

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2010

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, 2010. 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, 2010 by \$22,281,749. Of this amount \$1,731,907 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2010 the City's total net assets decreased \$ 49,569. Net assets of the governmental activities increased \$ 293,353 and net assets of business type activities decreased \$ 342,922.
- Total fund balance of governmental funds at September 30, 2010 was \$6,785,134 compared to a total governmental fund balance at September 30, 2009 of \$3,446,575. This increase is due in large measure to proceeds of the sale of general obligation bonds to construct the Rodeo Park project in the amount of \$3,425,000.
- The City has \$8,889,384 in long-term debt, including debt still remaining on a water system loan, sewer revenue bond, general obligation bonds (Rodeo Park), 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, administration and community development, public safety and emergency services activities, and street maintenance, parks and library operations. The major business-type activities of the City include the water and wastewater systems.

### Fund Financial Statements

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

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

The City of Hailey has four governmental funds:

General Fund – The general 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, equipment, and assets. It is shown, in the financial statements, as a restricted fund, created in 2009 by the Hailey City Council. Following the acquisition or construction of major capital facilities, the capital assets then become depreciable assets in their respective General or Proprietary Funds.

Grants Fund – In 2010, the Hailey City Council established a Grant Fund, developed for the purpose of transparency and accountability in tracking city-wide grant programs, including grant revenues, in-kind and cash matches from appropriate city funds, and total grant expenditures. Each grant project is tracked separately within the fund, and the fund captures the entire grant program. At the end of each fiscal year the total revenues and expenses of each grant project are allocated to the respective General or Proprietary fund, where capital facilities become depreciable assets and operating programs developed through grants are either discontinued or absorbed into their proper department.

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

### Notes to the Financial Statements

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

## Management's Discussion and Analysis, Continued

### Required Supplementary Information

This section has information that further explains and supports the information in the financial statements by including a comparison of the City's 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>	<b><u>2008-2009</u></b>	<b><u>2009-2010</u></b>
Current and other Assets	\$ 9,118,153	\$ 12,405,017
Capital Assets – Net	<u>19,923,863</u>	<u>19,636,152</u>
Total Assets	29,042,016	32,041,169
<b>LIABILITIES</b>		
Current Liabilities	680,860	870,036
Long Term Liabilities	<u>6,029,835</u>	<u>8,889,384</u>
Total Liabilities	6,710,695	9,759,420
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Debt	14,123,880	10,988,165
Restricted	5,346,129	9,561,677
Unrestricted	<u>2,861,312</u>	<u>1,731,907</u>
Total Net Assets	<u>\$22,331,321</u>	<u>\$ 22,281,749</u>

### 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, 2010 by \$22,281,749, a decrease of \$49,569 over the previous year's net asset balance of \$22,331,321. Of this amount \$1,731,907 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$1,129,405 less than the previous year's unrestricted amount of \$2,861,312. The unrestricted net assets equal 7.8% of net assets. This decrease is due to the city having increased its bonded indebtedness, and restricted its assets in order to meet its debt obligations and complete capital projects of both the capital improvement and enterprise funds of the city.

The largest portion of the City's net assets, 49.1%, 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 book value by \$3,135,715, which sum is comprised largely of the bond proceeds not expended on the Rodeo Park project.

### Changes in Net Assets

During the year the City's financial position decreased by \$49,569, compared to the previous year ending September 30, 2009, during which the City's financial position decreased by \$1,775,598. The year prior to that, ending September 30, 2008, showed the City's financial position increasing by \$1,378,405. The 2008 and 2009 difference is 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 2009 financial statements.

## **Management's Discussion and Analysis, Continued**

### **Governmental Activities:**

Governmental activities increased the City's net assets by \$293,353, compared to the previous year's increase of \$1,137,195. During the 2009 fiscal year, Hailey received \$980,000 annexation fees and \$29,337 development impact fees. By comparison, in 2010 Hailey received only \$55,547 annexation fees, \$59,596 in lieu fees, and \$54,313 development impact fees. In both years, operational expenses were budgeted and managed such that they did not exceed operational revenues, a factor contributing to the decrease in governmental activities as general fund operational revenues continued to decline in the recessional economic climate.

### **Business-Type Activities:**

Business-type activities decreased net assets by \$342,922, compared to the previous year's decrease of \$2,912,793. The 2009 decrease was 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 for a water storage tank project constructed largely in 2007. The current year decrease results from \$ 697,378 of depreciation expense. When this depreciation is removed the City's water and wastewater systems had sufficient increases in cash to allow for debt service requirements.

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

### **Governmental Funds**

General Fund - The general fund balance at September 30, 2010 was \$711,388 compared to a \$680,988 operations component the previous year. This amount contains a non-binding endowment for fireworks display, contributed from donations, of \$106,175.

Capital Improvement Fund – The capital fund was established in fiscal year 2009 with 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, 2010 of \$2,532,244.

Debt Service Fund -- The debt service fund has been created to account for the bond proceeds of the Rodeo Park project. These bonds are general obligation and will be paid from the general funds of the City over the next ten years.

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

### **General Fund Budgetary Highlights**

Due to the recessionary nature of the 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 \$165,356 less than budgeted. General fund expenses were held at \$195,756 less than budgeted, for a year-end excess in revenues over expenses of \$ 30,400.

### **Capital Improvement Fund Budgetary Highlights**

Hailey launched two multi-million dollar capital projects in 2010, spending \$399,848 on the Rodeo Grounds Recreational Facilities Project in the design and construction start-up following voter approval of a general

## Management's Discussion and Analysis, Continued

obligation bond, and spending \$45,770 on design and engineering for the Woodside Boulevard Complete Streets Initiative Project, which was the subject of a grant application submitted in late 2010. In addition, capital funds were spent on irrigation system retrofits in two parks.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal year 2010 the City had \$19,636,152 invested in capital assets (net of accumulated depreciation) compared to last year's \$19,923,863, a decrease of \$287,711 compared to the previous year's increase of \$ 35,112. Net capital assets of governmental activities increased by \$ 115,095 and those of business-type activities decreased by \$402,806 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 \$3,088,427. The permanent financing of the Quigley Canyon water storage facility of \$2,400,000 has been recorded and the balance on this 20 year DEQ loan is \$ 2,271,208. The City sold general obligation bonds of \$3,425,000 at a premium of \$136,648 during the current year to finance the Rodeo Park project.

The City's maximum general obligation debt capacity is 2% of the taxable assessed value of properties within the city limits. At the end of September, 2010, the city's taxable assessed value was \$1,065,443,287. The 2% general obligation bond debt capacity of \$21,308,865 is now reduced by the outstanding new issue general bond obligation of \$3,425,000, leaving the City with a general obligation bond debt capacity remaining of \$17,883,865.

Hailey has met the principal and interest payments on outstanding bonds and other indebtedness in the past 10 years when due. Additionally, no refunding bonds have been issued for the purpose of preventing an impending default. Hailey's ability to pay its general obligation long-term debt is reliant on property tax payments. The top ten taxpayers within the City of Hailey comprise 7% of the total district taxpayers. They are:

#### City of Hailey Top Ten Taxpayer Accounts

<b>Taxpayer</b>	<b>Type of Business</b>	<b>Taxable Assessed Value</b>
Old Cutters Inc	Mixed residential subdivision	20,197,961
Power Engineers inc	Engineering firm	11,679,302
New Albertsons Inc	Grocery Store	7,675,085
711 North Main Street	North Hailey Business Center	7,472,910
Sweetwater Company LLC	Multi-family residential project	6,953,200
Spring Meadow LLC	Planned unit development	6,899,885
Wilderness LLC	Condominium development	6,587,000
Balmoral LP	Apartment Rentals	6,004,167
Alturas Partners	Property Development	5,895,570
Sprenger Grubb & Associates	Multi-family residential project	4,727,010
<b>Top 10 Taxpayers</b>	7%	84,092,090
All Other District Taxpayers	93%	981,351,197
<b>Total District Taxpayers 2010</b>	100%	1,065,443,287

## Management's Discussion and Analysis, Continued

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

### Assessed Market Values of Taxable Property and Tax Collection Record

Fiscal Year	Full Market Value	Homeowner's Exemption	Net Taxable Value	Tax Amount Levied	Tax Collected for previous year
Sept 30 2010	1,236,317,415	170,874,128	1,065,443,287	-	-
January 2010	1,460,667,411	181,921,576	1,278,745,835	1,925,951	1,789,714
January 2009	1,580,943,641	176,823,018	1,404,120,623	1,870,361	1,803,834
January 2008	1,590,462,395	155,321,416	1,435,140,979	1,812,638	1,721,818

There are overlapping taxing districts within the City have the statutory power to levy regular property taxes. Representative 2010 levy rates for each overlapping district from the County are listed below:

### City of Hailey Representative Levy Rates per \$1000 Taxable Market Value Tax Year 2010

Taxing District	Levy per \$1,000 Taxable Assessed Value
<b>City of Hailey Total</b>	<b>2.186094</b>
Hailey City	1.810794
Bond levy	0.375300
Blaine County	
Override	0.252431
Other levies	0.816461
Blaine County School District No. 61	3.602201
Ambulance	0.159092
Hailey Cemetery	0.092832
Blaine County Recreation District	0.100126

### FY10 BUDGETARY CONSIDERATIONS

The City of Hailey bases its operating budgets 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 needed to meet its obligations throughout the year, particularly in the first quarter of each year. Expenses will continue to be budgeted moderately as the fund balance target is increased to 20% of budget to create emergency contingencies within the general fund.

The enterprise fund budgets carry a significant cash reserve, which allows the city to adjust its user fees to a declining base rate and an increasing metered-usage rate. Having completed a meter-installation project and begun city-wide metered billing in October 2008, the city has since incrementally amended its rates to encourage water conservation and to afford users better personal management of their impact upon the city's water and sewer system and its budget. During the same time period as these new rate structures are progressively implemented, the enterprise fund expenses have been systematically reduced in an effort to hold overall costs as low as possible for rate payers.

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.

## **Management's Discussion and Analysis, Continued**

The city began earnest efforts in 2010 to launch planned capital improvements by leveraging its capital improvement funds into matching funds for eligible grants. Hailey achieved a 99% success rate on the grants for which it applied during calendar year 2010, and was able to leverage \$2 million in capital funds into \$6.3 million in capital projects through these grant awards. With reduced staff and resources, Hailey's grant effort has also focused on operational expense recovery and supplements through meaningful grants. In its 2011 budgeting process, Hailey adopted as part of its budget a Grant Fund, through which transparency and accountability within the grant program is monitored and by which the impact of the grant program can be clearly seen. The city tracks, through the grant fund, all of the grant revenue, as well as the city's in-kind contributions and its cash contributions, which are transferred to the grant fund monthly as an inter-fund receivable. All of the expenses are then captured by project within the grant fund, and at fiscal year end transferred out to the government fund or enterprise fund in which the grant activity or depreciable asset should reside.

Hailey has developed 2011 expense policies for its capital and grant projects as follows: All salary and fringe costs, as well as contractual and volunteer labor, materials, and equipment costs are captured through a project code as project expenses, from the project's conceptual inception to its completion. The project budget is developed, and identified by its predominant funding source as either a Capital Fund project or a Grant Fund project. Until a project is funded by the city governing body through an agreement, ordinance, resolution, or specific written approval by the grantor, all expenses except licensed contractual design and engineering costs procured solely for the project are spent from operating funds. Following the city governing body's approval of a funding agreement, ordinance, resolution, or upon receipt of specific written approval by the grantor, project costs, including city salary and fringe costs for applied project time, may be spent from the capital or grant fund.

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

### **Requests for Information**

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