

**CITY OF HAILEY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**September 30, 2006**

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, 2006. 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, 2006 by \$19,774,000. Of this amount \$6,091,410 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2006 the City's total net assets increased \$1,414,877. Net assets of the governmental activities increased \$881,036 and net assets of business type activities increased \$533,841.
- Total fund balance of governmental funds at September 30, 2006 was \$2,629,711 compared to a total governmental fund balance at September 30, 2004 of \$2,024,597.
- The City has \$4,594,892 in long term debt, down from \$5,055,422 the previous year. The debt consists of a sewer revenue bond, the Fox Building acquisition bond, equipment purchases of a fire truck and street grader, and accrued compensated absences. Hailey is allowed up to \$25,570,548 in bonded indebtedness (2% of its taxable assessed value).

### **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 vacation leave 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:

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 spendable 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 and funds the operations of the City.

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>	<b>2004-2005</b>	<b>2005-2006</b>
Current and Other Assets	8,349,067	9,251,745
Capital Assets	16,077,068	16,088,348
Total Assets	<u>24,426,135</u>	<u>25,340,093</u>
<b>LIABILITIES</b>		
Long-Term Liabilities	4,605,019	4,163,467
Other Liabilities	1,461,993	1,402,626
Total Liabilities	<u>6,067,012</u>	<u>5,566,093</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Debt	11,456,791	13,648,887
Restricted	3,002,731	33,703
Unrestricted	3,899,601	6,091,410
Total Net Assets	<u><u>18,359,123</u></u>	<u><u>19,774,000</u></u>

**Statement of Activities**  
**Fiscal Year 2006 as Compared to 2005**

	Governmental Activities		Business-Type Activities		Net Change in Primary Government
	FY 2005	FY 2006	FY 2005	FY 2006	
<b>Program Revenues</b>					
Dedicated Projects	361,400	473,672			112,272
Financial and Administrative	90,386	56,874			(33,512)
Planning and Zoning	63,033	78,605			15,572
Law Enforcement	216,272	230,918			14,646
Animal Control	20,630	28,136			7,506
Building Inspector	534,164	471,658			(62,506)
Streets	27,623	20,850			(6,773)
Library	18,027	17,307			(720)
Parks and Recreation	23,497	13,250			(10,247)
Fire Control	24,361	69,901			45,540
Water Revenue Fund			813,297	1,079,005	265,708
Sewer Revenue Fund			1,119,074	1,227,067	107,993
Water Replacement Fund			426,242	436,000	9,758
Sewer Replacement Fund			319,420	352,096	32,676
<b>General Revenues</b>					
Property Taxes	1,684,861	1,766,479			81,618
Local Option Taxes	-	92,719			92,719
Intergovernmental	912,673	1,061,739			149,066
Franchises	232,823	354,993	-	-	122,170
Investment Earnings & Misc	75,796	123,490	128,614	154,788	73,868
Total Revenues	<u>4,285,546</u>	<u>4,860,591</u>	<u>2,806,647</u>	<u>3,248,956</u>	<u>1,017,354</u>
<b>Program Expenses:</b>					
Dedicated Projects	23,058	-			(23,058)
Legislative	20,561	57,441			36,880
Chief Executive	61,648	71,313			9,665
Engineering	54,965	140,814			85,849
Financial and Administrative	165,063	174,864			9,801
Planning and Zoning	194,055	243,366			49,311
Law Enforcement	949,004	980,986			31,982
Animal Control	52,335	54,537			2,202
Building Inspector	135,235	156,015			20,780
Streets	873,022	870,353			(2,669)
Public Works	136,933	120,345			(16,588)
Library	347,582	419,027			71,445
Parks and Recreation	147,632	149,677			2,045
Fire Control	449,885	551,716			101,831
Bond Interest and Fees	15,527	10,591			(4,936)
Water Revenue Fund			888,661	1,187,409	298,748
Sewer Revenue Fund			1,374,308	1,435,030	60,722
Water Replacement Fund			71,082	(3,687)	(74,769)
Sewer Replacement Fund			91,847	74,872	(16,975)
Total Expenses	<u>3,626,505</u>	<u>4,001,045</u>	<u>2,425,898</u>	<u>2,693,624</u>	<u>642,266</u>
Net Transfer (In) Out		(21,491)		21,491	
Increase in Net Assets	659,041	881,037	380,749	533,841	1,659,620
Beginning Net Assets	6,160,733	6,819,774	7,370,567	11,539,349	

### **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, 2006 by \$19,774,000, an increase of \$1,414,877 over the previous year's net asset balance of \$18,359,123. Of this amount \$6,091,410 is unrestricted and available to meet the City's on-going obligations to citizens and creditors. Significantly more (\$2,191,809) than the previous year's unrestricted amount of \$3,899,601, the increase represents the fact that Hailey has discontinued reporting its water and wastewater replacement assets as restricted.

The largest portion of the City's net assets, 69%, 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 \$2,192,096, resulting from the annual pay-down of long term debt, and the completion of the water meter project system-wide.

Assets restricted to a particular use are less than 1% of net assets, and include required bond reserves.

Unrestricted net assets equal 31% of net assets. Some portion of the unrestricted net asset balance has been designated by the City Council for specific purposes, such as a fireworks endowment fund holding \$124,838 of the unrestricted funds, and a capital expansion fund holding unspent annexation fees from Airport West, Blaine County School District, and Little Indo of \$1,587,609.

### **Changes in Net Assets**

During the year the City's financial position increased by \$1,414,877, compared to the previous year's increase of \$1,039,790.

### **Governmental Activities:**

Governmental activities increased the City's net assets by \$881,036, compared to the previous year's \$659,041. Revenue increases were favorably affected by several grants, a newly instituted local option tax, a new cable franchise agreement which increased the franchise fee from 3% to 5%, and higher energy costs which increased franchise revenue from energy-related franchise agreements.

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

Business-type activities increased net assets by \$533,841, compared to the previous year's increase of \$380,749. Fees charged for new connections to pay for system replacement continue to exceed the replacement expenses. Water and waste water operating expenses exceeded operating revenues by \$316,367.

## **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, 2006 was \$2,484,639, a \$578,858 increase over the prior year's fund balance of \$1,905,78. The major factor increasing fund balance was an enhanced revenue stream including \$201,636 in grants, \$92,719 in local option taxes, and increases from 3% to 5% in a franchise revenue source. General departmental operating expenses increased by 9%, with 4% of that increase being tied to grant expenses.

The general fund balance is largely reserved for capital expansion needs.

### **General Fund Budgetary Highlights**

There were two amendments made to the appropriated budget during the fiscal year, both of which were to appropriate fund balance to accommodate costs.

The general fund revenue exceeded its budgeted revenue by \$1,014,75, which amount was impacted favorably by a high volume of construction activity, grants, park in lieu fees, increased energy costs with associate franchise fees, and state and local sales taxes.

General Fund expenses were \$401,771 under budget. This was largely due to delays in filling vacated staff positions, and construction timing of park projects spilling over from summer into fall, past the fiscal year end.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At the end of fiscal year 2006 the City had \$16,088,348 invested in capital assets (net of accumulated depreciation) compared to last year's \$16,077,068, an increase of \$11,280 compared to the previous year's increase of \$264,876. Net capital assets of governmental activities decreased by \$125,074 and those of business-type activities increased by 136,354.

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

The City booked \$245,554 in depreciation expense for governmental City functions (compared to the previous year's \$244,899) and \$613,632 for business-type activities (compared to the previous year's \$582,334).

### **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 \$3,883,453. A refunded amount of \$725,000 from a general obligation bond is an outstanding debt obligation through 2008, with current outstanding balance of \$370,000. The City has agreements with Wells Fargo Equipment Financing for purchase of a fire truck and a street grader. The city's sewer fund has a 10 year inter-fund debt obligation to the water replacement fund, initially a \$500,000 debt with current debt still due of \$198,651.

### **FY06 Budgetary Considerations**

The City of Hailey bases its budget on a revenue analysis and projection. Underlying all revenue projections for all funds is the assumption of continued growth in community development. Near the end of FY04 the City enacted new development fees which resulted in significantly defraying the rising cost of issuing development permits and conducting inspections. The increased revenue flow from development permits will help the city move away from its former practice of budgeting fund balance to cover operating expenses.

The passage of a Local Option Tax measure further solidified Hailey's ability to have sufficient operating revenue to cover operating expenses with little fund balance being appropriated for operations. LOT collections are highest from the tax on car rentals, then restaurant foods, then lodging, and lastly sale of alcohol by-the-drink. The effect of tourism and growth is also seen in the state sales tax revenue distribution to Hailey, which increased by 17%. Budgetary considerations include establishing a more costly level-of-service to accommodate tourism and growth within Hailey's operations, particularly in the areas of law enforcement, park maintenance, and street maintenance.

An increase in franchise fees tied to the higher cost of energy consumption as well as a higher rate on a non-energy franchise creates a budgeting opportunity to allocate a portion of franchise fees to energy reduction, in itself a cost-savings budgetary consideration.

Statutory limitations on property tax collections mean that in periods of rapid growth and inflation revenue does not keep up with the demand for services. The City has seen a decline in its ability to fund equipment replacement and capital infrastructure repair and replacement, and has therefore set goals to put in place development impact fees. These fees will function to fund the replacement portion of a city-wide Capital Improvement Plan, with annexation fees and grants funding expansion elements of the Plan.

### **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.