



Financial Statements
September 30, 2012

City of Sun Valley, Idaho

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet – Governmental Funds	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	15
Notes to Financial Statements	16
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund.....	26
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	27
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Fixed Asset Fund.....	28
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Improvements Fund.....	29
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Workforce Housing Fund	30
Notes to Required Supplementary Information.....	31
Supplemental Information	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32
Schedule of Findings and Responses.....	34



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 the City of Sun Valley, Idaho (the 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 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 the City of Sun Valley, Idaho as of September 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sincerely,

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

Boise, Idaho
February 13, 2013

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 City's financial statements.

Using the Financial Section of This 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 six 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, Fixed Asset Fund, Land Acquisition Fund, Capital Improvements Fund, and Workforce Housing 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 12 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 \$10,319,175 on September 30, 2012. This amount represents a decrease of \$825,597 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 \$2,878,298.

Table 1 reflects the Statement of Net Assets.

Table 1
Statements of Net Assets
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Total % Change</u>
Current assets	\$ 5,895,867	\$ 5,983,463	-1.5%
Capital assets	<u>7,440,877</u>	<u>8,082,152</u>	-7.9%
Total assets	<u>13,336,744</u>	<u>14,065,615</u>	-5.2%
Other liabilities	<u>3,017,569</u>	<u>2,920,843</u>	3.3%
Total liabilities	<u>3,017,569</u>	<u>2,920,843</u>	3.3%
Net Assets			
Invested in capital assets, net of related debt	7,440,877	8,082,152	-7.9%
Unrestricted	<u>2,878,298</u>	<u>3,062,620</u>	-6.0%
Total net assets	<u>\$ 10,319,175</u>	<u>\$ 11,144,772</u>	-7.4%

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 Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Total % Change</u>
Revenues			
Program revenues			
Charges for services	\$ 238,306	\$ 197,899	20.4%
Capital grants and contributions	-	70,000	100.0%
General revenue			
Property taxes levied for general purposes	2,655,475	2,639,561	0.6%
Property taxes levied for debt service	592	622,352	-99.9%
Franchise fees	134,263	123,940	8.3%
Local option tax	1,222,867	1,247,217	-2.0%
State shared revenue	742,528	704,550	5.4%
Investment earnings	7,090	7,836	-9.5%
Change in unrealized gain/loss	(4,099)	3,856	-206.3%
Miscellaneous	53,762	33,553	60.2%
Total revenues	<u>5,050,784</u>	<u>5,650,764</u>	<u>-10.6%</u>
Expenses			
General government	1,407,389	925,491	52.1%
Community development	338,032	352,342	-4.1%
Police	1,283,558	1,273,211	0.8%
Fire	753,135	688,813	9.3%
Culture and recreation	410,965	448,000	-8.3%
Transportation	275,000	300,000	-8.3%
Building safety	143,277	142,999	0.2%
Streets	668,032	590,500	13.1%
Interest and fees on long-term debt	29,995	30,583	-1.9%
Unallocated depreciation expense	566,998	573,884	-1.2%
Total expenses	<u>5,876,381</u>	<u>5,325,823</u>	<u>10.3%</u>
Changes in Net Assets	<u>\$ (825,597)</u>	<u>\$ 324,941</u>	<u>-354.1%</u>

Governmental Activities in FY 12

Governmental activities in FY 12 decreased the City's net assets by \$825,597. Key elements of this change in net assets are as follows:

Revenues

FY12 revenues decreased by \$599,980 or 10.6% under FY 11 revenues. The difference is primarily due to the lack of Capital Grants being awarded to the City and a decrease in the property taxes levied for the debt service fund by \$621,760.

Expenditures

FY12 expenditures were \$550,558 more than FY11 expenditures. The majority of the increase is attributed to general government. There was a \$481,898 increase in expenditures in general government in FY12 primarily due to a forensic audit being conducted.

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 12

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, unrestricted 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 three basic categories— nonspendable, restricted and unrestricted. Nonspendable fund balance represents resources that are not in a spendable form, such as prepaid expenses or long-term loans receivable. Restricted fund balance are those funds that are legally segregated for a purpose more specific than the overall purpose of the government, such as resources legally set aside for highway project in a capital projects fund. Unrestricted fund balance includes committed, assigned and unassigned funds. It is the remainder and can be used for any purpose of the government. Committed and assigned amounts are for specific purposes designated by the City Council or designee.

At September 30, 2012, the City's governmental funds reported combined ending fund balances of \$2,908,814, a decrease of \$237,703 in comparison to the prior year. Of this amount, \$2,886,503 (99%) is unrestricted. Unassigned fund balance is available for spending at the government's discretion. Of the unassigned fund balance, \$623,835 is available for subsequent year's expenditures. The remaining unassigned fund balance of \$1,640,425 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 (estimated \$1,640,425) and no more than the equivalent of 32 (estimated \$3,280,850) 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 fund balance is comprised of \$22,311 of nonspendable prepaid expenses, \$216,281 of funds committed for the workforce housing, and \$405,962 of funds assigned to the debt service and future capital projects.

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 \$2,286,571 all of which is unassigned except for \$22,311 of nonspendable 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 decreased by \$186,866 during FY12. The revenues increased by 1% primarily due to an increase in the amounts from other governments such as revenue sharing. In previous years, property tax receipts were directly recognized in each separate fund as revenue. In FY 12, 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 12% primarily due to the costs related to the forensic audit, improvements to the streets and paths, and additional personnel in the Fire Department.

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 decreased by \$24,737 to a total fund balance of \$10,653, in the current fiscal year. The entire fund balance is assigned for debt service and are intended to only be used for the payment of principal, interest and debt service fees.

The Fixed Asset Fund accounts for all revenues and expenditures to finance assets that have a useful life exceeding two years and significant value. The ending fund balance of \$701 is assigned for future capital asset purchases. The decrease in fund balance is primarily due to the purchase of two police vehicle for the police department and expenses related to capital improvement plan project.

The Land Acquisition Fund accounts for all revenues and expenditures to finance the acquisition of land by the City. The Land Acquisition Fund balance did not change during 2012 because there was not any land acquisition activity. The ending fund balance of \$371,763 is assigned for future land acquisitions.

The Capital Improvements Fund accounts for all revenues and expenditures to improve capital assets. The Capital Improvements Fund balance decreased by \$26,356. The ending fund balance of \$22,845 is assigned for future capital improvement projects. The decrease in fund balance is primarily due to the installation of a new HVAC system in City buildings.

The Workforce Housing Fund accounts for the affordable housing units. The Workforce Housing fund balance decreased by \$445. The ending fund balance of \$216,281 is committed for future needs of the housing units.

General Fund Budgetary Highlights in FY 12

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 approved revisions to the FY 12 General Fund budget. The difference between the original budget and the final amended budget was a \$494,743 increase in overall appropriations. The largest portion of the amendment to the budget was for professional fees related to the forensic audit.

Table 3
Budget to Actual Comparison – General Fund Expenditures

	FY 2011	FY 2012
Original Budget	\$ 4,914,709	\$ 4,836,638
Final Budget	4,914,709	5,331,381
Actual Expenditures	4,611,724	5,140,891
Variances	\$ 302,985	\$ 190,490

The more significant differences between the budget and the actual is as follows:

- The general governmental budget included a contingency for unexpected expenditures of \$113,815. None of this was utilized and was rolled back into the general fund balance.
- The Legislation department over-spent the budget by \$71,709. The primary variance was in Professional Fees for \$78,161.
- The Administration department under-spent the budget by \$84,984. The primary variances were in overspending on computer consultants for \$13,973 and under spending on professional fees for \$98,813.
- The Community Development department over-spent the budget by \$6,293. The primary variance was in salaries and wages for \$8,657.
- The Police department under-spent the budget by \$17,048. The primary variance was in salaries and wages for \$14,666, overtime salaries for \$6,745, and health insurance for \$8,960, all of which were the result of reducing the staff by one position.
- The Fire department over-spent the budget by \$14,174. The primary variance was in wages for volunteer on call firefighters for \$35,050 offset by unexpended expenditures in wages for temporary employees by \$14,017.
- The Building department under-spent the budget by \$15,087. The primary variance was in salaries and wages for temporary employees by \$12,209.
- The Street department under-spent the budget by \$23,907. The primary variances were in health insurance by \$8,327, motor fuels and lubricants by \$3,848, striping by \$4,779, and repair/maintenance of large equipment by \$3,580.

Capital Assets

At fiscal year end, the City's investment in capital assets, net of accumulated depreciation, totals \$7,440,877. Capital asset investments include land, building and improvements, equipment, and infrastructure. The City's capital asset activity is shown in greater detail in Note 5 of the financial statements.

Table 4
Capital Assets for the years ended
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Total % Change</u>
Land	\$ 191,149	\$ 191,149	0.0%
Buildings and improvements	1,556,178	1,605,571	-3.1%
Infrastructure	4,630,259	5,132,861	-9.8%
Equipment and vehicles	1,063,291	1,152,571	-7.7%
	<u>\$ 7,440,877</u>	<u>\$ 8,082,152</u>	<u>-7.9%</u>

Police department equipment in the amount of \$56,536 was purchased. Building improvements were made by installing a central HVAC system in the amount of \$26,356. There were no other significant additions to capital assets. The decrease in capital assets is due to current year depreciation of \$743,352.

Long-term debt

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 \$39,815,747 (2% of \$1,990,787,353).

At the end of the current fiscal year, aside from compensated absences, the City had no outstanding long-term debt.

Economic Factors

The City's composition is primarily residential with a major destination resort. The commercial component includes lodging, retail and restaurant sales. The property tax revenue derived from the current housing stock has been declining due to fluctuations in the economy and decreases in property values.

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 Angela Walls, 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, 2012

	Governmental Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 183,736
Investments	2,708,410
Receivables	
Property taxes	2,693,431
Local option taxes	95,516
Intergovernmental	179,500
Franchise fees	12,963
Prepays	22,311
Total current assets	5,895,867
Noncurrent Assets	
Capital assets	
Land and other assets not depreciated	191,149
Buildings, property and equipment, infrastructure, net of depreciation	7,249,728
Total noncurrent assets	7,440,877
	\$ 13,336,744
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 220,539
Accrued liabilities	85,790
Deferred revenue	2,655,544
Compensated absences	55,696
Total current liabilities	3,017,569
Net Assets	
Invested in capital assets, net of related debt	7,440,877
Unrestricted	2,878,298
Total net assets	10,319,175
	\$ 13,336,744

City of Sun Valley
Statement of Activities
Year Ended September 30, 2012

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants	Capital Grants	Net (Expense) Revenue and Changes in Net Assets Primary Governmental Activities
Primary Government					
Governmental Activities					
General government	\$ 1,407,389	\$ 24,100	\$ -	\$ -	\$ (1,383,289)
Community development	338,032	-	-	-	(338,032)
Police	1,283,558	1,289	-	-	(1,282,269)
Fire	753,135	-	-	-	(753,135)
Culture and recreation	410,965	10,785	-	-	(400,180)
Transportation	275,000	-	-	-	(275,000)
Building safety	143,277	202,132	-	-	58,855
Streets	668,032	-	-	-	(668,032)
Interest and fees on long-term debt	29,995	-	-	-	(29,995)
*Unallocated depreciation expense	566,998	-	-	-	(566,998)
Total governmental activities	<u>\$ 5,876,381</u>	<u>\$ 238,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,638,075)</u>
General Revenues					
Taxes					
Property taxes, levied for general purposes					\$ 2,655,475
Property taxes, levied for debt service					592
Franchise fees					134,263
Local option tax					1,222,867
State shared revenue					742,528
Interest earnings					7,090
Change in unrealized gain/loss					(4,099)
Miscellaneous					53,762
Total general revenues					<u>4,812,478</u>
Change in Net Assets					
Net Assets, Beginning of Year					11,144,772
Net Assets, End of Year					<u>\$ 10,319,175</u>

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

City of Sun Valley
Balance Sheet – Governmental Funds
September 30, 2012

	General Fund	Debt Service Fund	Fixed Asset Fund	Land Acquisition Fund	Capital Improvement Fund	Workforce Housing Fund	Total Governmental Funds
Assets							
Cash and investments	\$ 2,271,034	\$ 9,522	\$ 701	\$ 371,763	\$ 22,845	\$ 216,281	\$ 2,892,146
Property taxes receivable	2,689,699	3,732	-	-	-	-	2,693,431
Local option taxes receivable	95,516	-	-	-	-	-	95,516
Due from other government	179,500	-	-	-	-	-	179,500
Franchise fee receivable	12,963	-	-	-	-	-	12,963
Prepaid expenses	22,311	-	-	-	-	-	22,311
	<u>\$ 5,271,023</u>	<u>\$ 13,254</u>	<u>\$ 701</u>	<u>\$ 371,763</u>	<u>\$ 22,845</u>	<u>\$ 216,281</u>	<u>\$ 5,895,867</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 220,539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,539
Accrued liabilities	85,790	-	-	-	-	-	85,790
Deferred revenue	2,678,123	2,601	-	-	-	-	2,680,724
Total liabilities	<u>2,984,452</u>	<u>2,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,987,053</u>
Fund Balances							
Nonspendable	22,311	-	-	-	-	-	22,311
Committed							
Work force housing	-	-	-	-	-	216,281	216,281
Assigned							
Debt service	-	10,653	-	-	-	-	10,653
Capital projects	-	-	701	371,763	22,845	-	395,309
Unassigned	2,264,260	-	-	-	-	-	2,264,260
Total fund balances	<u>2,286,571</u>	<u>10,653</u>	<u>701</u>	<u>371,763</u>	<u>22,845</u>	<u>216,281</u>	<u>2,908,814</u>
	<u>\$ 5,271,023</u>	<u>\$ 13,254</u>	<u>\$ 701</u>	<u>\$ 371,763</u>	<u>\$ 22,845</u>	<u>\$ 216,281</u>	<u>\$ 5,895,867</u>
Reconciliation of Total Government Fund Balance							
Total Government Fund Balances							\$ 2,908,814
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.							7,440,877
Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.							25,180
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							<u>(55,696)</u>
Net assets of governmental activities							<u>\$ 10,319,175</u>

City of Sun Valley
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2012

	General Fund	Debt Service Fund	Fixed Asset Fund	Land Acquisition Fund	Capital Improvement Fund	Workforce Housing Fund	Total (Governmental Funds)
Revenues							
Property tax	\$ 2,658,482	\$ 5,258	\$ -	\$ -	\$ -	\$ -	\$ 2,663,740
Local option tax	1,222,867						1,222,867
Franchise fees	134,263	-	-	-	-	-	134,263
Licenses and permits	187,193	-	-	-	-	-	187,193
Intergovernmental	742,528	-	-	-	-	-	742,528
Charges for services	39,319	-	-	-	-	10,785	50,104
Fines and forfeitures	1,009	-	-	-	-	-	1,009
Investment earnings	2,991	-	-	-	-	-	2,991
Miscellaneous	53,762	-	-	-	-	-	53,762
Total revenues	5,042,414	5,258	-	-	-	10,785	5,058,457
Expenditures							
General government	1,405,743	-	-	-	-	-	1,405,743
Community development	320,208	-	-	-	-	-	320,208
Police	1,256,372	-	-	-	-	-	1,256,372
Fire	681,622	-	-	-	-	-	681,622
Culture and recreation	410,965	-	-	-	-	-	410,965
Transportation	275,000	-	-	-	-	-	275,000
Building safety	146,840	-	-	-	-	-	146,840
Streets	385,224	-	-	-	-	-	385,224
Capital outlay	258,917	-	87,688	-	26,356	11,230	384,191
Debt services							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Other	-	29,995	-	-	-	-	29,995
Total expenditures	5,140,891	29,995	87,688	-	26,356	11,230	5,296,160
Excess (Deficiency) of Revenue							
Over (Under) Expenditures	(98,477)	(24,737)	(87,688)	-	(26,356)	(445)	(237,703)
Other Financing Sources (Uses)							
Transfers in	-	-	88,389	-	-	-	88,389
Transfers out	(88,389)	-	-	-	-	-	(88,389)
Total other financing sources (uses)	(88,389)	-	88,389	-	-	-	-
Net Change in Fund Balances	(186,866)	(24,737)	701	-	(26,356)	(445)	(237,703)
Fund Balance, Beginning of Year	2,473,437	35,390	-	371,763	49,201	216,726	3,146,517
Fund Balances, End of Year	\$ 2,286,571	\$ 10,653	\$ 701	\$ 371,763	\$ 22,845	\$ 216,281	\$ 2,908,814

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (237,703)

The amounts reported for governmental activities in the statement of activities are different because:

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.

Capital asset additions	102,077	
Depreciation expense	<u>(743,352)</u>	(641,275)

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.	61,054
---	--------

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.	<u>(7,673)</u>
--	----------------

Change in net assets of governmental activities	<u><u>\$ (825,597)</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 Statements Nos. 14 and 39, 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The City reports the following major governmental funds which 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.

Fixed Asset 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.

Land Acquisition Fund — This Fund accounts for financial resources for the acquisition of land by the City.

Capital Improvements Fund — This Fund accounts for 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.

Workforce Housing Fund — This Fund is to provide affordable housing for low to moderate income households whose income is derived from employment within Sun Valley or, when found appropriate by the City, employed within Blaine County in an area commonly known as the North Valley, including the City of Ketchum and the area in Blaine County commonly known as River Run (River Run).

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.

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.

Fund Balance Reporting

GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions* defines the elements of fund balance in governmental funds and more clearly describes the different types of governmental funds to make the nature and extent of the constraints placed on a government's funds balance more transparent. The governmental fund types classify fund balances as follows:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact. Such amounts are inventory, prepaid accounts, and assets held for sale.

Restricted - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed - Amounts constrained to specific purposes determined by a formal action of the City Council (the City's highest level of decision making authority). These committed amounts cannot be used for any other purpose unless the City Council removes or changes the constraint.

Assigned - Amounts constrained by the City's *intent* to be used for specific purposes, but are neither restricted nor committed. The Mayor is authorized by the City Council to assign amounts for specific purposes.

Unassigned - This is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications.

The details of the fund balances are included in the Balance Sheet – Governmental Funds. The City uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. Additionally, when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council have provided otherwise in its commitment or assignment actions.

The City shall maintain at all times in its General Fund, an unreserved, designated fund balance entitled "Fiscal Policy Reserve" 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 of Fiscal Policy Reserve will be established by the City Council in its adoption of the Annual Budget.

Inter-fund Transactions

All inter-fund transactions, except interfund services provided or used, 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.

Note 2 - Cash and Investments

The cash and investments at September 30, 2012, are as follows:

Cash and cash equivalents, unrestricted		
Petty cash	\$	1,084
General checking		<u>182,652</u>
 Total	 \$	 <u>183,736</u>
	<u>Cost</u>	<u>Fair Value</u>
Investments carried at fair value		
External investment pools	<u>\$</u>	<u>2,708,410</u>

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, 2012 were as follows:

Investment Type	Fair Value	Investment Maturities in Years			
		Less than 1	1-5	6-10	More than 10
External Investment Pool	<u>\$ 2,708,410</u>	<u>\$ 2,708,410</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 requires 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, 2012, is \$327,860. 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, 2012 was \$275,000. 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, 2012:

State of Idaho		
Revenue sharing	\$	167,132
Highway		11,271
Liquor apportionment		1,097
	\$	179,500

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	\$ 22,570	\$ 2,655,553
Debt service fund property taxes	2,601	-
	\$ 25,171	\$ 2,655,553

Note 5 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated				
Land	\$ 191,149	\$ -	\$ -	\$ 191,149
Capital Assets, Depreciated				
Buildings and improvements	3,003,728	26,356	-	3,030,084
Infrastructure	16,454,746	-	-	16,454,746
Equipment and vehicles	3,285,115	75,721	-	3,360,836
Total	<u>22,743,589</u>	<u>102,077</u>	<u>-</u>	<u>22,845,666</u>
Less Accumulated Depreciation for				
Buildings and improvements	(1,398,157)	(75,749)	-	(1,473,906)
Infrastructure	(11,321,885)	(502,602)	-	(11,824,487)
Equipment and vehicles	(2,132,544)	(165,001)	-	(2,297,545)
Total	<u>(14,852,586)</u>	<u>(743,352)</u>	<u>-</u>	<u>(15,595,938)</u>
Capital Assets, Net	<u>\$ 8,082,152</u>	<u>\$ (641,275)</u>	<u>\$ -</u>	<u>\$ 7,440,877</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 7,232
Community development & building	3,855
Police	33,205
Workforce housing	11,353
Fire	82,125
Street	38,584
Unallocated	<u>566,998</u>
Total depreciation expense	<u>\$ 743,352</u>

Note 6 - Compensated Absences

Compensated absences activity for the year ended September 30, 2012 is as follows:

	Balance at September 30, 2011	Additions	Reductions	Balance at September 30, 2012	Due within One Year
Compensated Absences	\$ 116,750	\$ 94,594	\$ (155,648)	\$ 55,696	\$ 55,696

Note 7 - Pension Plans

Public Employee Retirement System of Idaho (PERSI) – The PERSI Base Plan, 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. 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.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of the City of Sun Valley, Idaho 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 7.69% for police/firefighter members. 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, Idaho employer contributions required and paid were \$201,412, \$187,307, and \$184,734 for the three years ended September 30, 2012 and 2011, and 2010, respectively.



Required Supplementary Information
September 30, 2012

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, 2012

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Property tax	\$ 2,630,076	\$ 2,643,076	\$ 2,658,482	\$ 15,406
Local option tax	1,169,271	1,219,272	1,222,867	3,595
Franchise fees	121,000	124,380	134,263	9,883
Licenses and permits	152,500	162,871	187,193	24,322
Intergovernmental	690,191	742,102	742,528	426
Charges for services	46,600	46,600	39,319	(7,281)
Fines and forfeitures	1,000	1,000	1,009	9
Investment earnings	6,000	5,000	2,991	(2,009)
Miscellaneous	20,000	46,577	53,762	7,185
Total revenues	4,836,638	4,990,878	5,042,414	51,536
Expenditures				
General government	976,955	1,536,701	1,405,743	130,958
Community development	331,120	314,295	320,208	(5,913)
Police	1,288,604	1,281,484	1,256,372	25,112
Fire	646,101	674,314	681,622	(7,308)
Culture and recreation	404,965	404,965	410,965	(6,000)
Transportation	275,000	275,000	275,000	-
Building safety	188,107	161,669	146,840	14,829
Streets	452,021	415,112	385,224	29,888
Capital outlay	273,765	267,841	258,917	8,924
Total expenditures	4,836,638	5,331,381	5,140,891	190,490
Excess (Deficiency) of Revenue (Under) Expenditures	-	(340,503)	(98,477)	242,026
Other Financing Sources (Uses)				
Transfers in	-	340,503	-	(340,503)
Transfers out	-	-	(88,389)	(88,389)
Total other financing sources (uses)	-	340,503	(88,389)	(428,892)
Net Change in Fund Balances	\$ -	\$ -	(186,866)	\$ (186,866)
Fund Balance, Beginning of Year			2,473,437	
Fund Balance, End of Year			<u>\$ 2,286,571</u>	

City of Sun Valley

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Property tax	\$ -	\$ 4,652	\$ 5,258	\$ 606
Total revenues	-	4,652	5,258	606
Expenditures				
Debt services				
Principal retirement	-	-	-	-
Interest	-	-	-	-
Other	-	29,997	29,995	2
Total expenditures	-	29,997	29,995	2
Excess (Deficiency) of Revenue Over (Under) Expenditures	-	(25,345)	(24,737)	608
Other Financing Sources				
Transfers in	-	25,345	-	(25,345)
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	(24,737)	<u>\$ (24,737)</u>
Fund Balance, Beginning of Year			35,390	
Fund Balance, End of Year			<u>\$ 10,653</u>	

City of Sun Valley

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Fixed Asset Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Other Revenue	\$ 10,000	\$ 6,000	\$ -	\$ (6,000)
Total revenues	10,000	6,000	-	-
Expenditures				
Capital outlay	122,220	94,390	87,688	6,702
Total expenditures	122,220	94,390	87,688	6,702
Deficiency of Revenue Under Expenditures	(112,220)	(88,390)	(87,688)	702
Other Financing Sources				
Transfers in	112,220	88,390	88,389	(1)
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	701	<u>\$ 701</u>
Fund Balance, Beginning of Year			-	
Fund Balance, End of Year			<u>\$ 701</u>	

City of Sun Valley
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Improvements
Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues				
Grant revenue	\$ 72,065	\$ -	\$ -	\$ -
Other revenue	-	-	-	-
Total revenues	<u>72,065</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Capital outlay	<u>111,277</u>	<u>26,356</u>	<u>26,356</u>	<u>-</u>
Total expenditures	<u>111,277</u>	<u>26,356</u>	<u>26,356</u>	<u>-</u>
Deficiency of Revenue Under Expenditures	(39,212)	(26,356)	(26,356)	-
Other Financing Sources Transfers in	<u>39,212</u>	<u>26,356</u>	<u>-</u>	<u>(26,356)</u>
Net Change in Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	(26,356)	<u><u>\$ (26,356)</u></u>
Fund Balance, Beginning of Year			<u>49,201</u>	
Fund Balance, End of Year			<u><u>\$ 22,845</u></u>	

City of Sun Valley
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Workforce Housing
Fund
Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	<u>\$ 17,700</u>	<u>\$ 13,750</u>	<u>\$ 10,785</u>	<u>\$ (2,965)</u>
Total revenues	<u>17,700</u>	<u>13,750</u>	<u>10,785</u>	<u>(2,965)</u>
Expenditures				
Capital outlay	<u>17,700</u>	<u>13,750</u>	<u>11,230</u>	<u>2,520</u>
Total expenditures	<u>17,700</u>	<u>13,750</u>	<u>11,230</u>	<u>2,520</u>
Net Change in Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>(445)</u>	<u><u>\$ (445)</u></u>
Fund Balance, Beginning of Year			<u>216,726</u>	
Fund Balance, End of Year			<u><u>\$ 216,281</u></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.



Supplemental Information
September 30, 2012
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 the governmental activities and each major fund of the City of Sun Valley, Idaho (the City) as of and for the year ending September 30, 2012, which collectively comprise of the City's basic financial statements and have issued our report thereon dated February 13, 2013. 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

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

Our consideration of internal control over financial reporting was for the 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 material weaknesses and other deficiencies that we consider 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 deficiencies 2012-1, 2012-2, 2012-3, and 2012-4 described in the accompanying schedule of findings and responses to be material weaknesses.

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 2012-5 and 2012-6 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 the City'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 the 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.

Eide Bailly LLP

Boise, Idaho
February 13, 2013

2012-1

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.

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 Treasurer/Finance Manager handles all financial tasks for the City. Therefore, there is not sufficient time or manpower to prepare the financial statements. Historically, they have been prepared by the auditors. A list of processes to be completed at year end will be developed in fiscal year 2013.

2012-2

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 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, and is an authorized signor on the account.

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. 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:

This issue has been addressed and will be corrected in fiscal year 2013. In the future, all non-standard journal entries and bank reconciliations will be reviewed by the City Administrator.

2012-3

Criteria:

City policy lends itself to various departmental approvals prior to making payments for goods and services, including credit card purchases. Also, all expense reimbursements are to be supported by receipts.

Condition:

The City has not always obtained all required levels of approval prior to making payments and has not always obtained receipts to support expense reimbursements.

Effect:

Inappropriate expenditures could be made if all levels of approval are not obtained and receipts are not submitted.

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.

Response and Action Plan of Management:

This issue has been addressed and corrected. Mandatory reporting requirements and proper approvals are strictly enforced by the Treasurer/Finance Manager and Finance Committee.

2012-4

Criteria:

Management should have an internal control system in place designed to record all year-end adjusting entries necessary to close the fiscal year and to determine that all closing entries are recorded correctly and timely.

Condition:

Several adjusting entries were proposed and posted during the audit that should have been recorded as part of the year-end closing process.

Effect:

The financial statements could be misstated.

Cause:

The final trial balance was not compared to all supporting documentation to determine if all necessary closing entries had recorded.

Recommendation:

Management should review year-end closing process to develop a system to ensure the necessary closing entries are posted correctly and timely.

Response and Action Plan of Management:

This issue has been addressed and will be corrected in fiscal year 2013. There are now documents created with the year-end closing process spelled out to avoid this in the future.

2012-5

Criteria:

Management should have an internal control system to review depreciation of fixed assets since it is a manual process.

Condition:

Some assets were being over depreciated and had a negative net book value.

Effect:

Fixed assets could be understated and depreciation expense could be overstated.

Cause:

There are not controls set up to stop depreciating assets after they have been in service for their estimated useful lives.

Recommendation:

The City should set up controls to ensure that assets stop depreciating after they have been in service for the estimated useful life.

Response and Action Plan of Management:

The Treasurer/Finance Manager is now using Caselle (a governmental accounting software) for asset management to prevent this from happening in the future. Caselle will automatically stop depreciating assets after they have been in service for their estimated useful lives.

2012-6

Criteria:

Supporting documentation for expenditures should be retained, and approval of the expenditure documented.

Condition:

Management could not locate supporting documentation for one expenditure selected for testing.

Effect:

The City does not have support to validate that the expenditure was appropriate, and was approved.

Cause:

Support for the disbursement was not retained.

Recommendation:

We recommend that management reevaluate their internal controls regarding record retention.

Response and Action Plan of Management:

The records retention policy is being reviewed and updated in fiscal year 2013.