

**CITY OF HAILEY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**September 30, 2008**

This section of the City of Hailey's annual financial report presents management's discussion and analysis of the City's financial performance during the year ended September 30, 2008. Please use this information in conjunction with the information furnished in the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- The total assets of the City of Hailey exceeded its liabilities at September 30, 2008 by \$24,080,020. Of this amount \$7,848,348 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2008 the City's total net assets increased \$1,378,398. Net assets of the governmental activities increased \$1,340,196 and net assets of business type activities increased \$38,202.
- Total fund balance of governmental funds at September 30, 2008 was \$2,963,653 compared to a total governmental fund balance at September 30, 2007 of \$2,545,787.
- The City has \$3,696,136 in long-term debt, including debt still remaining on a sewer revenue bond, equipment purchases of snow blower and loader, and accrued compensated absences.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government- Wide Financial Statements**

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

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

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

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

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Examples of the government type activities of the City of Hailey include general government and administration, public safety and emergency services activities, community planning and development, and parks and library operations. The major business-type activities of the City include the water and sewer systems.

**Fund Financial Statements**

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

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

The City of Hailey has three governmental funds:

General Fund – The general fund is the general operating fund of the City. It derives most of its income from property tax, state taxes, franchises and fees for services, thereby funding operations.

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

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition of major capital facilities.

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

**Notes to the Financial Statements**

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

**Required Supplementary Information**

This section has information that further explains and supports the information in the financial statements by including a comparison of the City’s budget data for the year.

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

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

<b>ASSETS</b>	<u><b>2006-2007</b></u>	<u><b>2007-2008</b></u>
Current and Other Assets	7,958,909	8,569,722
Capital Assets	<u>19,991,950</u>	<u>19,888,752</u>
Total Assets	<u>27,950,859</u>	<u>28,458,474</u>
<b>LIABILITIES</b>		
Long-Term Liabilities	3,860,526	3,696,136
Other Liabilities	<u>1,388,711</u>	<u>682,318</u>
Total Liabilities	<u>5,249,237</u>	<u>4,378,454</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Debt	15,296,667	16,231,671
Restricted	200,880	1
Unrestricted	<u>7,204,075</u>	<u>7,848,348</u>
Total Net Assets	<u><u>22,701,622</u></u>	<u><u>24,080,020</u></u>

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**Net Assets**

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). The total assets of the City of Hailey exceeded its liabilities at September 30, 2008 by \$24,080,020, an increase of \$1,378,398 over the previous year's net asset balance of \$22,701,622. Of this amount \$7,848,348 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$644,274 more than the previous year's unrestricted amount of \$7,204,075. The unrestricted net assets equal 32.6% of net assets.

The largest portion of the City's net assets, 67.4%, is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and infrastructure, and are used to provide services to the citizens and are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The city's net fixed assets increased in value by \$935,004, which sum is comprised largely of the new Keefer Park in central Woodside, and a new traffic light at Countryside Drive and State Highway 75, and a new snow blower.

**Changes in Net Assets**

During the year the City's financial position increased by \$1,378,405, compared to the previous year ending September 30, 2007, during which the City's financial position increased by \$2,927,622. The year prior to that, ending September 30, 2006, showed the City's financial position increasing by \$1,414,877. The 2007 spike was largely due to the timing of receipts from the State Revolving Loan Fund for a water storage tank project nearing construction completion during the summer of 2007.

**Governmental Activities:**

Governmental activities increased the City's net assets by \$1,340,199, compared to the previous year's \$376,995. This governmental increase in net assets is comparable most recently to 2004, during which the city's governmental activities net assets increased by \$920,102. During both 2004 and 2008, the city received annexation fees of approximately \$300,000 from Airport West and Old Cutters, respectively. The 2008 increase in governmental activities net assets is further enhanced by approximately \$242,000 in development impact fees. Finally, the fact that operational expenses are now budgeted such that they don't exceed operational revenues contributes significantly to the 2008 increase.

**Business-Type Activities:**

Business-type activities increased net assets by \$38,206, compared to the previous year's increase of \$2,550,627. The 2007 spike was largely due to the timing of receipts from the State Revolving Loan Fund for a water storage tank project nearing construction completion during the summer of 2007. Nevertheless, the 2008 amount is significantly less than previous years, which have ranged from just over \$380,000 in 2004 and 2005 to nearly \$534,000 in 2006. The business-type activities net asset increase of \$38,206 in 2008 can be attributed to refinements of our metered billing formulas now in place after water meters were activated.

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

**Governmental Funds**

General Fund - the general fund is the principal fund used for the City's governmental operations. The fund balance at September 30, 2008 was \$2,805,410, a \$411,934 increase over the prior year's fund balance of \$2,393,476. The major factors increasing fund balance were twofold: a decrease in capital fund balance as several capital projects were completed, and an increase in operating fund balance, as general operating expenses were held more than \$600,000 below operational revenues.

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The general fund balance currently contains the Fireworks Endowment Fund and the Capital Improvement Fund. Having tracked capital expenses through the end of several projects, the City plans to separate the Capital Improvement Fund from the General Fund in future financial reports.

**General Fund Budgetary Highlights**

There were no amendments made to the appropriated budget during the fiscal year. The general fund revenue exceeded its budgeted revenue by \$114,882. Included in this budgeted revenue was all anticipated annexation and park in lieu fees, grants, and capital reimbursements from developers.

General Fund expenses exceeded budgeted expenses by \$247,569. Not included in these budgeted expenses are capital projects which were expected to be completed in the previous year. Future financial reports will separate the Capital Improvement Fund activity from the General Operating Fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2008 the City had \$19,888,752 invested in capital assets (net of accumulated depreciation) compared to last year's \$19,408,675, an increase of \$480,077 compared to the previous year's increase of \$3,320,327. Net capital assets of governmental activities increased by \$1,063,498 and those of business-type activities decreased by \$583,422.

The City investment in capital assets includes land, park improvements, buildings, sewer and water lines, automobiles and equipment and street lights, sidewalks, and roads.

**Long-Term Debt**

The City has a 20-year sewer revenue bond of \$4.5 million, a long-term debt obligation through 2021. The current amount on the debt is \$3,315,029. A general obligation bond was fully retired on August 1, 2008, and held, at the end of its term, an excess fund balance of \$155,358. The City has an agreement with D.L. Evans Bank for purchase of a loader over a four-year period ending December 2009, and another agreement with Mountain West Bank for purchase of a snow blower over a three-year period ending January, 2011.

**FY09 BUDGETARY CONSIDERATIONS**

The City of Hailey bases the budget on a revenue analysis and projection. Over the past three years, a concentrated effort to discontinue a former practice of budgeting expenses in excess of operating revenue has proven successful. The passage of a Local Option Tax has significantly assisted Hailey's effort to generate sufficient operating revenue to cover operating expenses without fund balance being appropriated for operations. In a time of declining revenues, the practice of utilizing fund balance to subsidize operations could result in dangerously declining reserves.

Fund balance is still needed to defray operating expenses during the first quarter of each fiscal year, a period during which general fund revenue receipts lag behind expenses by nearly 15% of the operating budget (nearly \$650,000 in the first quarter of 2008/2009). Unlike when used to cover expenses not otherwise able to be paid for, these reserves are not budgeted, but are held for the purpose of defraying budgeted expenses until January 25, after which the receipt of property tax revenue restores the cash balance such that revenues are again in excess of expenses.

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At the end of fiscal year 2008, the General Fund operating activity has been evaluated separately from capital projects drawn to completion, with the results being that a true operating fund balance of over \$600,000 has been identified from the year's activity. Hailey has now positioned itself to fully separate its Governmental Activities into a General Operating Fund and a distinct General Capital Improvement Fund, leaving all of the operational reserves in the former and all of the unspent annexation fees, development impact fees, park in lieu fees and other capital reserves in the latter. This separation of funds will benefit the city in several ways: 1) operational revenue and expenses can be tracked separately, and monitored against their own cash flow; 2) capital projects can be budgeted and the funds spent without detriment to operations or operational cash flow; 3) a former practice of utilizing capital fund balance to defray first quarter operating expenses will be discontinued; and 4) the financial position of the City of Hailey will be stated more clearly in its financial reports.

Budgetary considerations require that focused attention be directed toward declining revenue sources, including interest, state taxes, development permit fees, and local option taxes. Hailey will be challenged to find opportunities to control expenses in this economic climate, and find even more efficient ways of delivering services to its constituents.

**Requests for Information**

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