

CITY OF HAYDEN

FINANCIAL STATEMENT
SEPTEMBER 30, 2015

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hayden, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Hayden's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Hayden's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hayden, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and GASB 68 schedules, as listed in the table of contents 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.

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hayden, City of City of Hayden's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016 on our consideration of 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* in considering City of Hayden's internal control over financial reporting and compliance.

Magnuson, McHugh & Company, P.A.

April 28, 2016

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Hayden

**STATEMENT OF NET POSITION
September 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
ASSETS				
Cash and cash equivalents	\$ 2,480,527	\$ 16,013	\$ 2,496,540	\$ 1,440,796
Investments	953,195	2,253,167	3,206,362	-
Receivables	1,179,694	689,313	1,869,007	18,904
Other assets	120,005	-	120,005	1,122
Restricted cash and cash equivalents	2,278,919	-	2,278,919	-
Land	3,057,745	512,877	3,570,622	1,010,120
Construction in progress	463,283	-	463,283	-
Fixed assets, net of depreciation	33,977,727	8,024,291	42,002,018	-
Total assets	<u>44,511,095</u>	<u>11,495,661</u>	<u>56,006,756</u>	<u>2,470,942</u>
DEFERRED OUTFLOWS OF RESOURCES				
Proportionate share of collective deferred outflows of resources	278,123	26,015	304,138	-
Total deferred outflows of resources	<u>278,123</u>	<u>26,015</u>	<u>304,138</u>	<u>-</u>
LIABILITIES				
Accounts payable and accrued expenses	193,632	2,480,041	2,673,673	33,563
Unearned revenue	-	292,383	292,383	-
Surety deposits	17,058	-	17,058	-
Accrued interest payable	32,466	-	32,466	-
Noncurrent liabilities:				
Due within one year	95,620	-	95,620	-
Due in more than one year	1,416,875	5,367,475	6,784,350	-
Net pension liability	595,265	55,681	650,946	-
Total liabilities	<u>2,350,916</u>	<u>8,195,580</u>	<u>10,546,496</u>	<u>33,563</u>
DEFERRED INFLOWS OF RESOURCES				
Proportionate share of collective deferred inflows of resources	383,955	35,915	419,870	-
Total deferred inflows of resources	<u>383,955</u>	<u>35,915</u>	<u>419,870</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	36,151,103	8,537,168	44,688,271	1,010,120
Restricted for capital improvements	2,247,943	-	2,247,943	1,427,259
Unrestricted	3,655,301	(5,246,987)	(1,591,686)	-
Total net position	<u>\$ 42,054,347</u>	<u>\$ 3,290,181</u>	<u>\$ 45,344,528</u>	<u>\$ 2,437,379</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, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Primary government:			
Governmental activities:			
General government	\$ 1,342,956	\$ 200,432	\$ -
Public safety	398,198	687,240	-
Highways and streets	4,279,754	-	300
Recreation	448,022	-	-
Interest on long-term debt	58,312	-	-
Change in net pension liability	104,281	-	-
Unallocated actual PERSI expense	(144,559)	-	-
Total governmental activities	6,486,964	887,672	300
Business-type activities:			
Sewer	2,387,567	2,537,649	-
Sewer expansion	5,638,402	1,098,840	-
Total business-type activities	8,025,969	3,636,489	-
Total primary government	\$ 14,512,933	\$ 4,524,161	\$ 300
Component unit:			
Hayden Urban Renewal Agency	\$ 492,757		
Total component unit	\$ 492,757		

General revenues:
Property taxes
Investment earnings
Miscellaneous
Intergovernmental revenue
Impact fees
Contributions
Capital contributed
Gain on sale of capital assets
Total general revenues

Change in net position
Net position - beginning
Prior period adjustment
Net position - ending

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

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

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
\$ (1,142,524)	\$ -	\$ (1,142,524)	
289,042	-	289,042	
(4,279,454)	-	(4,279,454)	
(448,022)	-	(448,022)	
(58,312)	-	(58,312)	
(104,281)	-	(104,281)	
144,559	-	144,559	
<u>(5,598,992)</u>	<u>-</u>	<u>(5,598,992)</u>	
-	150,082	150,082	
-	(4,539,562)	(4,539,562)	
<u>-</u>	<u>(4,389,480)</u>	<u>(4,389,480)</u>	
<u>(5,598,992)</u>	<u>(4,389,480)</u>	<u>(9,988,472)</u>	
			<u>\$ 492,757</u>
			<u>492,757</u>
1,220,230	-	1,220,230	560,388
104,639	50,700	155,339	5,602
42,568	-	42,568	100
1,801,874	-	1,801,874	-
444,793	-	444,793	-
16,596	-	16,596	-
463,283	-	463,283	-
78,112	-	78,112	-
<u>4,172,095</u>	<u>50,700</u>	<u>4,222,795</u>	<u>566,090</u>
(1,426,897)	(4,338,780)	(5,765,677)	73,333
44,222,619	9,677,542	53,900,161	2,364,046
<u>(741,375)</u>	<u>(2,048,581)</u>	<u>(2,789,956)</u>	<u>-</u>
<u>\$ 42,054,347</u>	<u>\$ 3,290,181</u>	<u>\$ 45,344,528</u>	<u>\$ 2,437,379</u>

City of Hayden

**BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2015**

	General	Public Works
ASSETS		
Cash and cash equivalents	\$ 1,747,769	\$ 679,819
Investments	953,195	-
Other receivables	254,442	210,252
Prepaid insurance	60,017	59,988
Taxes receivable	32,150	-
Restricted cash and cash equivalents	-	-
Total assets	\$ 3,047,573	\$ 950,059
LIABILITIES AND FUND BALANCES		
Vouchers payable	\$ 34,653	\$ 44,788
Accrued expenses	41,016	13,996
Other current liabilities	8,356	19,800
Surety deposits	17,058	-
Total liabilities	101,083	78,584
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	25,890	-
Unavailable revenue-special assessments	-	-
Total deferred inflows of resources	25,890	-
FUND BALANCES		
Nonspendable prepaid insurance	60,017	59,988
Restricted	-	-
Restricted - highway user	-	13,470
Assigned	-	798,017
Unassigned	2,860,583	-
Total fund balances	2,920,600	871,475
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,047,573	\$ 950,059

* Not a major fund

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

Impact Fees	LID 2004-1	LID 2002 Consolidated *	Total
\$ -	\$ -	\$ 52,939	\$ 2,480,527
-	-	-	953,195
-	518,855	163,995	1,147,544
-	-	-	120,005
-	-	-	32,150
2,136,984	141,935	-	2,278,919
<u>\$ 2,136,984</u>	<u>\$ 660,790</u>	<u>\$ 216,934</u>	<u>\$ 7,012,340</u>
\$ 30,929	\$ 47	\$ -	\$ 110,417
-	-	47	55,059
-	-	-	28,156
-	-	-	17,058
<u>30,929</u>	<u>47</u>	<u>47</u>	<u>210,690</u>
-	-	-	25,890
-	518,855	163,995	682,850
<u>-</u>	<u>518,855</u>	<u>163,995</u>	<u>708,740</u>
-	-	-	120,005
2,106,055	141,888	-	2,247,943
-	-	-	13,470
-	-	-	798,017
-	-	52,892	2,913,475
2,106,055	141,888	52,892	6,092,910
<u>\$ 2,136,984</u>	<u>\$ 660,790</u>	<u>\$ 216,934</u>	<u>\$ 7,012,340</u>

City of Hayden

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2015**

Total fund balances at September 30, 2015 - Governmental Funds		\$ 6,092,910
Cost of capital assets at September 30, 2015	\$ 90,459,158	
Less: Accumulated depreciation as of September 30, 2015		
Buildings and structures	(1,124,144)	
Equipment	(1,749,593)	
Infrastructure	<u>(50,086,666)</u>	37,498,755
Elimination of unavailable revenue		708,740
Long-term liabilities at September 30, 2015		
Accrued interest	(32,466)	
Compensated absences	(164,843)	
Capital leases and long term debt	<u>(1,347,652)</u>	(1,544,961)
Pension liabilities and deferred outflows of resources and deferred inflows of resources related to pensions:		
City's proportionate share of the net pension liability		(595,265)
Proportionate share of collective deferred outflows of resources		278,123
Proportionate share of collective deferred intflows of resources		<u>(383,955)</u>
Net position at September 30, 2015		<u><u>\$ 42,054,347</u></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, 2015

	General	Public Works
REVENUES		
Taxes and special assessments	\$ 1,212,618	\$ -
Licenses and permits	416,857	270,383
Growth service fees	43,607	-
Grants	-	300
Intergovernmental revenue	1,153,234	648,640
Interest income	20,381	1,815
Net increase (decrease) in the fair value of investments	25,510	4,592
Charges for services	156,825	-
Fines and forfeits	27,672	-
Impact fees	-	-
Contributions	-	16,596
Miscellaneous revenues	9,952	4,944
Special assessments payments	-	-
Total revenues	3,066,656	947,270
EXPENDITURES		
General government	1,644,448	-
Public safety	397,641	-
Public works	-	1,795,219
Recreation	350,202	-
Capital expenditures	-	723,338
Debt service - principal retirement	-	91,353
Debt service - interest expense	-	20,013
Total expenditures	2,392,291	2,629,923
Excess (deficiency) of revenues over (under) expenditures	674,365	(1,682,653)
OTHER FINANCING SOURCES (USES)		
Proceeds on capital financing	-	723,338
Sale of general capital assets	-	78,112
Transfers in	-	1,145,140
Transfers out	(1,067,040)	-
Total other financing sources (uses)	(1,067,040)	1,946,590
Net change in fund balances	(392,675)	263,937
Fund balances - beginning	3,313,275	607,538
Fund balances - ending	\$ 2,920,600	\$ 871,475

* Not a major fund

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

Impact Fees	LID 2004-1	LID 2002 Consolidated *	Total
\$ -	\$ -	\$ -	\$ 1,212,618
-	-	-	687,240
-	-	-	43,607
-	-	-	300
-	-	-	1,801,874
3,694	30,316	18,331	74,537
-	-	-	30,102
-	-	-	156,825
-	-	-	27,672
444,793	-	-	444,793
-	-	-	16,596
-	-	-	14,896
-	45,374	76,897	122,271
<u>448,487</u>	<u>75,690</u>	<u>95,228</u>	<u>4,633,331</u>
-	-	3,377	1,647,825
149	-	-	397,790
-	3,347	-	1,798,566
-	-	-	350,202
339,758	-	-	1,063,096
-	13,993	-	105,346
-	27,297	-	47,310
<u>339,907</u>	<u>44,637</u>	<u>3,377</u>	<u>5,410,135</u>
<u>108,580</u>	<u>31,053</u>	<u>91,851</u>	<u>(776,804)</u>
-	-	-	723,338
-	-	-	78,112
-	-	-	1,145,140
-	-	(78,100)	(1,145,140)
-	-	(78,100)	801,450
108,580	31,053	13,751	24,646
<u>1,997,475</u>	<u>110,835</u>	<u>39,141</u>	<u>6,068,264</u>
<u>\$ 2,106,055</u>	<u>\$ 141,888</u>	<u>\$ 52,892</u>	<u>\$ 6,092,910</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, 2015

Total net changes in fund balances for year ended September 30, 2015	\$ 24,646
Add: Capital outlay which is considered expenditures	1,490,189
Add: Capital contributions	463,283
Less: Depreciation expense for the year ended September 30, 2015	(2,709,115)
Elimination of interfund revenues and expenditures:	
Add: Interfund transfers out	1,145,140
Less: Interfund transfers in	(1,145,140)
Add: Debt principal payments considered as an expenditure	105,346
Less: Accrued interest expense	(11,002)
Add: Change in compensated absences	7,475
Less: Proceeds from capital financing	(723,338)
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	7,612
Less: Difference between revenue earned on special assessments on modified accrual basis versus revenue on special assessments on accrual basis	(122,271)
Add: Change in net pension liability	<u>40,278</u>
Change in net position for year ended September 30, 2015	<u><u>\$ (1,426,897)</u></u>

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

City of Hayden

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2015**

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 16,013	\$ -	\$ 16,013
Investments	2,013,562	239,605	2,253,167
Receivables	384,889	304,424	689,313
Total current assets	<u>2,414,464</u>	<u>544,029</u>	<u>2,958,493</u>
Noncurrent assets:			
Land	-	512,877	512,877
Capital assets, net of accumulated depreciation	<u>6,593,150</u>	<u>1,431,141</u>	<u>8,024,291</u>
Total noncurrent assets	<u>6,593,150</u>	<u>1,944,018</u>	<u>8,537,168</u>
Total assets	<u>9,007,614</u>	<u>2,488,047</u>	<u>11,495,661</u>
DEFERRED OUTFLOWS OF RESOURCES			
Proportionate share of collective deferred outflows of resources	<u>26,015</u>	<u>-</u>	<u>26,015</u>
Total deferred outflows of resources	<u>26,015</u>	<u>-</u>	<u>26,015</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	227,435	2,252,606	2,480,041
Unearned revenue	<u>292,383</u>	<u>-</u>	<u>292,383</u>
Total current liabilities	<u>519,818</u>	<u>2,252,606</u>	<u>2,772,424</u>
Non current liabilities:			
Capital advance DEQ	-	5,367,475	5,367,475
Net pension liability	<u>55,681</u>	<u>-</u>	<u>55,681</u>
Total non current liabilities	<u>55,681</u>	<u>5,367,475</u>	<u>5,423,156</u>
Total liabilities	<u>575,499</u>	<u>7,620,081</u>	<u>8,195,580</u>
DEFERRED INFLOWS OF RESOURCES			
Proportionate share of collective deferred inflows of resources	<u>35,915</u>	<u>-</u>	<u>35,915</u>
Total deferred inflows of resources	<u>35,915</u>	<u>-</u>	<u>35,915</u>
NET POSITION			
Invested in capital assets (net of related debt)	6,593,150	1,944,018	8,537,168
Unrestricted	<u>1,829,065</u>	<u>(7,076,052)</u>	<u>(5,246,987)</u>
Total net position	<u>\$ 8,422,215</u>	<u>\$ (5,132,034)</u>	<u>\$ 3,290,181</u>

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

City of Hayden

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 2,536,582	\$ 862,650	\$ 3,399,232
Miscellaneous	1,067	236,190	237,257
Total operating revenues	<u>2,537,649</u>	<u>1,098,840</u>	<u>3,636,489</u>
OPERATING EXPENSES			
Personal services	150,857	-	150,857
Contractual services	2,030,822	681,291	2,712,113
Other services and charges	56,412	-	56,412
Depreciation	139,721	84,626	224,347
Change in net pension liability	9,755	-	9,755
Total operating expenses	<u>2,387,567</u>	<u>765,917</u>	<u>3,153,484</u>
Operating income (loss)	<u>150,082</u>	<u>332,923</u>	<u>483,005</u>
NONOPERATING REVENUES (EXPENSE)			
Interest income	16,466	2,919	19,385
Net increase (decrease) in the fair value of investments	26,019	5,296	31,315
Proportionate share of HARSB waste water project	-	(4,872,485)	(4,872,485)
Total nonoperating revenues (expenses)	<u>42,485</u>	<u>(4,864,270)</u>	<u>(4,821,785)</u>
Change in net position	192,567	(4,531,347)	(4,338,780)
Total net position - beginning	8,298,996	1,378,546	9,677,542
Prior period adjustment	(69,348)	(1,979,233)	(2,048,581)
Total net position - ending	<u>\$ 8,422,215</u>	<u>\$ (5,132,034)</u>	<u>\$ 3,290,181</u>

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, 2015

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,485,627	\$ 832,463	\$ 3,318,090
Payments to employees	(164,379)	-	(164,379)
Payments to suppliers	(2,032,788)	(681,291)	(2,714,079)
Net cash provided by operating activities	<u>288,460</u>	<u>151,172</u>	<u>439,632</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from interest	42,485	8,215	50,700
Purchase of securities	(307,241)	132,891	(174,350)
Net cash provided (used) by investing activities	<u>(264,756)</u>	<u>141,106</u>	<u>(123,650)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from DEQ note	-	5,149,675	5,149,675
Proportionate share of HARSB waste water project	-	(4,872,485)	(4,872,485)
Purchase of capital assets	(29,626)	(787,268)	(816,894)
Net cash (used) by capital and related financing activities	<u>(29,626)</u>	<u>(510,078)</u>	<u>(539,704)</u>
Net (decrease) in cash and cash equivalents	(5,922)	(217,800)	(223,722)
Cash and cash equivalents, beginning	21,935	217,800	239,735
Cash and cash equivalents, ending	<u>\$ 16,013</u>	<u>\$ -</u>	<u>\$ 16,013</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 150,082	\$ 332,923	\$ 483,005
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	139,721	84,626	224,347
(Increase) in receivables	(52,022)	(266,377)	(318,399)
Decrease in vouchers payable	54,446	-	54,446
Change in net pension liability	(3,767)	-	(3,767)
Net cash provided by operating activities	<u>\$ 288,460</u>	<u>\$ 151,172</u>	<u>\$ 439,632</u>

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

City of Hayden

STATEMENT OF FIDUCIARY NET POSITION
September 30, 2015

	<u>Museum</u>
ASSETS	
Cash and cash equivalents	\$ 1,008
Total assets	<u>\$ 1,008</u>
LIABILITIES	
Held in trust for others - Museum	\$ 1,008
Total liabilities	<u>\$ 1,008</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, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hayden 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. During the year ended December 31, 2015 the City implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*.

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.

B. Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The city at this time does not report internal service funds.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 Consolidated – 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.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Fund Financial Statements (Concluded)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in the governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

The 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 City 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Concluded)

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 water, wastewater and sanitation funds are charges to customers for sales and services. The water and sewer fund also recognize as operating revenue the portion of cap 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.

E. 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 year end meet the guidelines as set by regulations of the State of Idaho.

F. 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, 2015, which were collected and held by the County at September 30, 2015, but not yet remitted to the City until after September 30, 2015.

G. 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.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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.

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

I. Compensated Absences

The City's policy permits employees to accumulate earned but unused paid time off (PTO) benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

J. 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 position.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred outflows relating to the accounting for the net pension obligation on the government-wide statement of net position, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has one type of item, which arises under full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, proportionate share of collective deferred inflows of resources, is reported only on the government-wide and proprietary funds statement of net position. The government-wide and proprietary statement of net position reports proportionate share of collective deferred inflows of resources from one source: accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

L. 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.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balance (Concluded)

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 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.

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.

M. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

N. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. 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.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from the Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

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 \$7,982,829 and the bank balance is \$8,029,236. As of September 30, 2015, the City's deposits and investments were not exposed to custodial credit risk and were categorized as follows:

Deposits without exposure to custodial credit risk:

Deposits:	
Amount insured by FDIC	\$ 250,000
Amount collateralized with securities held in trust, but not in the City's name	4,572,874
Total	4,822,874
Investments:	
Amount registered in the name of the City	3,206,362
Total deposits without exposure to custodial credit risk	3,206,362
Total deposits and investments without exposure to custodial credit risk	\$ 8,029,236
Statement of net position	
Cash and cash equivalents	\$ 2,496,540
Investments	3,206,362
Restricted cash and cash equivalents	2,278,919
Total	7,981,821
Statement of fiduciary net position	
Cash and cash equivalents	1,008
Total	1,008
Total carrying amount deposits and investments	\$ 7,982,829

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.

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

Interest rate risk and concentration of credit risk:

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.

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, 2015, the City had the following investments (and associated maturities) in its internal investment portfolio:

Fair value:

Maturity	Investment / Cusip #	Fair value	Maturity			
			Less than 2 years	2-5 years	6-10 years	10 years or more
<u>U.S. Agencies:</u>						
1/15/2021	FFCB - 3133ECCU6	\$ 398,756	\$ -	\$ -	\$ -	\$398,756.00
2/14/2023	FFCB - 3133ECFH2	403,830	-	-	-	403,830
5/2/2022	FFCB - 3133ECNG5	392,278	-	-	-	392,278
7/13/2023	FFCB - 3133EE3G3	302,589	-	-	-	302,589
8/5/2024	FFCB - 3133EE6B1	302,214	-	-	-	302,214
4/29/2020	FHLB - 3133814M4	390,269	-	-	-	390,269
11/21/2019	FNMA - 3136G04P3	385,508	-	-	-	385,508
12/27/2018	FNMA - 3136G16A2	335,630	-	-	-	335,630
		<u>\$ 2,911,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,911,074</u>

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 Idaho State Investment Pool are carried at its cost of \$4,228,003, which materially approximates fair market value. The City's portion of the Idaho State Investment Pool had an unrealized gain of \$3,805 at September 30, 2015, which has not been recognized in the financial statements.

The City considers funds held in the Idaho 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, 2015

NOTE 3: ALLOWANCE FOR DOUBTFUL ACCOUNTS

Included in the Sewer Fund receivables is an allowance for doubtful accounts of \$41,252. This amount represents the value of accounts receivable which management believes will not be collected. Details are as follows:

Total sewer fund receivables	\$	426,141
Allowance for doubtful accounts		<u>(41,252)</u>
Net realizable value	\$	<u><u>384,889</u></u>

NOTE 4: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2015:

	<u>LIC 2004-1</u>	<u>LID 2002</u>	<u>Total</u>
Beginning Assessment - principal	\$ 724,000	\$ 47,000	\$ 771,000
Assessments collected - principal*	<u>176,000</u>	<u>6,000</u>	<u>182,000</u>
Ending Assessments - principal**	<u><u>\$ 548,000</u></u>	<u><u>\$ 41,000</u></u>	<u><u>\$ 589,000</u></u>
Delinquent amounts	\$ 35,000	\$ 5,000	\$ 41,000
Guarantee/Reserve funds	\$ 243,000	\$ 16,000	\$ 26,000

*Installment payment of principal and interest due from property owners are billed annually.

**Principal amounts are deferred amounts not currently due, but due at a future date.

Note: Please see Note 6 for long-term debt breakdown associated with the above assessments.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Additions	Deletions	Adjustment	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 2,729,193	\$ 328,552	\$ -	\$ -	\$ 3,057,745
Construction in process	-	463,283			463,283
Total capital assets not being depreciated	<u>2,729,193</u>	<u>791,835</u>	<u>-</u>	<u>-</u>	<u>3,521,028</u>
Capital assets being depreciated:					
Buildings and improvements	2,952,475	63,250	-	-	3,015,725
Machinery and equipment	2,364,483	816,155	360,145	-	2,820,493
Infrastructure	80,819,680	282,232	-	-	81,101,912
Total capital assets being depreciated	<u>86,136,638</u>	<u>1,161,637</u>	<u>360,145</u>	<u>-</u>	<u>86,938,130</u>
Less accumulated depreciation for:					
Buildings	1,028,196	95,948	-	-	1,124,144
Equipment	1,931,681	178,057	360,145	-	1,749,593
Infrastructure	47,651,556	2,435,110	-	-	50,086,666
Total accumulated depreciation	<u>50,611,433</u>	<u>2,709,115</u>	<u>360,145</u>	<u>-</u>	<u>52,960,403</u>
Total capital assets being depreciated, net	<u>35,525,205</u>	<u>(1,547,478)</u>	<u>-</u>	<u>-</u>	<u>33,977,727</u>
Total assets, net	<u>\$ 38,254,398</u>	<u>\$ (755,643)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,498,755</u>

	Beginning Balance	Additions	Deletions	Adjustment	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>-</u>	<u>512,877</u>
Capital assets being depreciated:					
Infrastructure	10,101,363	650,176	-	-	10,751,539
Total capital assets	<u>10,101,363</u>	<u>650,176</u>	<u>-</u>	<u>-</u>	<u>10,751,539</u>
Less accumulated depreciation for:					
Infrastructure	2,502,901	224,347	-	-	2,727,248
Total accumulated depreciation	<u>2,502,901</u>	<u>224,347</u>	<u>-</u>	<u>-</u>	<u>2,727,248</u>
Total capital assets being depreciated, net	<u>7,598,462</u>	<u>425,829</u>	<u>-</u>	<u>-</u>	<u>8,024,291</u>
Total assets, net	<u>\$ 8,111,339</u>	<u>\$ 425,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,537,168</u>

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

Governmental activities:	
General government	\$ 53,784
Public safety	408
Highways and streets	2,557,103
Culture and recreation	97,820
Total depreciation expense- governmental activities	<u>\$ 2,709,115</u>
Business-type activities:	
Sewer	\$ 224,347
Total depreciation expense- business type activities	<u>\$ 224,347</u>

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 6: 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
2016	\$ 41,290	\$ 26,702	\$ 14,588
2017	41,290	26,082	15,208
2018	41,290	25,436	15,854
2019	41,290	24,762	16,528
2020	41,290	24,060	17,230
2021-2025	206,450	108,672	97,778
2026-2030	206,450	86,051	120,399
2031-2035	206,450	58,197	148,253
2036-2040	206,350	23,899	182,451
	\$ 1,032,150	\$ 403,861	\$ 628,289

NOTE 7: DEQ LOAN ADVANCE

For the year ended September 30, 2015 the City reports in the Sewer Expansion Fund accounts payable to HARSB of \$1,823,237. The funds to satisfy the HARSB payable will be from the DEQ financing. These capital advances will be secured by a promissory note or bond in the amount of \$8,777,754. The promissory note or bond will be issued upon project completion.

At September 30, 2015 the City has received \$5,367,475 from DEQ and is reported as a non-current liability.

NOTE 8: 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 2.8% and 4.5%, and require annual principal payments. The leases are secured by the equipment, the cost of which is \$965,545. As of September 30, 2015, current year amortization of the leased assets totaled \$109,925 and is included in depreciation expense on the financial statements. The total accumulated depreciation is \$224,056.

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 8: CAPITAL LEASES (CONCLUDED)

Future minimum lease payments are as follows:

2016	\$ 100,015
2017	59,989
2018	59,989
2019	565,442
Total	785,433
Less amount representing interest	(66,070)
Present value of capital leases	\$ 719,363

NOTE 9: CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2015, is as follows:

	Beginning 09/30/14	Additions	Deletions	Ending 09/30/15	Current Portion
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 172,318	\$ -	\$ 7,475	\$ 164,843	\$ -
Note payable - Rural Development	642,282	-	13,993	628,289	14,588
Capital leases	87,378	723,338	91,353	719,363	81,032
Total debt	\$ 901,978	\$ 723,338	\$ 112,821	\$ 1,512,495	\$ 95,620
	Beginning 09/30/14	Additions	Deletions	Ending 09/30/15	Current Portion
BUSINESS-TYPE ACTIVITIES					
Capital advance DEQ	\$ 217,800	\$ 5,149,675	\$ -	\$ 5,367,475	\$ -
Total debt	\$ 217,800	\$ 5,149,675	\$ -	\$ 5,367,475	\$ -

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Hayden contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Employee membership data related to the PERSI Base Plan, as of June 30, 2015 was as follows:

Retirees and beneficiaries receiving benefits	42,657
Terminated employees entitled to but not yet receiving benefits	11,859
Active plan members	67,008
	<u>121,524</u>

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. Amounts in parenthesis represent police/firefighters.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% (72%) of the employer rate. As of June 30, 2015 it was 6.79% (8.36%). The employer contribution rate is set by the Retirement Board and was 11.32% (11.66%) of covered compensation. The City of Hayden's contributions were \$158,081 for the year ended September 30, 2015.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the City of Hayden reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Hayden's proportion of the net pension liability was based on the City of Hayden's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At July 1, 2015, the City of Hayden's proportion was 0.0494326 percent.

For the year ended September 30, 2015, the City of Hayden recognized pension expense of \$114,037. At September 30, 2015 the City of Hayden reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 239,567	\$ 78,035
Changes of assumptions	23,706	-
Net difference between projected and actual earnings on pension plan investments	-	341,835
City of Hayden's contributions subsequent to the measurement date	40,865	-
Total	\$ 304,138	\$ 419,870

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$40,865 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2014 the beginning of the measurement period ended June 30, 2015 is 5.5 years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended June 30:

2016	\$ (66,773)
2017	\$ (66,773)
2018	\$ (66,773)
2019	\$ 48,466
2020	\$ (4,742)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.5-10.25%
Salary inflation	3.75%
Investment rate of return	7.1%, net of investment expenses
Cost of Living (COLA) adjustments	1.00%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

An experience study was performed in 2012 for the period July 1, 2007 through June 30, 2011 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2015 is based on the results of an actuarial valuation date of July 1, 2015.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2014.

Asset Class	Index	Target Allocation	Long-Term Expected Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Wilshire 5000 / Russell 3000	55.00%	6.90%
Developed Foreign Equities	MSCI EAFE	15.00%	7.55%
Assumed Inflation - Mean			3.25%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.42%
Portfolio Long-Term Expected Rate of Return			7.50%
Assumed Investment Expenses			0.40%
Long-Term Expected Rate of Return, Net of investment expenses			<u>7.10%</u>

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's net pension liability (asset)	\$ 1,585,470	\$ 650,947	\$ (125,985)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the pension plan

At September 30, 2015, the City of Hayden reported no material payables to the defined benefit pension plan for legally required employer contributions. The employer also reported no material payables for legally required employee contributions withheld from employee wages but not yet remitted to PERSI.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 11: COMMITMENTS AND 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.

The City is in litigation with North Idaho Business Contractors Association, et al. (NIBCIA). The City's management and legal counsel has determined that an unfavorable outcome is "reasonably possible" and, if it occurred could be material to the City. The amount of the loss cannot be reasonably estimated at this time.

Wastewater Treatment Plant Upgrade and Expansion

By a Joint Powers Agreement between the City, the Hayden Lake Recreational Water and Sewer District and Kootenai County Airport the Hayden Area Regional Sewer Board (HARSB or the Board was created. HARSB was formed to construct and operate the sewage collection and treatment system. The sewer treatment system serves the County airport, Hayden Lake Recreational Water and Sewer District, and the City of Hayden. The City, District and County each appoint representatives to the Board of Directors of HARSB.

HARSB was originally organized to perform administrative, billing, maintenance, etc. of the system. Expenses paid by HARSB are reimbursed by the entities when they are billed. Individual audited financial statements are available from each entity.

The Board has been engaged in an ongoing matter with the Idaho Department of Environmental Quality (IDEQ) regarding obtaining a renewed 401 Certification and resulting NPDES permit. The IDEQ has mandated significantly more stringent requirements related to the allowable Total Maximum Daily Load (TMDL) that the Board may discharge into the Spokane River. Noncompliance with these water quality standards would result in substantial and unsustainable fines by imposed by regulators, and would have a detrimental impact on the Board's finances and its ability to provide wastewater treatment services to its constituents.

In order to meet the revised TMDL limits as set forth by regulators and avoid such unsustainable financial penalties, the Board began to move forward with major wastewater treatment plant improvement and expansion plans in fiscal 2013, with construction starting in fiscal 2014. Accordingly, in November of 2012, the Board adopted a Facility Master Plan, which has served as a roadmap to bring the Board into compliance with the cleaner water quality standards mandated by the new permit. The final permit was issued in early fiscal 2015 and contained specific measurable compliance milestones over a 10 year period that the Board must meet with respect to water quality standards as set forth in the permit.

The Board's ability to successfully meet these requirements and avoid potential fines is dependent upon the Joint Powers Board members' ability to obtain the financing to pay for the necessary plant improvements as well as its ability to manage the phases of the upgrade and expansion project to completion in an effective and efficient manner so as to timely meet the agreed-upon compliance milestones.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 11: COMMITMENTS AND CONTINGENCIES (CONCLUDED)

Wastewater Treatment Plant Upgrade and Expansion (Concluded)

In addition to the regulatory upgrades as discussed above, certain components of the existing treatment facility are in need of replacement due to obsolescence, wear, safety, overload and operating beyond the design life. A third component of the Facility Master Plan consists of expansion of existing capabilities to meet anticipated future needs due to growth.

Construction Commitments

The Board is currently committed to only Phase 1 of the Facility Master Plan, which is budgeted at approximately \$15,821,000 total costs to complete. Of this amount, approximately \$10,426,000 is related to replacement and regulatory upgrades, with the remaining \$5,395,000 in costs for expansion. As of the fiscal year-ended September 30, 2015, costs incurred to date on Phase 1 were \$13,178,453. Phase 1 is expected to span from fiscal years 2013 through 2017.

Phase 2 of the Plan, which will complete the current draft permit regulatory and facility replacement requirements, is estimated to cost \$16,680,000 and is expected to begin in 2017 and to be completed by 2023.

Financing of the Facility Master Plan

Each member of the Joint Powers Board is responsible for financing its share of the replacement and regulatory upgrade portion of the construction project. Each member's share of the costs was determined based upon the proportionate share of committed ER's as of January 1, 2013. The expansion portion of the costs are to be shared only by HARSB and the City of Hayden as agreed upon between the two parties, as the other Joint Powers Board members do not have need for additional future capacity.

During the year ended September 30, 2015, the City of Hayden and the Hayden Lake Recreational Water and Sewer District both successfully obtained financing through the DEQ for their share of the construction costs, which allowed for Phase 1 of the project to progress.

Accounting Treatment

HARSB is responsible for paying construction costs as incurred, and subsequently invoices the members of the Joint Powers Board for their respective allocated share of the costs. Accordingly, as of September 30, 2015, the Board has combined net receivable of \$1,942,815 due from the entities for reimbursement of Phase 1 costs expended. The amounts contributed by the Joint Powers Board members are being accounted for as a non-operating contribution of capital to HARSB. The amount of non-operating contributed capital recognized by HARSB related to the project for the year ended September 30, 2015 is \$6,275,382.

NOTE 12: 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, 2015**

NOTE 13: NEGATIVE NET POSITION

Fund	Deficit
Proprietary Fund:	
Sewer Expansion	<u>\$ 5,132,034</u>

Management is aware of these deficits and is taking appropriate action.

NOTE 14: INTERFUND TRANSACTIONS

Interfund transfers as of September 30, 2015:

	Transfers in	Transfers out
General fund	\$ -	\$ 1,067,040
Public works fund	1,145,140	-
2002 Cons. LID	-	78,100
	<u>\$ 1,145,140</u>	<u>\$ 1,145,140</u>

The primary purpose of the transfer from the General fund to the public works fund is to cover the operating costs of the fund.

NOTE 15: RESTRICTIONS ON NET POSITION

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

NOTE 16: 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 \$141,935 represents the deposits the City has set aside to comply with this requirement.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 17: PRIOR PERIOD ADJUSTMENT

Beginning net position for the government-wide governmental activities and business type funds were adjusted in order to implement GASB 68, the new pension accounting standard, which became effective this year. Accordingly, beginning net position was adjusted as illustrated below. See Note 9 for further disclosures on the pension plan and related accounting.

	PERSI Base Plan	
	Sewer	Total Business type
Deferred Outflow	6,020	6,020
Deferred Inflow	(43,656)	(43,656)
Net Pension Liability	(31,712)	(31,712)
Prior period adjustment	(69,348)	(69,348)

	PERSI Base Plan	
		Total Government activities
Deferred Outflow	64,361	64,361
Deferred Inflow	(466,709)	(466,709)
Net Pension Liability	(339,027)	(339,027)
Prior period adjustment	(741,375)	(741,375)

Infrastructure with the sewer expansion fund related to the HARSB waste water transit project was added to the City's fixed assets in the prior fiscal year in error in the amount of \$2,019,625. The assets belong to HARSB and should not be capitalized along with the depreciation expense of \$40,392 which resulted in a net prior period adjustment of \$1,979,233.

NOTE 18: 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 \$1,440,796 and the bank balance is \$1,460,259. As of September 30, 2015, the Agency's deposits and investments were not exposed to custodial credit risk.

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

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 18: COMPONENT UNIT DISCLOSURES (CONTINUED)

Capital Assets

The following is a summary of fixed asset activity for the year ended September 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$393,000	\$617,120	\$ -	\$1,010,120
Total	\$393,000	\$617,120	\$ -	\$1,010,120

Transactions with Primary Government

During the fiscal year ending September 30, 2015, the Hayden Urban Renewal Agency paid the City of Hayden \$40,000 pursuant to a contract to provide administrative services for the Hayden Urban Renewal Agency. This amount is included in general government expenditures of \$59,668.

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.

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 Position:

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 Position reported as of September 30, 2015, are considered restricted. This is because the funding limitation comes from a 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.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 18: COMPONENT UNIT DISCLOSURES (CONCLUDED)

Redevelopment Projects

Expenditures for redevelopment projects for Hayden Urban Renewal Agency for the fiscal year ended September 30, 2015 consisted of the following:

<u>Description</u>	<u>Value</u>
N. Government Way and Hayden Avenue - Brownfield Site	\$ 40,398
City Hall Parking Lot Project	243,056
Total	<u>\$ 283,454</u>

N. Government Way and Hayden Avenue – Brownfield Site

In 2015, the Hayden Urban Renewal Agency purchased three properties located at the corner of Government Way and Hayden Avenue for the express purpose of removing blighted structures and rehabilitation of brownfield property. The structures on the properties were demolished and the soils are currently in the process of being remediated.

City Hall Parking Lot Project

In 2014, the City of Hayden and the Hayden Urban Renewal Agency entered into a long-term lease agreement allowing the City to continue to use the Hayden, City of owned properties located to the north of City Hall for public parking and providing for redevelopment of the parking lot by Hayden, City of. The construction project is now complete.

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, 2015**

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes and special assessments	\$ 1,171,722	\$ 1,212,618	\$ 40,896
Licenses and permits	408,070	416,857	8,787
Growth service fees	45,000	43,607	(1,393)
Intergovernmental revenue	1,117,820	1,153,234	35,414
Interest income	12,000	20,381	8,381
Net increase (decrease) in the fair value of investments	-	25,510	25,510
Charges for services	127,090	156,825	29,735
Fines and forfeits	30,000	27,672	(2,328)
Miscellaneous revenues	11,871	9,952	(1,919)
Total revenues	<u>2,923,573</u>	<u>3,066,656</u>	<u>143,083</u>
EXPENDITURES			
General government	1,375,330	1,644,448	(269,118)
Public safety	508,785	397,641	111,144
Recreation	348,538	350,202	(1,664)
Contingency	2,593,371	-	2,593,371
Total expenditures	<u>4,826,024</u>	<u>2,392,291</u>	<u>2,433,733</u>
Excess deficiency of revenues over (under) expenditures	<u>(1,902,451)</u>	<u>674,365</u>	<u>2,576,816</u>
OTHER FINANCING (USES)			
Transfers out	<u>(917,153)</u>	<u>(1,067,040)</u>	<u>(149,887)</u>
Total other financing (uses)	<u>(917,153)</u>	<u>(1,067,040)</u>	<u>(149,887)</u>
Net change in fund balances	(2,819,604)	(392,675)	2,426,929
Fund balances - beginning	<u>2,819,604</u>	<u>3,313,275</u>	<u>493,671</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,920,600</u>	<u>\$ 2,920,600</u>

* Budget was not amended

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

City of Hayden

**PUBLIC WORKS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2015**

	*Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Licenses and permits	\$ 267,000	\$ 270,383	\$ 3,383
Grants	300	300	-
Intergovernmental revenue	675,805	648,640	(27,165)
Interest income	2,350	1,815	(535)
Net increase (decrease) in the fair value of investments	-	4,592	4,592
Contributions	-	16,596	16,596
Miscellaneous revenues	3,000	4,944	1,944
Total revenues	<u>948,455</u>	<u>947,270</u>	<u>(1,185)</u>
EXPENDITURES			
Public works	1,907,018	1,795,219	111,799
Capital expenditures	-	723,338	(723,338)
Contingency	635,239	-	635,239
Principal retirement	91,353	91,353	-
Interest expense	19,987	20,013	(26)
Total expenditures	<u>2,653,597</u>	<u>2,629,923</u>	<u>23,674</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(1,705,142)</u>	<u>(1,682,653)</u>	<u>22,489</u>
OTHER FINANCING SOURCES			
Proceeds on capital financing	-	723,338	723,338
Sale of general capital assets	75,000	78,112	3,112
Transfers in	995,253	1,145,140	149,887
Total other financing sources	<u>1,070,253</u>	<u>1,946,590</u>	<u>876,337</u>
Net change in fund balances	(634,889)	263,937	898,826
Fund balances - beginning	<u>634,889</u>	<u>607,538</u>	<u>(27,351)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 871,475</u>	<u>\$ 871,475</u>

* Budget was not amended

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

City of Hayden

**IMPACT FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2015**

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Impact fees	\$ 540,370	\$ 444,793	\$ (95,577)
Interest	2,050	3,694	1,644
Total revenues	<u>542,420</u>	<u>448,487</u>	<u>(93,933)</u>
EXPENDITURES			
Public safety	-	149	(149)
Contingency	1,270,845	-	1,270,845
Capital expenditures	<u>1,313,100</u>	<u>339,758</u>	<u>973,342</u>
Total expenditures	<u>2,583,945</u>	<u>339,907</u>	<u>2,244,038</u>
Excess deficiency of revenues over (under) expenditures	<u>(2,041,525)</u>	<u>108,580</u>	<u>2,150,105</u>
Net change in fund balances	(2,041,525)	108,580	2,150,105
Fund balances - beginning	<u>2,041,525</u>	<u>1,997,475</u>	<u>(44,050)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,106,055</u>	<u>\$ 2,106,055</u>

* Budget was not amended

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

City of Hayden

**GASB 68 Required Supplementary Information
For the Year Ended September 30, 2015**

**Schedule of Employer's Share of Net Pension Liability
PERSI - Base Plan
Last 10 - Fiscal Years ***

	2015
Employer's portion of the net pension liability	0.0494326%
Employer's proportionate share of the net pension liability	\$ 650,947
Employer's covered-employee payroll	\$ 1,396,475
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	46.61%
Plan fiduciary net position as a percentage of the total pension liability	91.38%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 (measurement date).

**Schedule of Employer Contributions
PERSI - Base Plan
Last 10 - Fiscal Years ***

	2015
Statutorily required contribution	\$ 158,081
Contributions in relation to the statutorily required contribution	158,081
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ 1,396,475
Contributions as a percentage of covered-employee payroll	11.32%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of September 30, 2015.

SINGLE AUDIT SECTION

**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, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hayden as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Hayden's basic financial statements, and have issued our report thereon dated April 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hayden's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of City of Hayden's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hayden's financial statements are free from 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*.

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* (CONCLUDED)

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Magnuson, McHugh & Company, P.A.

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

April 28, 2016

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Hayden
Hayden, ID 83864

Report on Compliance for Each Major Federal Program

We have audited City of Hayden's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of City of Hayden's major federal programs for the year ended September 30, 2015. City of Hayden's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hayden's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hayden's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Hayden's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Hayden complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)

Report on Internal Control over Compliance

Management of City of Hayden is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Hayden's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hayden's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Co., P.A.

April 28, 2016

City of Hayden

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2015**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Environment Protection Agency Pass Through Program from: Department of Environmental Quality Capitalization Grants for Clean Water State Revolving Funds	66.458	Loan project no. WW1310	\$ 1,031,763
Total Federal Awards			\$ 1,031,763

City of Hayden

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2015

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Hayden and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement

Pass-through entity identifying numbers are presented where available.

City of Hayden

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es) Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)

66.458

Name of Federal Program or Cluster

Capitalization Grants for Clean Water
State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

City of Hayden

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2015

Section II - Findings – Financial Statement Audit

We noted no findings relating to the financial statements, which are required to be reported in accordance with generally accepted *Government Auditing Standards*.

Section III - Findings and Questioned Costs – Major Federal Award Programs Audit

We noted no findings relating to the Federal Awards Programs, which are required to be reported in accordance with generally accepted *Government Auditing Standards*.

Section IV – Summary of Prior Year Audit Findings Relating to Federal Awards

No prior year audit relating to Federal Awards.