of assets. The City participates in a public entity risk pool, Idaho Counties Risk Management Pool (ICRMP), for liability insurance. The City's exposure to loss from its participation in ICRMP is limited only to the extent of their deductible.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City defends itself through law firms and its insurance company, if coverage is acknowledged, when claims arise. No claims for which the City may become liable are known or measurable at this time.

Bonded Indebtedness

In the government-wide financial statements, long-term obligations are reported as liabilities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize long-term obligations as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In May 2004, the City issued General Obligation Bonds, Series 2003 in the amount of \$4,060,000 for the purpose of advance refunding a portion of the general obligation series 1995 and 1996 bonds. The Series 2003 bonds are not subject to call or redemption prior to their stated dates of maturities.

Compensated Absences Payable

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

Net Assets and Fund Equity

In the Statement of Net Assets, the difference between a government's assets and liabilities is recorded as net assets. The three components of net assets are as follows:

Invested in Capital Assets, Net of Related Debt — This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds or other borrowings attributable to the acquisition, construction or improvement of capital assets.

Restricted Net Assets — Net assets that are restricted by external sources such as banks or by law are reported separately as restricted net assets. The City recognized the use of restricted resources for expenditures that comply with the specific restrictions. Currently, the City shows the net assets of the Debt Service Fund as restricted due to restrictions placed on the City by bond documents in previous years. Restricted resources are exhausted before unrestricted net assets are used.

Unrestricted Net Assets — All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the Balance Sheet of governmental funds, fund balances are segregated as follows:

Reserved — These resources are segregated because their use is legally restricted for a specific purpose.

Unreserved — This category represents that portion of equity that can be appropriated for expenditures or legally segregated for a specific future use.

Designated — Resolution No. 2009-07 entitled Adoptions of Fund Balance Policy — General Fund, was passed by the City Council on April 16, 2009. This policy states that the City shall maintain at all times in its General Fund, an unreserved, designated fund balance of no less than the equivalent of 16 weeks and no more than the equivalent of 32 weeks of regular General Fund operating expenditures, based on its annual General Fund Budget. The amount will be established by the City Council in its adoption of the annual budget.

Undesignated — This category represents balances that have no legal restriction or council designation.

Inter fund Transactions

All inter-fund transactions, except quasi-external transactions, are reported as operating transfers. These are eliminated in the government-wide statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues, expenditures and expenses during the reported period. Accordingly, actual results could differ from those estimates.

New GASB Standards

GASB Statement No. 51, “*Accounting and Financial Reporting for Intangible Assets*” was implemented by the City in the current year. This Statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in reporting of these types of assets and requires that all intangibles not specifically excluded by its scope and provisions be classified as capital assets. As a Phase 3 governmental entity, the City was encouraged, but not required to retroactively identify and capitalize all intangible assets owned by the City. During the year ended September 30, 2010, no intangible assets were purchased by nor contributed to the City so there was no current effect on the financial statements as a result of implementing this Statement.

GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*” was issued to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement will become effective for the City in fiscal year 2011. Management has not yet determined the effect of this Statement on the financial statements.

Note 2 - Cash and Investments

The cash and investments at September 30, 2010, are as follows:

Cash and cash equivalents, unrestricted		
Petty cash	\$	143
General checking		72,286
Total	\$	72,429
	Cost	Fair Value
Investments carried at fair value		
External investment pools	\$	2,475,507
		\$ 2,479,056

Investment types that are authorized for the City by the Idaho Code and the City’s investment policy are as follows:

1. Local and State Agency Bonds
2. U. S. Agency Bonds
3. U. S. Agency Securities
4. Certificates of Deposit

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely impact the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy is to remain sufficiently liquid to enable the City to meet all operating requirements. Therefore, the policy states that the City's portfolio should consist largely of securities with active secondary or resale markets and in the State of Idaho Local Government Investment Pool (LGIP). The City will not invest in securities maturing more than two (2) years from the date of purchase, unless matched to a specific cash flow.

Investment and maturity rates at September 30, 2010 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
External Investment Pool	<u>\$ 2,479,056</u>	<u>\$ 2,479,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's and Fitch's. The external investment pool is not required to be rated. The City's investment policy does not specifically address credit rating requirements of potential investments but it does require the consideration of the creditworthiness of the institution before deposits or investments are made with that institution.

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The Governmental Accounting Standards Board has adopted a principal that governments should provide note disclosure when five percent of the total entities investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The City's investment policy does not set specific limitations of investments in any one issuer but does require diversification of the portfolio to avoid concentration in securities from one issuer or one security class.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. The City's investment policy states that all investments that are not direct full faith and credit obligations of the United States must be insured, guaranteed or collateralized.

The bank ledger balance for cash deposits at September 30, 2010, is \$84,943. This ledger balance is fully insured by FDIC insurance.

Investment in State Investment Pools

The City is a voluntary participant in the State of Idaho Local Government Investment Pool (LGIP). The LGIP is regulated by State of Idaho code under the oversight of the Treasurer of the State of Idaho. The fair value of the City's investment in the pools is reported in the accompanying financial statements at amounts based on the City's pro-rata share of the fair market value provided by the fund for the entire portfolio. The LGIP is unrated.

The LGIP is managed by the State of Idaho Treasurer's office. The funds of the pool are invested in certificates of deposits, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank.

Note 3 - Investment in Mountain Rides Transportation Authority

The Mountain Rides Transportation Authority (the Authority) is an Authority Board authorized pursuant to Idaho Code, Section 76-2328 to procure, establish, operate, maintain and plan for a multimodal public transportation system in and between the corporate limits of Sun Valley, Ketchum, Hailey, Bellevue and Carey and within Blaine County and outside of Blaine County to counties with commuters traveling to Blaine County. The Authority receives its funding through federal and state grants, fares, and contributions from the cities in Blaine County as well as from Blaine County. The City's share of operating costs for the fiscal year ended September 30, 2010 was \$330,000. The Authority is governed by an independent Board comprised of representatives appointed by the Mayors of each city, except the City of Carey, and the Board of County Commissioners, and one "Member-At-Large" appointed by the Board of the Authority.

Note 4 - Due from Other Governments

The following is a summary of the intergovernmental receivables at September 30, 2010:

State of Idaho		
Revenue sharing	\$	150,752
Highway		12,593
Liquor apportionment		1,814
		1,814
	\$	165,159

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that were raised for the subsequent fiscal year.

At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
General fund property taxes	\$ 26,218	\$ 2,630,404
Debt service fund property taxes	10,939	619,500
	\$ 37,157	\$ 3,249,904

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2010 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 191,149	\$ -	\$ -	\$ 191,149
Capital Assets, Depreciated				
Buildings and improvements	3,003,728	-	-	3,003,728
Infrastructure	16,379,495	-	-	16,379,495
Equipment and vehicles	3,464,637	29,207	(29,969)	3,463,875
Total	22,847,860	29,207	(29,969)	22,847,098
Less Accumulated Depreciation for				
Buildings and improvements	(1,247,378)	(75,469)	-	(1,322,847)
Infrastructure	(10,302,033)	(509,925)	-	(10,811,958)
Equipment and vehicles	(1,990,900)	(192,655)	25,972	(2,157,583)
Total	(13,540,311)	(778,049)	25,972	(14,292,388)
Capital Assets, Net	\$ 9,498,698	\$ (748,842)	\$ (3,997)	\$ 8,745,859

Depreciation expense was charged to governmental functions as follows:

General government	\$	12,394
Community development & building		856
Police		47,210
Workforce housing		11,353
Fire		87,071
Street		45,124
Unallocated		574,041
 Total depreciation expense	 \$	 778,049

Note 6 - Long-term debt

Long-term debt consisted of the following as of September 30, 2010:

General obligation refunding bonds - Series 2003, with one final semi-annual installments of \$590,000 due in 2011 at coupon interest rate of 5%.

The annual requirements to amortize all general obligation bonds as of September 30, 2010 and related interest payments are as follows:

	Principal	Interest
2011	\$ 590,000	\$ 29,500

Total interest cost incurred during 2010 was \$54,042.

The assessed value of property subject to ad valorem taxation within the City of Sun Valley for the fiscal year ended in 2010 is \$2,516,568,674.

In Idaho, a municipality is allowed a debt limit, excluding enterprise fund debt, of 2% of the market valuation of the real and personal property in its taxing area. The City's legal debt limits for governmental funds for 2010, based on data available from Blaine County as of September 30, 2010, would be approximately \$50,331,373.

Changes in long-term debt during the year are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds					
Series 2003 refinance	\$ 1,155,000	\$ -	\$ 565,000	\$ 590,000	\$ 590,000
Compensated absences	112,869	118,590	102,317	129,142	100,000
	<u>\$ 1,267,869</u>	<u>\$ 118,590</u>	<u>\$ 667,317</u>	<u>\$ 719,142</u>	<u>\$ 690,000</u>

Governmental accrued compensated absences will be liquidated by the general fund.

Note 7 - Pension Plans

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 of 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 on the PERSI web site or in print upon request

After 5 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 42 months.

The contribution requirements of the City of Sun Valley and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2010, the required contribution rate as a percentage of covered payroll for members was 6.23% for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The City of Sun Valley employer contributions required and paid were \$184,734, \$189,179, and \$156,437 for the three years ended September 30, 2010 and 2009 and 2008, respectively.

Note 8 - Prior Period Adjustment

The accompanying financial statements reflect adjustments resulting from a restatement of beginning fund balance of the general fund as of September 30, 2009, as follows:

- Increase in net assets of the general fund of \$112,689 to reflect adjustment for an accounting error. Management determined compensated absences are better accounted for as a long-term liability in the government-wide financial statements and not as a current liability in the fund level statements.

The following schedule summarizes the effect of the prior period adjustments to the beginning fund balance of the General Fund at September 30, 2009:

Beginning of year, as previously reported	\$ 1,824,445
Correction of error	<u>112,689</u>
Beginning of year, as restated	<u>\$ 1,937,134</u>

Required Supplementary Information
September 30, 2010

City of Sun Valley

City of Sun Valley

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Property tax	\$ 2,471,868	\$ 2,471,868	\$ 2,533,623	\$ 61,755
Local option tax	1,232,825	1,232,825	1,175,918	(56,907)
Franchise fees	137,159	137,159	125,196	(11,963)
Licenses and permits	255,125	255,125	149,018	(106,107)
Intergovernmental	711,008	711,008	666,252	(44,756)
Charges for services	46,600	46,600	81,746	35,146
Fines and forfeitures	1,094	1,094	545	(549)
Investment earnings	35,000	35,000	9,134	(25,866)
Miscellaneous	20,000	20,000	25,924	5,924
Total revenues	4,910,679	4,910,679	4,767,356	(143,323)
Expenditures				
General government	1,200,944	1,200,944	933,420	267,524
Community development	333,099	333,099	325,000	8,099
Police	1,232,698	1,232,698	1,185,404	47,294
Fire	702,570	702,570	683,078	19,492
Culture and recreation	366,000	366,000	377,154	(11,154)
Transportation	380,000	380,000	340,000	40,000
Building safety	174,343	174,343	140,762	33,581
Streets	419,283	419,283	386,355	32,928
Capital outlay	284,265	284,265	252,227	32,038
Total expenditures	5,093,202	5,093,202	4,623,400	469,802
Excess (Deficiency) of Revenue (Under) Expenditures	(182,523)	(182,523)	143,956	326,479
Other Financing Sources (Uses)				
Transfers in	182,523	182,523	-	(182,523)
Transfers out	-	-	(140)	(140)
Total other financing sources (uses)	182,523	182,523	(140)	(182,663)
Net Change in Fund Balances	-	-	143,816	\$ 143,816
Fund Balances				
Beginning of year, as restated			1,937,134	
End of year			<u>\$ 2,080,950</u>	

Note 1 - Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data:

- Prior to August, the Mayor submits to the City Council a proposed operating budget outlined for the fiscal year commencing the following October 1. The operating budget summary includes proposed expenditures and the means of financing them.
- A public hearing is conducted at City Hall to obtain taxpayer comments.
- Prior to September 1, the budget is legally enacted through passage of an ordinance.

Formal budgetary integration is employed as a management control device during the year.

Revisions that alter the total expenditures of any fund must be approved by the City Council. However, state law does not allow fund expenditures to exceed fund appropriations.

Annual appropriated budgets are adopted for all the funds of the City. The budget is prepared in accordance with the basis of accounting utilized by that fund. Budgeted amounts shown are as originally adopted and as amended by the City Council. Budget amendments are passed on an as-needed basis. All annual appropriations lapse at fiscal year end. A balanced budget is required.

Other Financial Information
September 30, 2010
City of Sun Valley

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

Governments often set aside monies to meet current and future debt service requirements on general government debt. The Debt Service Fund may be used to account for the accumulation of resources for and payment of, general long-term debt principal and interest.

CAPITAL PROJECTS FUND

State and local governments often undertake significant capital acquisition and construction projects. Often, governments wish to account for such capital activity separately from their other operations. The Capital Projects Fund may be used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

SPECIAL REVENUE FUNDS

Used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Workforce Housing fund - accounts for financial resources to support housing for City of Sun Valley employees.

City of Sun Valley

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund
Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property tax	\$ 622,750	\$ 622,750	\$ 631,852	\$ 9,102
Total revenues	<u>622,750</u>	<u>622,750</u>	<u>631,852</u>	<u>9,102</u>
Expenditures				
Debt services				
Principal retirement	565,000	565,000	565,000	-
Interest	57,750	57,750	57,750	-
Other	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Total expenditures	<u>623,750</u>	<u>623,750</u>	<u>623,750</u>	<u>-</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	(1,000)	(1,000)	8,102	9,102
Other Financing Sources				
Transfers in	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	8,102	<u>\$ 8,102</u>
Fund Balance,				
Beginning of year			<u>26,774</u>	
End of year			<u>\$ 34,876</u>	

City of Sun Valley

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Projects Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Property tax	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Capital outlay	377,141	405,255	98,639	306,616
Total expenditures	377,141	405,255	98,639	306,616
Deficiency of Revenue				
Under Expenditures	(377,141)	(405,255)	(98,639)	306,616
Other Financing Sources				
Transfers in	377,141	405,255	140	(405,115)
Net Change in Fund Balances	\$ -	\$ -	(98,499)	\$ (98,499)
Fund Balance,				
Beginning of year			542,524	
End of year			\$ 444,025	

City of Sun Valley
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual –
Special Revenue Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Charges for services	\$ -	\$ 17,700	\$ 16,348	\$ (1,352)
Total revenues	-	17,700	16,348	(1,352)
Expenditures				
Capital outlay	-	17,700	6,538	11,162
Total expenditures	-	17,700	6,538	11,162
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>9,810</u>	<u>\$ 9,810</u>
Fund Balance,				
Beginning of year			<u>191,211</u>	
End of year			<u>\$ 201,021</u>	

Supplemental Information
September 30, 2010

City of Sun Valley



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*

The City Council
City of Sun Valley, Idaho
Sun Valley, Idaho

We have audited the financial statements of City of Sun Valley, Idaho as of and for the year ending September 30, 2010, and have issued our report thereon dated March 03, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we considered to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency 2010-1 described in the accompanying Schedule of Findings and Responses to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiencies 2010-2 and 2010-3 described in the accompanying Schedule of Findings and Responses to be significant deficiencies.

Compliance and Other Matters

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

The City of Sun Valley, Idaho's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit City of Sun Valley, Idaho's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.


Boise, Idaho
March 03, 2011

2010-1

Criteria:

Management should have an internal control system designed to provide for the year-end financial close and for the preparation of the financial statements being audited in accordance with generally accepted accounting principles.

Condition:

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited and a documented process for the close of the fiscal year. As auditors, we were requested to prepare the government-wide journal entries and draft the financial statements and accompanying notes to the financial statements. In addition, a prior period adjustment was made to properly reflect the compensated absences as a long-term liability.

Effect:

Management must rely on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles. This is not unusually for an organization of this size.

Cause:

Management did not have sufficient time to complete all tasks associated with the close of the fiscal year as necessary to properly prepare the audited financial statements in time for the audit fieldwork to begin.

Recommendation:

Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response and Action Plan of Management:

The Finance Director will be responsible for preparing the financial statements to be audited. The current Finance Director has the level of expertise required to meet this criteria. The Finance Director will prepare the government-wide journal entries and draft the financial statements and accompanying notes to the financial statements.

Engaging in these tasks is additional work for the Finance Director. Currently the Finance Director performs all duties related to finances with the City including: preparation of monthly financial reports, processing accounts payable, payroll, preparation of the annual budget and the Comprehensive Annual Financial Report. Preparing the government-wide journal entries and drafting the financial statements and accompanying notes to the financial statements have not previously been performed by the Finance Director.

In FY 11 the budget for a full-time employee to work with the Finance Director was reduced to a part-time position. The part-time position has not been filled. In order to assist the Finance Director, the part-time position will be filled.

Additionally, the Finance Director is the only City employee trained to work in the City's finances. The lack of an additional employee trained to work in the City's finances places the City in a vulnerable position. If the current Finance Director becomes unable to perform the responsibilities of the position, the financial functions of the City would be severely affected. By filling the part-time position, the City will be in a much better position to conduct business without interruption in the absence of the Finance Director.

2010-2

Criteria:

Sufficient levels of review are an important part of an internal control system, especially when segregation of duties is limited due to the size of the accounting staff.

Condition:

Non-standard journal entries and bank reconciliations and bank statements are not reviewed by the appropriate level of management.

Effect:

The City is exposed to additional risks since the preparer of the bank reconciliation and all non-standard journal entries also has access to the general ledger functions, processes all disbursements and payroll checks, records all deposits, is an authorized signor on the account, and has access to the blank check stock.

Cause:

Management assigned to the task of reviewing the non-standard journal entries and bank statements and bank reconciliations has not found sufficient time to complete this procedure due to time constraints as a result of a small accounting staff.

Recommendation:

The process of reviewing the non-standard journal entries and bank reconciliations needs to become a top priority as it is an important mitigating control in place to offset the risk posed by a lack of segregation of duties from the small accounting staff. Management assigned to the task should receive and review unopened bank statements for unusual or unexpected transactions. The reconciliation should be reviewed timely to ensure outstanding deposits and checks appear reasonable and clear timely as expected. All non-standard journal entries should be reviewed along with all supporting documentation.

Response and Action Plan of Management:

Pursuant to the previous auditors' recommendation, compensated absences were classified as short-term liabilities. The current auditors' recommendation is that compensated absences be classified as long-term liabilities. Therefore, a prior period adjustment was necessary. In the future, compensated absences will be classified as a long-term liability.

2010-3

Criteria:

The internal control structure in place should be sufficient to ensure policies of the City are followed.

Condition:

The City has a written policy that specifies the maximum hours an employee may accrue and specifies a requirement for employees to take eighty (80) hours of time off each year. However, the City is not following this written policy.

Effect:

Certain personnel are allowed to accrue a greater liability for future payments of paid time off than the City Council and management intended when the policy was written and approved. It also encourages individuals to accrue hours rather than take time off which is a potential fraud risk.

Cause:

Management is aware of the policy but has not been following it.

Recommendation:

The City needs to follow their written policy or update the policy to agree with current and preferred practices. It is a “best practice” to require employees to take paid time off and require another employee to perform their assigned tasks while they are gone. This is a mitigating control over potential fraud or misappropriation of City assets.

Response and Action Plan of Management:

The current personnel policy for vacation leave is set forth below:

Section 5.2 Vacation Leave of the City’s Personnel Policy provides as follows:

- A. The purpose of vacation leave is to allow the Employee extended rest and rejuvenation. Regular full-time Employees shall be provided annual vacation leave according to the following schedule:

<u>Years of Employment</u>	<u>Vacation Days</u>
Year 1	10
Years 2-7	15
Years 8+	20

- B. Regular part-time Employees shall be provided vacation leave according to the above formula in proportion to hours actually worked in a typical 40 hour work week.

- C. The following provisions apply to vacation leave:

1. Employees are required to take a minimum of 80 hours of vacation per year, ***unless approved otherwise by the Employee’s Supervisor***. Employees may begin taking accrued vacation time after six (6) months of employment.
2. ***Employees may accrue a maximum of one hundred (100) hours of vacation.*** When the Employee has accrued one hundred (100) hours of vacation leave, the Employee will cease accruing vacation leave until his/her accrual balance falls below one hundred (100) hours. (Amended by Resolution 2007-06)
3. Vacation Leave Conversion: With the approval of the Employee’s Supervisor and the City Administrator, up to forty (40) hours of vacation leave may be converted to cash payment at the Employee’s straight time rate each calendar year only if the Employee has used an equal amount of vacation leave in the previous 12 month period; for administrative purposes, no more than two (2) requests for conversion during the calendar year will be allowed, and any hours of vacation leave counted in the first request for that year may not be counted in the second.
4. Paid holidays which occur during vacation leave will not be charged to vacation time.
5. Vacation must be scheduled and approved in advance with the respective Department Head, in order to ensure continued operation of City services.

Management Response:

Management is exercising the discretion provided in the policy in order to meet the needs for City services and manage resources effectively. Regarding the maximum hours an employee may accrue; Paragraph C Subsection 2 provides that an employee “may” accrue a maximum of one hundred (100) hours of vacation. The use of the word “may” provides management the discretion to allow for accrual of additional hours.

As of September 30, 2010 half (12 of 24) of the employees of the City had more than 100 hours of accrued vacation. This is primarily due to how employees accrue vacation. Employees accrue vacation hours during each of the 26 payroll periods in a year. Therefore, an employee earning 15 days of vacation a year earns 4.61 hours of vacation each payroll period. According to the policy, an employee earning 15 days of vacation a year, who has not taken any vacation hours during the current year, will exceed 100 hours of vacation after the 22nd payroll period of the year (4.61 x 22 = 101.42). The employee will exceed the limited number of vacation hours sooner if vacation hours are carried over from prior years. All full-time City employees earn at least 15 days of vacation per year.

Regarding the requirement that employees take a minimum of eighty (80) hours of vacation each year, Paragraph C subsection 1 provides the employee's supervisor with the discretion to approve an exception to the requirement of taking a minimum of 80 hours per year.

Each payroll period the Finance Director prepares a Leave Time Report which itemizes accrued vacation, sick and compensatory time for each employee. The City Administrator reviews and monitors accrued vacation hours of each employee. The City Administrator generally encourages employees to use vacation hours. The City Administrator has, when deemed necessary, required employees to take vacation. In FY 10 all employees, with the exception of the City Administrator and the Fire Chief, took at least 80 hours of vacation.

The total liability identified by the auditors was \$129,142. This amount relative to the amount of annual expenditures of \$5.3 million is not excessive. Nonetheless, in the future the goal will be to manage increases to the liability for compensated absences by further encouraging employees to take vacation. However, encouraging employees to take vacation may require overtime by non-vacationing employees. Accumulation of overtime will increase a similar liability and will be monitored.

In order to provide effective City services and manage resources, including personnel, management depends on the discretion provided in the current policy. Therefore a change to the current policy is not warranted.