



CITY OF HAYDEN, IDAHO

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

City of Hayden
September 30, 2012

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Hayden
Hayden, ID 83835

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Hayden, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hayden's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Hayden, as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2013 on our consideration of the City of Hayden's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

August 9, 2013

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Hayden

STATEMENT OF NET ASSETS
September 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
ASSETS				
Cash	\$ 3,634,734	\$ -	\$ 3,634,734	\$ 992,697
Investments	1,083,839	4,120,307	5,204,146	-
Receivables	1,782,689	333,580	2,116,269	30,868
Other assets	47,511	-	47,511	935
Restricted cash and cash equivalents	53,155	-	53,155	-
Land	2,721,336	512,877	3,234,213	393,000
Fixed assets, net of depreciation	39,588,756	5,776,796	45,365,552	-
Total assets	<u>48,912,020</u>	<u>10,743,560</u>	<u>59,655,580</u>	<u>1,417,500</u>
LIABILITIES				
Accounts payable and accrued expenses	255,599	373,502	629,101	7,207
Deferred revenue	-	230,397	230,397	-
Surety deposits	16,058	-	16,058	-
Accrued interest payable	22,343	-	22,343	-
Noncurrent liabilities:				
Due within one year	62,073	-	62,073	-
Due in more than one year	887,631	-	887,631	-
Total liabilities	<u>1,243,704</u>	<u>603,899</u>	<u>1,847,603</u>	<u>7,207</u>
NET ASSETS				
Invested in capital assets, net of related debt	41,457,817	6,289,673	47,747,490	393,000
Restricted for capital improvements / expansion	2,132,353	718,886	2,851,239	1,017,293
Unrestricted	4,078,146	3,131,102	7,209,248	-
Total net assets	<u>\$ 47,668,316</u>	<u>\$ 10,139,661</u>	<u>\$ 57,807,977</u>	<u>\$ 1,410,293</u>

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

City of Hayden

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Primary government:			
Governmental activities:			
General government	\$ 1,326,052	\$ 108,058	\$ -
Public safety	342,915	474,258	-
Highways and streets	3,784,782	-	25,433
Recreation	307,104	-	-
Interest on long-term debt	29,816	-	-
Total governmental activities	5,790,669	582,316	25,433
Business-type activities:			
Sewer	1,977,301	2,099,313	-
Sewer expansion	437,187	515,198	-
Total business-type activities	2,414,488	2,614,511	-
Total primary government	\$ 8,205,157	\$ 3,196,827	\$ 25,433
Component unit:			
Hayden Urban Renewal Agency	\$ 40,584		
Total component unit	\$ 40,584		

General revenues:
 Property taxes
 Investment earnings
 Miscellaneous
 Intergovernmental revenue
 Impact fees
 Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

**Net (Expense) Revenue
and Changes in Net Assets**

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
\$ (1,217,994)	\$ -	\$ (1,217,994)	
131,343	-	131,343	
(3,759,349)	-	(3,759,349)	
(307,104)	-	(307,104)	
(29,816)	-	(29,816)	
<u>(5,182,920)</u>	<u>-</u>	<u>(5,182,920)</u>	
-	122,012	122,012	
-	78,011	78,011	
<u>-</u>	<u>200,023</u>	<u>200,023</u>	
<u>(5,182,920)</u>	<u>200,023</u>	<u>(4,982,897)</u>	
			<u>\$ 40,584</u>
			<u>40,584</u>
1,056,319	-	1,056,319	561,609
98,335	20,972	119,307	3,028
47,453	-	47,453	-
1,639,284	-	1,639,284	-
409,583	-	409,583	-
<u>3,250,974</u>	<u>20,972</u>	<u>3,271,946</u>	<u>564,637</u>
(1,931,946)	220,995	(1,710,951)	524,053
<u>49,600,262</u>	<u>9,918,666</u>	<u>59,518,928</u>	<u>886,240</u>
<u>\$ 47,668,316</u>	<u>\$ 10,139,661</u>	<u>\$ 57,807,977</u>	<u>\$ 1,410,293</u>

City of Hayden

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2012

	General	Public Works
ASSETS		
Cash and cash equivalents	\$ 1,360,181	\$ 330,055
Investments	836,920	246,919
Other receivables	223,222	156,629
Prepaid insurance	47,261	250
Taxes receivable	63,114	-
Restricted cash and cash equivalents	-	-
Total assets	\$ 2,530,698	\$ 733,853
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Vouchers payable	\$ 26,669	\$ 39,307
Accrued expenses	28,508	23,145
Other current liabilities	12,263	-
Deferred revenue	53,630	-
Surety deposits	16,058	-
Total liabilities	137,128	62,452
Fund balances:		
Nonspendable	47,261	250
Restricted	-	-
Assigned	-	671,151
Unassigned	2,346,309	-
Total fund balances	2,393,570	671,401
Total liabilities and fund balances	\$ 2,530,698	\$ 733,853

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

		2002		
Impact Fees	2004-1 LID	Consolidated LID		Total
\$ 1,944,498	\$ -	\$ -	\$	3,634,734
-	-	-		1,083,839
260,304	627,524	451,896		1,719,575
-	-	-		47,511
-	-	-		63,114
-	53,155	-		53,155
<u>\$ 2,204,802</u>	<u>\$ 680,679</u>	<u>\$ 451,896</u>		<u>\$ 6,601,928</u>
\$ 125,501	\$ 103	\$ -	\$	191,580
-	-	103		51,756
-	-	-		12,263
-	627,524	451,896		1,133,050
-	-	-		16,058
<u>125,501</u>	<u>627,627</u>	<u>451,999</u>		<u>1,404,707</u>
-	-	-		47,511
2,079,301	53,052	-		2,132,353
-	-	-		671,151
-	-	(103)		2,346,206
<u>2,079,301</u>	<u>53,052</u>	<u>(103)</u>		<u>5,197,221</u>
<u>\$ 2,204,802</u>	<u>\$ 680,679</u>	<u>\$ 451,896</u>		<u>\$ 6,601,928</u>

City of Hayden

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2012**

Total fund balances at September 30, 2012 - Governmental Funds		\$	5,197,221
Cost of capital assets at September 30, 2012	\$	87,550,117	
Less: Accumulated depreciation as of September 30, 2012			
Buildings and structures		(837,362)	
Equipment		(1,725,206)	
Infrastructure		<u>(42,677,457)</u>	42,310,092
Elimination of deferred revenue			1,133,050
Long-term liabilities at September 30, 2012			
Accrued interest		(22,343)	
Compensated absences		(97,429)	
Capital leases and long term debt		<u>(852,275)</u>	<u>(972,047)</u>
Net assets at September 30, 2012			<u>\$ 47,668,316</u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

City of Hayden

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS For the Year Ended September 30, 2012

	General	Public Works
REVENUES		
Taxes and special assessments	\$ 1,052,247	\$ -
Licenses and permits	229,203	245,055
Growth service fees	11,262	-
Grants	-	25,433
Intergovernmental revenue	953,398	685,886
Investment income	17,707	2,285
Charges for services	96,796	-
Fines and forfeits	38,982	-
Impact fees	-	-
Miscellaneous revenues	4,328	4,143
Principal payments on LID	-	-
Total revenues	2,403,923	962,802
EXPENDITURES		
General government	1,301,456	-
Public safety	335,231	-
Public works	-	1,576,228
Recreation	268,886	-
Capital expenditures	-	188,131
Debt service - principal retirement	3,746	65,171
Debt service - interest expense	171	1,118
Total expenditures	1,909,490	1,830,648
Excess (deficiency) of revenues over (under) expenditures	494,433	(867,846)
OTHER FINANCING SOURCES (USES)		
Debt proceeds	-	188,131
Transfers in	133,724	675,323
Transfers out	(675,323)	-
Total other financing sources (uses)	(541,599)	863,454
Net change in fund balances	(47,166)	(4,392)
Fund balances - beginning	2,440,736	675,793
Fund balances - ending	\$ 2,393,570	\$ 671,401

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

Impact Fees	2004-1 LID	2002 Consolidated LID	Total
\$ -	\$ -	\$ -	\$ 1,052,247
-	-	-	474,258
-	-	-	11,262
-	-	-	25,433
-	-	-	1,639,284
5,073	31,127	42,143	98,335
-	-	-	96,796
-	-	-	38,982
409,583	-	-	409,583
-	-	-	8,471
-	33,719	94,555	128,274
<u>414,656</u>	<u>64,846</u>	<u>136,698</u>	<u>3,982,925</u>
-	-	3,043	1,304,499
3,805	-	-	339,036
423,177	2,957	-	2,002,362
-	-	-	268,886
185,107	-	-	373,238
-	12,350	-	81,267
-	28,940	-	30,229
<u>612,089</u>	<u>44,247</u>	<u>3,043</u>	<u>4,399,517</u>
<u>(197,433)</u>	<u>20,599</u>	<u>133,655</u>	<u>(416,592)</u>
-	-	-	188,131
-	-	-	809,047
-	-	(133,724)	(809,047)
-	-	(133,724)	188,131
(197,433)	20,599	(69)	(228,461)
<u>2,276,734</u>	<u>32,453</u>	<u>(34)</u>	<u>5,425,682</u>
<u>\$ 2,079,301</u>	<u>\$ 53,052</u>	<u>\$ (103)</u>	<u>\$ 5,197,221</u>

City of Hayden

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2012

Total net changes in fund balances for year ended September 30, 2012	\$ (228,461)
Add: Capital outlay which is considered expenditures	1,161,194
Less: Depreciation expense for the year ended September 30, 2012	(2,646,587)
Elimination of interfund revenues and expenditures:	
Add: Interfund transfers out	809,047
Less: Interfund transfers in	(809,047)
Add: Debt principle payments considered as an expenditure	81,267
Add: Accrued interest expense	413
Add: Change in compensated absences	12,561
Less: Proceeds from issuance of debt	(188,131)
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	4,072
Less: Difference between revenue earned LID assessments on modified accrual basis versus revenue on LID's on accrual basis	<u>(128,274)</u>
Change in net assets for year ended September 30, 2012	<u><u>\$ (1,931,946)</u></u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

City of Hayden

STATEMENT OF NET ASSETS PROPRIETARY FUNDS September 30, 2012

	Sewer	Sewer Expansion	Total
ASSETS			
Current assets:			
Investments	\$ 3,345,468	\$ 774,839	\$ 4,120,307
Receivables	311,983	21,597	333,580
Total current assets	3,657,451	796,436	4,453,887
Noncurrent assets:			
Land	-	512,877	512,877
Capital assets	4,797,613	979,183	5,776,796
Total noncurrent assets	4,797,613	1,492,060	6,289,673
Total assets	8,455,064	2,288,496	10,743,560
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	295,952	77,550	373,502
Deferred revenue	230,397	-	230,397
Total current liabilities	526,349	77,550	603,899
Total liabilities	526,349	77,550	603,899
NET ASSETS			
Invested in capital assets (net of related debt)	4,797,613	1,492,060	6,289,673
Restricted for expansion	-	718,886	718,886
Unrestricted	3,131,102	-	3,131,102
Total net assets	\$ 7,928,715	\$ 2,210,946	\$ 10,139,661

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

City of Hayden

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS For the Year Ended September 30, 2012

	Sewer	Sewer Expansion	Total
OPERATING REVENUES			
Charges for services	\$ 2,099,313	\$ 515,198	\$ 2,614,511
Total operating revenues	2,099,313	515,198	2,614,511
OPERATING EXPENSES			
Personal services	98,102	-	98,102
Contractual services	1,700,533	413,096	2,113,629
Other services and charges	43,304	500	43,804
Depreciation	135,362	23,591	158,953
Total operating expenses	1,977,301	437,187	2,414,488
Operating income	122,012	78,011	200,023
NONOPERATING REVENUES			
Investment income	15,683	5,289	20,972
Total nonoperating revenues	15,683	5,289	20,972
Change in net assets	137,695	83,300	220,995
Total net assets - beginning	7,791,020	2,127,646	9,918,666
Total net assets - ending	\$ 7,928,715	\$ 2,210,946	\$ 10,139,661

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

City of Hayden

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended September 30, 2012

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,076,242	\$ 567,665	\$ 2,643,907
Payments to employees	(98,102)	-	(98,102)
Payments to suppliers	(1,454,303)	(466,982)	(1,921,285)
Net cash provided by operating activities	<u>523,837</u>	<u>100,683</u>	<u>624,520</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from interest	15,683	5,289	20,972
Purchase of securities	(1,699,487)	(105,972)	(1,805,459)
Net cash (used) by investing activities	<u>(1,683,804)</u>	<u>(100,683)</u>	<u>(1,784,487)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(412,463)	-	(412,463)
Net cash (used) by capital and related financing activities	<u>(412,463)</u>	<u>-</u>	<u>(412,463)</u>
Net (decrease) in cash and cash equivalents	(1,572,430)	-	(1,572,430)
Cash and cash equivalents, October 1, 2011	<u>1,572,430</u>	<u>-</u>	<u>1,572,430</u>
Cash and cash equivalents, September 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 122,012	\$ 78,011	\$ 200,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135,362	23,591	158,953
(Increase) in receivables	(23,071)	52,467	29,396
Increase in vouchers payable	289,534	(53,386)	236,148
Net cash provided by operating activities	<u>\$ 523,837</u>	<u>\$ 100,683</u>	<u>\$ 624,520</u>

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

City of Hayden

STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2012

	<u>Museum</u>
ASSETS	
Cash and cash equivalents	\$ 1,003
Total assets	<u>\$ 1,003</u>
LIABILITIES	
Held in trust for others - Museum	\$ 1,003
Total liabilities	<u>\$ 1,003</u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Hayden, Idaho is an incorporated City of the State of Idaho. The City of Hayden, Idaho (the "City") operates under a Mayor/Council form of government and provides the following services as authorized by state law and the Idaho Constitution: highways and streets, sewer, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

The more significant of the City's accounting policies are described below.

The City is governed by an elected Mayor and City Council. The City provides a wide range of municipal services. Sewer and sewer expansion services are provided by the City and are accounted for as enterprise funds.

The financial statements include all operations controlled by the City. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading.

Under Idaho Code, September 13, 2005, the Hayden City Council passed an ordinance which created the Hayden Urban Renewal Agency (the "Agency"), a legally separate entity from the City. The Agency was established to promote urban development and improvement in deteriorated or deteriorating areas around the City. A board of five directors, which are appointed by the Mayor and approved by the City Council, governs the Agency. The City Council has the ability to appoint, hire, reassign, or dismiss those persons having responsibility for the day-to-day operations of the Agency. These powers of the City meet the criteria set forth in GASB No. 14 for having financial accountability for the Agency. Based on the above, the Agency has been discretely presented in the accompanying financial statements of the City as a component unit.

Under Idaho Code, the Agency has the authority to issue bonds. Any bonds issued by the Agency are payable solely from the proceeds of tax increment financing, and are not a debt of the City. The City Council is not responsible for approving the Agency budget or funding any annual deficits. The Agency controls its disbursements independent of the City Council.

The Agency operates on a fiscal year basis. Complete financial statements of the Agency can be obtained directly from Hayden Urban Renewal Agency, 8930 N. Government Way, Hayden, ID 83835.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

The City reports the following major governmental funds:

General Fund – is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Works Fund – is used to administer the expenditure of resources on expansion and improvement of streets and parks.

Impact Fees Fund – Developmental impact fees are charged on new construction. The revenue generated from these fees will be used for capital improvements for Parks, Law Enforcement and Streets.

LID #2004-1 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID #2002 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

The City reports the following major proprietary funds:

Sewer Fund - The Sewer Fund accounts for the provision of wastewater services to individuals and commercial users. All activities necessary to provide such services are accounted for in this fund, including, (but not limited to) administration, operations, maintenance, financing, and related debt service.

Sewer Expansion Fund - The Sewer Expansion Fund accounts for capital expenditures necessary to update and expand the City's current sewer system. Activities necessary to provide sewer expansion are accounted for in this fund including, (but not limited to) administration, operations, financing and related debt service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the government's sewer and sewer expansion functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grant contributions, and (3) capital grants and contributions, including special assessments. Internally, dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and sewer expansion funds are charged to customers for sales and services. The sewer and sewer expansion funds also recognize as operating revenue the portion of capitalization fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. **Deposits and investments** – The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

For purposes of reporting cash flows, cash and cash equivalents include: Cash on hand, amount due from banks, and investments with maturities of less than 90 days. If maturity is greater than 90 days, some investments are classified as cash equivalents since they are part of the City's cash management activity, and readily convertible to known amounts of cash.

Investments - Investments are stated at fair value. Investments on hand at September 30, 2012 meet the guidelines as set by regulations of the State of Idaho.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, liabilities, and net assets or equity (Continued)

- 2. Receivables and payables** – Due to and From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Property Taxes – Property taxes are levied by the Kootenai County board of commissioners on the first Monday in September and become payable on December 20. Taxpayers may pay one-half on December 20, and the remaining half the following June 20. Property taxes are computed from levies and collections verified by inspection of records of the Kootenai County auditor's office. Kootenai County collects all property tax revenue for the City.

Kootenai County – Due from Kootenai County are taxes and other County collections allocable to the fiscal year ended September 30, 2012, which were collected and held by the County at September 30, 2012, but not yet remitted to the City until after September 30, 2012.

- 3. Prepaid items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 4. Capital assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City contracted with an independent appraisal firm to perform a complete inventory of fixed assets in December of 2007. Assets were valued at estimated historical costs, when original costs were not available. The City continues to update this inventory. Donated fixed assets are capitalized at fair value on the date donated. Assets valued at \$5,000 or more which have a useful life of more than one year are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, liabilities, and net assets or equity (Continued)

- 4. Capital assets (continued)** – Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Equipment	5-20
Infrastructure	30

- 5. Compensated absences** – Employees accumulate sick leave at the rate of ten hours per month. Sick leave can accrue to a maximum of 480 hours. Upon retirement, employees may convert up to one-half of their accrued sick leave into payments for medical insurance premiums.

Regular full time employees accrue vacation in the following manner:

1 – 3 years	12 days per year	8 hours per month
4 – 10 years	18 days per year	12 hours per month
11 or more years	24 days per year	16 hours per month

Part time employees accrue vacation on a prorated basis, i.e. 30 hours a week accrues 8 days per year, 6 hours a month for the first 1-3 years, etc. Vacation leave can only accrue to a 240 hour maximum. Unused vacation leave may be carried over from one calendar year to another as per the schedule below:

<u>Eligible for</u>	<u>Can Carry Over</u>
2 weeks	1 week
3 weeks	2 weeks
4 weeks	3 weeks

When an employee leaves employment with the City, he/she may be paid for any vacation time earned but not used.

- 6. Long-term obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.
- 7. Proprietary fund deferred revenues** – The City bills proprietary fund customers in advance of providing services. Accordingly deferred revenues in proprietary funds represent amounts billed to customers which have not yet been earned.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, liabilities, and net assets or equity (Continued)

8. **Fund balance** – The City has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (required implementation date of June 2011). This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the City to classify and report amounts in the appropriate fund balance classifications. The City's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned.

The City reports the following classifications:

Non-spendable Fund Balance — Non-spendable fund balances are amounts that cannot be spent because they are either: (a) not in spendable form—such as inventory or prepaid insurance, or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity.

Restricted Fund Balance — Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions are placed on fund balances when legally enforceable legislation establishes a specific purpose for the funds—such as the City's federal award revenue, which must be used to fund federally defined title programs. Legal enforceability means that the City can be compelled by an external party (e.g., citizens, public interest groups, the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance — Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the City Council. Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the City Council. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance — Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (a) the Director of Finance, or (b) an appointed body (e.g., a budget or finance committee) or official to which the City Council has delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned fund balance includes: (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted, or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, liabilities, and net assets or equity (Continued)

8. **Fund balance (continued) – Unassigned Fund Balance** — Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The City's policy is first use restricted fund balance, then committed, then assigned, then unassigned when any of the above fund balance are available to use to satisfy an obligation.

E. Budgets and budgetary accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to September 1, the administrator and directors, the mayor, and the City Council prepare a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the City Hall to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. The City Council by following the same budgetary procedures used to adopt the original budget may amend it to a greater amount if additional revenue will accrue to the City as a result of increases in state or federal grants or allocations, as a result of an increase in revenues from any source other than ad valorem tax revenues or as a result of an increase in enterprise funds to finance the operation and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges.
5. Budgets are prepared on the modified accrual basis of accounting.
6. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds and capital project funds.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 2: CASH AND INVESTMENTS

General:

State statutes authorize the City's investments and deposits. The City is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred during the year.

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the City's deposits and investments may not be returned to it. The carrying amount of the City's deposits and investments is \$8,893,038 and the bank balance is \$9,262,213. As of September 30, 2012, the City's deposits and investments were not exposed to custodial credit risk and were categorized as follows:

Deposits and investments without exposure to custodial credit risk:

Deposits:

Amount insured by FDIC	\$ 270,936
Amount collateralized with securities held in trust, but not in the City's name	3,787,131
Total	<u>4,058,067</u>

Investments:

Amount registered in the name of the City	5,204,146
Total	<u>5,204,146</u>

Total deposits and investments without exposure to custodial credit risk \$ 9,262,213

Credit risk:

Credit risk is the risk that a debtor will not fulfill its obligations. All of the above securities registered in the City's name carry a rating of AAA from Moody's and Standard and Poor's. The Idaho State Investment Pool does not have an established credit rating, but invests in entities with a minimum credit rating of "A" as stipulated by Idaho code.

Interest rate risk and concentration of credit risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Concentration of credit risk as defined by GASB exists when more than 5% of an investment portfolio is allocated to one security. As of September 30, 2012, the City had the following investments (and associated maturities) in its internal investment portfolio:

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The City does not have a policy for interest rate risk or concentration of credit risk, but does manage the portfolio to preserve the principal value. Additionally, the City carries an insurance policy, which guarantees that at a minimum, the City's initial investment will be returned. Since all of the City's cash needs cannot be anticipated, the above securities are traded in active secondary or resale markets.

Fair value:

Investment / Cusip #	Fair value	Maturity			
		Less than 2 years	2-5 years	6-10 years	10 years or more
<u>U.S. Agencies:</u>					
FNMA - 3136FTQ69	\$ 451,431	\$ -	\$ -	\$ -	\$ -
FNMA - 31398AUJ9	361,162	361,162	-	-	-
FNMA - 3136FTMQ9	430,636	-	430,636	-	-
FNMA - 31358C7U4	360,460	-	-	360,460	-
FHLB - 313376XX8	517,426	-	-	517,426	-
FHLB - 3133XVNT4	351,078	351,078	-	-	-
FHLB - 3133XYFC4	350,333	350,333	-	-	-
FHLMC - 3134G24F6	430,675	-	-	430,675	-
FHLMC - 3134G3FF2	335,781	-	-	335,781	-
FHLMC - 3134G3GW4	345,811	-	-	345,811	-
FHLMC - 3134G3QB9	431,754	-	-	431,754	-
FHLMC - 3134A4BQ6	424,802	-	-	424,802	-
FINANCING - 31771CT47	412,799	-	-	412,799	-
	<u>\$ 5,204,146</u>	<u>\$ 1,062,572</u>	<u>\$ 430,636</u>	<u>\$ 3,259,507</u>	<u>\$ -</u>

The securities registered in the City's name were purchased at a cost of \$5,000,000. The gain of \$204,146 (the difference between cost and fair value) has been recognized in the financial statements as investment income. \$38,110 relates to the current year.

The City's investments in 2a-7-like pools are valued based upon the value of pool shares. The City invests in one 2a-7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool is duly chartered and administered by the State Treasurer's office and consists of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The balances that the City has in the State Investment Pool are carried at its cost of \$3,287,264, which materially approximates fair market value. The City's portion of the State Investment Pool had an unrealized gain of \$8,270 at September 30, 2012, which has not been recognized in the financial statements.

The City considers funds held in the State Investment Pool to be cash equivalents, as the average maturity of the underlying securities is less than 90 days.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 3: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,372,312	\$ 349,024	\$ -	\$ 2,721,336
Total capital assets not being depreciated	<u>2,372,312</u>	<u>349,024</u>	<u>-</u>	<u>2,721,336</u>
Capital assets being depreciated:				
Buildings and improvements	2,886,945	22,385	-	2,909,330
Machinery and equipment	1,976,270	207,428	-	2,183,698
Infrastructure	79,153,396	582,357	-	79,735,753
Total capital assets being depreciated	<u>84,016,611</u>	<u>812,170</u>	<u>-</u>	<u>84,828,781</u>
Less accumulated depreciation for:				
Buildings	741,948	95,414	-	837,362
Equipment	1,617,479	107,727	-	1,725,206
Infrastructure	40,234,011	2,443,446	-	42,677,457
Total accumulated depreciation	<u>42,593,438</u>	<u>2,646,587</u>	<u>-</u>	<u>45,240,025</u>
Total capital assets being depreciated, net	<u>41,423,173</u>	<u>(1,834,417)</u>	<u>-</u>	<u>39,588,756</u>
Total assets, net	<u>\$ 43,795,485</u>	<u>\$ (1,485,393)</u>	<u>\$ -</u>	<u>\$ 42,310,092</u>
	Ending Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 512,877	\$ -	\$ -	\$ 512,877
Total capital assets not being depreciated	<u>512,877</u>	<u>-</u>	<u>-</u>	<u>512,877</u>
Capital assets being depreciated:				
Infrastructure	7,471,669	412,463	-	7,884,132
Total capital assets	<u>7,471,669</u>	<u>412,463</u>	<u>-</u>	<u>7,884,132</u>
Less accumulated depreciation for:				
Infrastructure	1,948,383	158,953	-	2,107,336
Total accumulated depreciation	<u>1,948,383</u>	<u>158,953</u>	<u>-</u>	<u>2,107,336</u>
Total capital assets being depreciated, net	<u>5,523,286</u>	<u>253,510</u>	<u>-</u>	<u>5,776,796</u>
Total assets, net	<u>\$ 6,036,163</u>	<u>\$ 253,510</u>	<u>\$ -</u>	<u>\$ 6,289,673</u>

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 3: CHANGES IN FIXED ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs for the primary government as follows:

Governmental activities:	
General government	\$ 53,411
Public safety	3,879
Highways and streets	2,499,679
Culture and recreation	89,618
Total depreciation expense- governmental activities	<u>\$ 2,646,587</u>
 Business-type activities:	
Sewer	\$ 158,953
Total depreciation expense- business type activities	<u>\$ 158,953</u>

NOTE 4: LONG-TERM DEBT

The City has one note payable to the Idaho Department of Rural Development. Proceeds from the note were used to finance construction costs related to the Government Way Project. The note has a fixed annual rate of 4.25% with payments due annually according to the following schedule:

Fiscal year ending September 30:	Total Payment	Interest	Principal
2013	\$ 41,290	\$ 28,415	\$ 12,875
2014	41,290	27,867	13,423
2015	41,290	27,297	13,993
2016	41,290	26,702	14,588
2017	41,290	26,082	15,208
2018-2022	206,450	120,149	86,301
2023-2027	206,450	100,185	106,265
2028-2032	206,450	75,599	130,851
2033-2037	206,450	45,328	161,122
2038-2039	123,770	9,816	113,954
	<u>\$ 1,156,020</u>	<u>\$ 487,440</u>	<u>\$ 668,580</u>

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 5: CAPITAL LEASES

Government Funds – The City has entered into equipment leases using governmental funds. These leases qualify as capital leases because ownership of the asset transfers to the City at the end of the lease. The leases carry interest at rates between 4% and 4.5%, and require annual principal payments. The leases are secured by the equipment, the cost of which is \$312,813. As of September 30, 2012, current year amortization of the leased assets totaled \$28,533 and is included in depreciation expense on the financial statements. The total accumulated depreciation is \$110,753.

Future minimum lease payments are as follows:

Less amount representing interest	(14,094)
Present value of capital leases	\$ 183,695

NOTE 6: CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2012, is as follows:

	Beginning 09/30/11	Additions	Deletions	Ending 09/30/12	Current Portion
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 109,990	\$ -	\$ 12,561	\$ 97,429	\$ -
Note payable - Rural Development	680,930	-	12,350	668,580	12,875
Capital leases	64,481	188,131	68,917	183,695	49,198
Total debt - Governmental activities	\$ 855,401	\$ 188,131	\$ 93,828	\$ 949,704	\$ 62,073

NOTE 7: ALLOWANCE FOR DOUBTFUL ACCOUNTS

Included in the Sewer Fund receivables is an allowance for doubtful accounts of \$39,202. This amount represents the value of accounts receivable which management believes will not be collected. Details are as follows:

Total sewer fund receivables	\$ 351,185
Allowance for doubtful accounts	(39,202)
Net realizable value	\$ 311,983

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 8: DEFINED BENEFIT PENSION PLAN

Public Employee Retirement System of Idaho (PERSI) - The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of the City of Hayden and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2012, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39%. The City of Hayden employer contributions required and paid were \$145,080, \$150,707 and \$144,139 for the three years ended September 30, 2012, 2011 and 2010, respectively.

NOTE 9: CONTINGENCIES

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement from grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City management believes such disallowances, if any, will be immaterial. The City is a party to legal actions arising in the ordinary course of its business. In management's opinion, the City has adequate legal defenses and/or insurance coverage regarding these legal actions and does not believe that they will materially affect the City's operations or financial position.

North Idaho Building Contractors, Termac Construction Inc. and John Does 1-50 have sued the City in a declaratory judgment action alleging the sewer capitalization fees paid for new connections to the City's wastewater collection are not legal, and have also alleged the fees are a taking. These allegations are not covered under the City's liability coverage. The City has hired outside legal counsel, Givens Pursley LLP. and the claims are being defended vigorously. The complaint does not specify a dollar amount. It does indicate the amount is in excess of \$25,000.

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 11: INTERFUND TRANSACTIONS

The following table describes transfers between the various funds:

<u>Description</u>	<u>General</u>	<u>Public Works</u>	<u>2002 Cons. LID</u>
To cover operating deficit in the Public Works Fund.	\$ (675,323)	\$ 675,323	\$ -
To reimburse general fund for payment of debt.	133,724	-	(133,724)
	<u>\$ (541,599)</u>	<u>\$ 675,323</u>	<u>\$ (133,724)</u>

NOTE 12: RESTRICTIONS ON NET ASSETS

Impact fees and are restricted by statute for future capital improvements. Net assets reported in the sewer expansion fund are also restricted to expenditure on expansion of the sewer.

NOTE 13: RESTRICTIONS ON CASH AND CASH EQUIVALENTS

The note payable to the Idaho Department of Rural Development requires a minimum of \$30,000 to be maintained in a separate bank account. The restricted cash and cash equivalents within the 2004-1 LID fund amount of \$53,155 represents the deposits the City has set aside to comply with this requirement.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

NOTE 14: COMPONENT UNIT DISCLOSURES

As disclosed in Note 1, the Hayden Urban Renewal Agency meets the criteria for discrete presentation in the City's financial statements as a component unit. The following paragraphs describe the significant transactions between the two entities and provide relevant disclosures related to the Agency.

Cash and Investments

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The carrying amount of the Agency's deposits is \$992,697 and the bank balance is \$994,096. As of September 30, 2012, \$201,598 of the Agency's bank balance was exposed to custodial credit risk, as this is the amount which exceeds FDIC insured limits.

Idaho State Code allows the Agency to invest idle monies in certain categories. No violations of those categories have occurred during the year.

Capital Assets

The following is a summary of fixed asset activity for the year ended September 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	<u>\$393,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,000</u>
Total	<u>\$393,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,000</u>

Transactions with primary government

During the fiscal year ending September 30, 2012, the Hayden Urban Renewal Agency paid the City of Hayden \$25,218 pursuant to a contract to provide administrative services for the Hayden Urban Renewal Agency. This amount is included in general government expenditures of \$34,128.

Commitments & Contingencies

The Agency is currently working with several interested parties on future urban development projects. None of these projects have been formalized and the Agency has not entered into any agreements to provide funding for these projects. It is anticipated that such projects will be funded through the Agency and tax increment financing in the future.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 14: COMPONENT UNIT DISCLOSURES (CONTINUED)Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Agency contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

An outside insurance company protects professional liability with a \$2,000,000 liability and a \$3,000,000 umbrella. Errors and omissions liability has a \$2,000,000 liability with \$2,000,000 in the aggregate annually per insured. Additionally, crime, boiler and machinery insurance is maintained. Automobile liability has a \$2,000,000 single limit of liability.

Restricted fund balance / net assets:

The Agency was established to promote urban development and improvement in and around the City of Hayden, however the funding received through tax increment revenues is restricted to specific geographic boundaries which are smaller than the geographic boundaries of the City of Hayden. Accordingly all fund balances / net assets reported as of September 30, 2012, are considered restricted. This is because the funding limitation comes from an legislation outside of the Agency's control, and the restriction indicates the funds are to be used for purposes which are less in scope than the overall purpose of the Agency.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

City of Hayden

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL For the Year Ended September 30, 2012

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes and special assessments	\$ 1,036,739	\$ 1,052,247	\$ 15,508
Licenses and permits	319,650	229,203	(90,447)
Growth service fees	66,000	11,262	(54,738)
Intergovernmental revenue	816,726	953,398	136,672
Investment income	32,000	17,707	(14,293)
Charges for services	86,530	96,796	10,266
Fines and forfeits	30,000	38,982	8,982
Miscellaneous revenues	41,070	4,328	(36,742)
Total revenues	<u>2,428,715</u>	<u>2,403,923</u>	<u>(24,792)</u>
EXPENDITURES			
General government	1,431,108	1,301,456	129,652
Public safety	342,439	335,231	7,208
Recreation	285,467	268,886	16,581
Debt service - principal retirement	3,583	3,746	(163)
Debt service - interest expense	334	171	163
Total expenditures	<u>2,062,931</u>	<u>1,909,490</u>	<u>153,441</u>
Excess of revenues over expenditures	<u>365,784</u>	<u>494,433</u>	<u>128,649</u>
OTHER FINANCING (USES)			
Contingency	(2,034,712)	-	2,034,712
Transfers in	136,450	133,724	(2,726)
Transfers out	(891,378)	(675,323)	216,055
Total other financing (uses)	<u>(2,789,640)</u>	<u>(541,599)</u>	<u>2,248,041</u>
Net change in fund balances	(2,423,856)	(47,166)	2,376,690
Fund balances - beginning	<u>2,426,856</u>	<u>2,440,736</u>	<u>13,880</u>
Fund balances - ending	<u>\$ 3,000</u>	<u>\$ 2,393,570</u>	<u>\$ 2,390,570</u>

* Budget was not amended

City of Hayden

PUBLIC WORKS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL For the Year Ended September 30, 2012

	*Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Licenses and permits	\$ 221,000	\$ 245,055	\$ 24,055
Grants	-	25,433	25,433
Intergovernmental revenue	646,817	685,886	39,069
Investment income	6,000	2,285	(3,715)
Miscellaneous revenues	3,000	4,143	1,143
Total revenues	<u>876,817</u>	<u>962,802</u>	<u>85,985</u>
EXPENDITURES			
Public works	2,096,422	1,576,228	520,194
Capital expenditures	-	188,131	(188,131)
Principal retirement	57,825	65,171	(7,346)
Interest expense	5,462	1,118	4,344
Total expenditures	<u>2,159,709</u>	<u>1,830,648</u>	<u>329,061</u>
(Deficiency) of revenues (under) expenditures	<u>(1,282,892)</u>	<u>(867,846)</u>	<u>415,046</u>
OTHER FINANCING SOURCES			
Debt proceeds	-	188,131	188,131
Transfers in	891,378	675,323	(216,055)
Total other financing sources	<u>891,378</u>	<u>863,454</u>	<u>(27,924)</u>
Net change in fund balances	(391,514)	(4,392)	387,122
Fund balances - beginning	<u>388,514</u>	<u>675,793</u>	<u>287,279</u>
Fund balances - ending	<u>\$ (3,000)</u>	<u>\$ 671,401</u>	<u>\$ 674,401</u>

* Budget was not amended

City of Hayden

IMPACT FEES FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL For the Year Ended September 30, 2012

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Impact fees	\$ 575,000	\$ 409,583	\$ (165,417)
Interest	6,150	5,073	(1,077)
Total revenues	<u>581,150</u>	<u>414,656</u>	<u>(166,494)</u>
EXPENDITURES			
Public works	1,787,351	423,177	1,364,174
Public safety	55,620	3,805	51,815
Recreation	217,703	-	217,703
Capital expenditures	951,000	185,107	765,893
Total expenditures	<u>3,011,674</u>	<u>612,089</u>	<u>2,399,585</u>
Excess of revenues over expenditures	<u>(2,430,524)</u>	<u>(197,433)</u>	<u>2,233,091</u>
Net change in fund balances	(2,430,524)	(197,433)	2,233,091
Fund balances - beginning	<u>2,430,524</u>	<u>2,276,734</u>	<u>(153,790)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,079,301</u>	<u>\$ 2,079,301</u>

* Budget was not amended

FINANCIAL SECTION

REPORT REQUIRED BY THE GAO

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Hayden
Hayden, ID 83835

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Hayden, as of and for the year ended September 30, 2012, which collectively comprise the City of Hayden's basic financial statements and have issued our report thereon dated August 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hayden's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hayden's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hayden's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hayden's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh, & Co., P.A.

August 9, 2013