

CITY OF HAILEY
MANAGEMENT DISCUSSION AND ANALYSIS
September 30, 2005

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, 2005. 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, 2005 by \$18,359,123. Of this amount \$3,899,601 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2005 the City's total net assets increased \$1,039,790. Net assets of the governmental activities increased \$659,041 and net assets of business type activities increased \$380,749.
- Total fund balance of governmental funds at September 30, 2005 was \$2,024,597 compared to a total governmental fund balance at September 30, 2004 of \$1,612,940.
- The City has \$5,055,422 in long-term debt, including debt still remaining on a sewer revenue bond, the Fox Building acquisition bond, equipment purchases of fire trucks and street grader, 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 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 proprietary 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

ASSETS	2003-2004	2004-2005
Current and Other Assets	8,147,275	8,349,067
Capital Assets	15,812,192	16,077,068
Total Assets	23,959,467	24,426,135
LIABILITIES		
Long-Term Liabilities	4,967,286	4,605,019
Other Liabilities	1,672,848	1,461,993
Total Liabilities	6,640,134	6,067,012
NET ASSETS		
Invested in Capital Assets, Net of Debt	10,496,441	11,456,791
Restricted	2,982,985	3,002,731
Unrestricted	3,839,907	3,899,601
Total Net Assets	17,319,333	18,359,123

Statement of Activities
Fiscal Year 2005 as Compared to 2004

	Governmental Activities		Business-Type Activities		Net Change in
	FY 2004	FY 2005	FY 2004	FY 2005	Primary Government
Program Revenues					
Dedicated Projects	654,620	361,400			(293,220)
Financial and Administrative	72,906	90,386			17,480
Planning and Zoning	87,149	63,033			(24,116)
Law Enforcement	191,780	216,272			24,492
Animal Control	26,063	20,630			(5,433)
Building Inspector	399,590	534,164			134,574
Streets	532,436	311,144			(221,292)
Library	15,479	18,027			2,548
Parks and Recreation	11,669	23,497			11,828
Fire Control	11,316	24,361			13,045
Water Revenue Fund			990,688	813,297	(177,391)
Sewer Revenue Fund			1,044,068	1,119,074	75,006
Water Replacement Fund			398,093	426,242	28,149
Sewer Replacement Fund			281,016	319,420	38,404
General Revenues					
Property Taxes	1,629,411	1,684,861			55,450
Intergovernmental	535,070	629,152			94,082
Miscellaneous	243,174	308,619	76,072	128,614	117,987
Total Revenues	<u>4,410,663</u>	<u>4,285,546</u>	<u>2,789,937</u>	<u>2,806,647</u>	<u>(108,407)</u>
Program Expenses:					
Dedicated Projects	20,139	23,058			2,919
Legislative	17,887	20,561			2,674
Chief Executive	95,328	61,648			(33,680)
Engineering	47,635	54,965			7,330
Financial and Administrative	160,148	165,063			4,915
Planning and Zoning	186,260	194,055			7,795
Law Enforcement	879,691	949,004			69,313
Animal Control	50,736	52,335			1,599
Building Inspector	122,965	135,235			12,270
Streets	916,667	873,022			(43,645)
Public Works	104,998	136,933			31,935
Library	334,547	347,582			13,035
Parks and Recreation	116,158	147,632			31,474
Fire Control	365,744	449,885			84,141
Bond Interest and Fees	71,658	15,527			(56,131)
Water Revenue Fund			807,311	888,661	81,350
Sewer Revenue Fund			1,375,508	1,374,308	(1,200)
Water Replacement Fund			78,854	71,082	(7,772)
Sewer Replacement Fund			144,264	91,847	(52,417)
Total Expenses	<u>3,490,561</u>	<u>3,626,505</u>	<u>2,405,937</u>	<u>2,425,898</u>	<u>155,905</u>
Increase in Net Assets	920,102	659,041	384,000	380,749	47,498
Beginning Net Assets	<u>5,240,631</u>	<u>6,160,733</u>	<u>10,774,600</u>	<u>11,158,600</u>	
Ending Net Assets	<u><u>6,160,733</u></u>	<u><u>6,819,774</u></u>	<u><u>11,158,600</u></u>	<u><u>11,539,349</u></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, 2005 by \$18,359,123, an increase of \$1,039,790 over the previous year's net asset balance of \$17,319,333. Of this amount \$3,899,601 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, slightly more (\$59,604) than the previous year's unrestricted amount of \$3,839,907.

The largest portion of the City's net assets, 62.4%, 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 \$960,350, resulting from the annual pay-down of long term debt, and the cash purchase of equipment including 2 backhoes and the second half of the water meters for the Water Meter Project.

Assets restricted to a particular use are 16.4% of net assets, and include water and sewer capital replacement funds.

Unrestricted net assets equal 21.2% 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 \$119,495 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 \$1,039,790, compared to the previous year's increase of \$1,304,102.

Governmental Activities:

Governmental activities increased the City's net assets by \$659,041, compared to the previous year's \$920,102. Revenue increases were favorably affected by higher fees on development projects. The overall increase was less than the previous year during which the final annexation fees on the Airport West project were received.

Business-Type Activities:

Business-type activities increased net assets by \$380,749, compared to the previous year's increase of \$384,000. 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 \$279,310.

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, 2005 was \$1,905,781, a \$383,432 increase over the prior year's fund balance of \$1,522,349. The major factor increasing fund balance was a decrease in capital outlay expenses, which dropped by \$934,196 following the completion of the Street Shop Project and Fox Acres Road Highway Improvement project the previous year. General departmental operating expenses increased by 6.7%, except administrative expenses, which decreased by 14.3%.

The general fund balance is largely reserved for the Fireworks Endowment Fund and the Capital Expansion Fund.

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 \$371,066, of which \$361,400 was revenue from grants, fireworks donations, and park in lieu fees.

General Fund expenses were \$987,962 under budget. This was largely due to a delay in implementing the Woodside Central Park Capital Project to late summer, and no other capital project being undertaken.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2005 the City had \$16,077,068 invested in capital assets (net of accumulated depreciation) compared to last year's \$15,812,192, an increase of \$264,876 compared to the previous year's increase of \$1,028,690. Net capital assets of governmental activities decreased by \$147,398 and those of business-type activities increased by \$412,274).

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

The City booked \$244,899 in depreciation expense for governmental City functions (compared to the previous year's \$229,173) and \$582,334 for business-type activities (compared to the previous year's \$558,886).

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 \$4,065,000. A general obligation bond was recently refunded and the remaining \$725,000 is a debt obligation through 2008. The City has agreements with Wells Fargo Equipment Financing for purchase of 2 fire trucks and a street grader.

FY06 Budgetary Considerations

The City of Hailey bases the budget on a revenue analysis and projection. Underlying all revenue projections for all funds was 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 would solidify Hailey being able to have sufficient operating revenue to cover operating expenses without any fund balance being appropriated for operations.

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 within its boundaries, and has therefore set goals to put in place development impact fees. Hailey hopes to have development impact fee decisions in place prior to making budget allocations for FY 07.

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.