

City of Hailey

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

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, 2009. 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, 2009 by \$22,331,321. Of this amount \$2,861,312 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2009 the City's total net assets decreased \$1,775,598. Net assets of the governmental activities increased \$ 1,137,195 and net assets of business type activities decreased \$2,912,793. The decrease in business type assets is explained in note 10 in the accompanying notes to the financial statements.
- Total fund balance of governmental funds at September 30, 2009 was \$3,446,575 compared to a total governmental fund balance at September 30, 2008 of \$2,990,553.
- The City has \$6,029,835 in long-term debt, including debt still remaining on a water system loan, 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 of whether the financial position of the City is improving or deteriorating.

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

Management's Discussion and Analysis, Continued

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:

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 Improvement Fund – The Capital Improvement Fund is used to account for financial resources to be used for the acquisition of major capital facilities. It is shown, in the financial statements, as a restricted fund, created in 2009 by the Hailey City Council.

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, including system component development, improvement, or replacement, are accounted for in this fund. Accounting for this fund is the same as a private business on a full accrual basis.

Notes to the Financial Statements

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

Required Supplementary Information

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

Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS OF THE CITY OF HAILEY AS A WHOLE

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

ASSETS	2007-2008	2008-2009
Current and other Assets	8,596,378	9,118,153
Capital Assets - Net	19,888,752	19,923,863
Total Assets	28,485,130	29,042,016
LIABILITIES		
Long Term Liabilities	3,696,136	6,029,835
Other Liabilities	682,073	680,860
Total Liabilities	4,378,209	6,710,695
NET ASSETS		
Invested in Capital Assets, Net of Debt	16,231,671	14,123,880
Restricted	1	5,346,129
Unrestricted	7,875,247	2,861,312
Total Net Assets	24,080,020	22,331,321

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, 2009 by \$22,331,321, a decrease of \$1,748,699 over the previous year's net asset balance of \$24,080,020. Of this amount \$2,861,312 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$5,013,935 less than the previous year's unrestricted amount of \$7,875,247. The unrestricted net assets equal 12.8% of net assets. This decrease is because the city has restricted assets in the capital improvement and enterprise funds of the city to meet future capital and debt service obligations.

The largest portion of the City's net assets, 63.2%, 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 decreased in value by \$894,889, which sum is comprised largely of the depreciation charged in the current period.

Changes in Net Assets

During the year the City's financial position decreased by \$1,748,699, compared to the previous year ending September 30, 2008, during which the City's financial position increased by \$1,378,405. The year prior to that, ending September 30, 2007, showed the City's financial position increasing by \$2,927,622. 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 and the reclassifying of this as long-term debt in the current period as explained more fully in note 10 of the notes to the financial statements.

Management's Discussion and Analysis, Continued

Governmental Activities:

Governmental activities increased the City's net assets by \$1,137,195, compared to the previous year's \$1,372,877. The 2008 amount included approximately \$300,000 in annexation fees and \$242,000 in development impact fees, and the addition of the completed Keefer Park and Countryside Traffic Signal to Hailey's assets. During the 2009 fiscal year, Hailey received only \$980,000 in annexation fees and \$29,337.48 in development impact fees. Also, during 2009, capital improvement projects included only a few sidewalk projects, compared to the previous year's park and traffic light projects. Finally, the fact that operational expenses are now budgeted such that they don't exceed operational revenues contributes significantly to the decrease in governmental activities net assets from the previous year, as general fund operational revenues declined in this economic climate wherein few new building permits were issued and consumers generally spent less.

Business-Type Activities:

Business-type activities decreased net assets by \$2,912,793, compared to the previous year's increase of \$38,206. The 2009 decrease is affected by a period adjustment of \$2,400,000 to account for the debt incurred in November, 2008 to pay back the State Revolving Loan Fund (see Note 10) for a water storage tank project constructed largely in 2007. Nevertheless, the 2009 amount is significantly less than previous years, which can be attributed to refinements of our metered billing formulas now in place after water meters were activated, and reduction in water system expenses as less water is used by consumers now on metered rates.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund - the general fund is the City's governmental operations fund. The fund balance at September 30, 2008 was \$2,805,410. As planned, the City transferred \$2,250,000 to the capital fund to create a separation of the operating and capital funds. The general fund balance at September 30, 2009 was \$680,988 compared to a \$522,310 operations component the previous year. This amount contains a non-binding endowment for fireworks display, contributed to from donations, of \$117,547.

Capital Improvement Fund - the capital fund received a transfer of \$2,590,609 of annexation fees which had previously been accounted for in general, water, and wastewater operating funds, and reported a fund balance at September 30, 2009 of \$2,765,587.

Expenses in both governmental funds were held below revenues to increase the fund balance in both. During the previous year, prior to the separation of these two government funds, the combined balance of both had increased over the previous year by \$411,934. During 2009, the combined fund balance increased by \$115,413, with the general fund's revenues over expenses of \$98,678 and the capital fund's revenues over expenses of \$16,735.

General Fund Budgetary Highlights

Due to the declining economy, the City of Hailey monitored its expenses to remain below revenues, which continued to decline throughout the fiscal year. The general fund revenues were \$241,472 less than budgeted. General fund expenses were held at \$400,150 less than budgeted, for a year-end excess in revenues over expenses of \$158,678.

Management's Discussion and Analysis, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009 the City had \$19,923,863 invested in capital assets (net of accumulated depreciation) compared to last year's \$19,888,751, an increase of \$35,112 compared to the previous year's increase of \$ 480,077. Net capital assets of governmental activities increased by \$ 721,480 and those of business-type activities decreased by \$686,368 in the current period.

The City investment in capital assets includes land, park improvements, automobiles and equipment and street lights, and sidewalks.

Long-Term Debt

The City has a 20-year sewer revenue bond of \$4.5 million, a long-term debt obligation through 2021. The current amount on the debt is \$3,298,596. The permanent financing of the Quigley Canyon water storage facility of \$ 2,400,000 was recorded and the balance on this 20 year DEQ loan is \$ 2,357,712. 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, 2010.

FY10 BUDGETARY CONSIDERATIONS

The City of Hailey bases the budget on a revenue analysis and projection. In a time of declining revenues, the city manages its general fund cash such that a minimum fund balance of 10% of budget is required to meet its obligations throughout the year, particularly in the first quarter of each year. Expenses will continue to be budgeted moderately as the minimum fund balance target is increased to 20% of budget to create emergency contingencies within the general fund.

Hailey achieved a planned separation of capital improvement funds from general operating funds during the 2009 year. This separation of funds has benefited the city in several ways: 1) operational revenue and expenses are tracked and monitored against their own cash flow; 2) capital projects are 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 have been discontinued; and 4) the financial position of the City of Hailey is stated more clearly in its financial reports. The city has begun earnest efforts to launch planned capital improvements by leveraging its capital improvement funds into grant matches for eligible grants. Hailey hopes to construct a fire station and refurbish, renovate, and redefine its facilities, parks, street and fleet through grants matched from the capital fund.

With reduced staff and resources, Hailey has focused on a grant effort for operational expenses as well, and will reopen its budget during 2010 to appropriate grants awarded to replace staff reduced or redirected due to economic impacts upon the city. Hailey continues to be challenged to find opportunities to control expenses in this economic climate, and find even more efficient ways of delivering services to its constituents.

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.