

CITY OF HAYDEN

AUDITED FINANCIAL STATEMENTS

Year Ended September 30, 2017

Prepared By

Anderson
BROS. CPA's, P.A.

1810 E Schneidmiller Ave. Ste. 310
Post Falls, Idaho 83854
208-777-1099 (phone) 208-773-5108 (fax)

City of Hayden, Idaho

TABLE OF CONTENTS September 30, 2017

FINANCIAL SECTION:

Independent Auditor's Report	1 – 3
---	-------

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position.....	4
Statement of Activities.....	5 - 6

Fund Financial Statements:

Balance Sheet-Governmental Funds	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	8
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	10
Statement of Net Position – Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds.....	12
Statement of Cash Flows – Proprietary Funds.....	13
Statement of Fiduciary Net Position – Fiduciary Funds	14
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	15
Notes to the Financial Statements.....	16 – 40

Required Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund.....	41
Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – Impact Fees – Circulation - Special Revenue Fund	42
Notes to the Budget to Actual Schedule.....	43
Schedule of City's Share of Net Pension Liability and Contributions – PERSI Base Plan.....	44

Other Supplementary Information:

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds	45
Combining Statement of Revenue, Expenses and Changes in Fund Net Balances – Nonmajor Governmental Funds	46
Combining Balance Sheet – Nonmajor Special Revenue Funds.....	47
Combining Statement of Revenue, Expenses and Changes in Fund Net Balances – Nonmajor Special Revenue Funds.....	48
Combining Balance Sheet – Nonmajor Debt Service Funds	49
Combining Statement of Revenue, Expenses and Changes in Fund Net Balances – Nonmajor Debt Service Funds	50

REPORT REQUIRED BY THE GAO:

City of Hayden, Idaho

TABLE OF CONTENTS
September 30, 2017

Independent Auditor's 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* 51 – 52

FINANCIAL SECTION
INDEPENDENT AUDITORS' REPORT



1810 E Schneidmiller Ave. Ste. 310
Post Falls, Idaho 83854
208-777-1099 (phone) 208-773-5108 (fax)

INDEPENDENT AUDITORS' REPORT

To the 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 units, each major fund, and the aggregate remaining fund information of the City of Hayden as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Hayden's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditors' 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 units, each major fund, and the aggregate remaining fund information of the City of Hayden, as of September 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of the City of Hayden's share of net pension liability and pension contributions for the PERSI base plan on page 44, and the budgetary comparison information on pages 41-43 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 the 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.

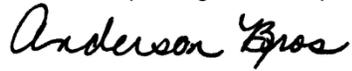
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hayden's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate 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 combining and individual non-major fund financial statements are 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 May 21, 2018 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.

A handwritten signature in cursive script that reads "Anderson Bros".

Anderson Bros. CPA's, P.A.
Post Falls, ID
May 21, 2018

FINANCIAL SECTION
BASIC FINANCIAL STATEMENTS

City of Hayden, Idaho

STATEMENT OF NET POSITION

September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
ASSETS				
Cash and cash equivalents	\$ 3,548,277	\$ 1,702,091	\$ 5,250,368	\$ 2,258,805
Investments	1,372,890	1,870,028	3,242,918	-
Receivables	1,015,713	501,153	1,516,866	14,677
HARSB O & M refund receivable	-	161,352	161,352	-
Prepaid expenses	59,286	-	59,286	-
Restricted cash and cash equivalents	2,884,523	-	2,884,523	-
Capital assets not being depreciated:				
Land	3,672,472	563,142	4,235,614	1,010,120
Capital assets, net of accumulated depreciation	30,365,195	7,707,568	38,072,763	-
Total assets	42,918,356	12,505,334	55,423,690	3,283,602
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension outflows	204,609	20,593	225,202	-
LIABILITIES				
Accounts payable and accrued expenses	148,848	660,643	809,491	351
Due to other governments	-	-	-	1,712
Unearned revenue	-	370,734	370,734	-
Surety deposits	721,544	-	721,544	-
Accrued interest	19,861	-	19,861	-
Lawsuit liability	-	972,514	972,514	-
Long-term liabilities:				
Due within one year	69,527	329,421	398,948	-
Due in more than one year	1,285,163	7,200,585	8,485,748	-
Net pension liability	770,804	69,587	840,391	-
Total liabilities	3,015,747	9,603,484	12,619,231	2,063
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	111,287	14,776	126,063	-
NET POSITION				
Net investment in capital assets	32,844,285	8,270,710	41,114,995	1,010,120
Restricted	3,209,799	16,223	3,226,022	-
Unrestricted	3,941,847	(5,379,266)	(1,437,419)	2,271,419
Total net position	\$ 39,995,931	\$ 2,907,667	\$ 42,903,598	\$ 3,281,539

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Primary government:				
Governmental activities				
General government	\$ 1,487,483	\$ 113,689	\$ 63,300	\$ -
Public safety	421,533	35,031	34,236	-
Public works	4,206,850	1,277,438	-	184,362
Culture and recreation	477,843	282,115	-	-
Interest on long-term debt	41,981	-	-	-
Pension expense	133,870	-	-	-
Total governmental activities	<u>6,769,560</u>	<u>1,708,273</u>	<u>97,536</u>	<u>184,362</u>
Business-type activities				
Sewer	4,057,446	4,753,998	-	-
Interest expense	155,472	-	-	-
Pension expense	10,355	-	-	-
Loss on lawsuit	243,110	-	-	-
Total business-type activities	<u>4,466,383</u>	<u>4,753,998</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 11,235,943</u>	<u>\$ 6,462,271</u>	<u>\$ 97,536</u>	<u>\$ 184,362</u>
Component unit:				
Hayden urban renewal agency	<u>\$ 129,798</u>			

General revenues:

- Property taxes, levied for general purposes
- Intergovernmental revenue
- Franchise fees
- Miscellaneous
- Interest and investment earnings
- Gain (loss) on disposal of assets
- Total general revenues
- Change in net position
- Net position - October 1, 2016
- Prior period adjustment
- Net position - September 30, 2017

*See accompanying notes to the financial statements
and independent auditors' report*

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

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
\$ (1,310,494)	\$ -	\$ (1,310,494)	\$ -
(352,266)	-	(352,266)	-
(2,745,050)	-	(2,745,050)	-
(195,728)	-	(195,728)	-
(41,981)	-	(41,981)	-
(133,870)	-	(133,870)	-
<u>(4,779,389)</u>	<u>-</u>	<u>(4,779,389)</u>	<u>-</u>
-	696,552	696,552	
-	(155,472)	(155,472)	
-	(10,355)	(10,355)	
-	(243,110)	(243,110)	
-	287,615	287,615	
<u>(4,779,389)</u>	<u>287,615</u>	<u>(4,491,774)</u>	
			(129,798)
1,349,336	-	1,349,336	610,438
2,138,577	-	2,138,577	-
233,435	-	233,435	-
33,055	-	33,055	100
101,650	9,549	111,199	12,750
120	-	120	-
<u>3,856,173</u>	<u>9,549</u>	<u>3,865,722</u>	<u>623,288</u>
(923,216)	297,164	(626,052)	493,490
41,001,131	2,610,503	43,611,634	2,788,049
(81,984)	-	(81,984)	-
<u>\$ 39,995,931</u>	<u>\$ 2,907,667</u>	<u>\$ 42,903,598</u>	<u>\$ 3,281,539</u>

City of Hayden, Idaho

**BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017**

	General	Impact Fees Circulation	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 3,320,567	\$ -	\$ 227,710	\$ 3,548,277
Investments	1,372,890	-	-	1,372,890
Other receivables	558,487	-	435,385	993,872
Taxes receivable	21,841	-	-	21,841
Prepaid insurance	59,286	-	-	59,286
Restricted cash and cash equivalents	-	2,039,452	845,071	2,884,523
Total assets	\$ 5,333,071	\$ 2,039,452	\$ 1,508,166	\$ 8,880,689
LIABILITIES				
Vouchers payable	\$ 112,668	\$ 2,500	\$ 988	\$ 116,156
Accrued expenses	29,239	-	83	29,322
Other current liabilities	3,370	-	-	3,370
Surety deposits	721,544	-	-	721,544
Total liabilities	866,821	2,500	1,071	870,392
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	19,773	-	-	19,773
Unavailable revenue-special assessments	-	-	435,385	435,385
Total deferred inflows of resources	19,773	-	435,385	455,158
FUND BALANCES				
Nonspendable prepaid expenses	59,286	-	-	59,286
Restricted	308,033	2,036,952	864,814	3,209,799
Committed	-	-	153,957	153,957
Unassigned	4,079,158	-	52,939	4,132,097
Total fund balances	4,446,477	2,036,952	1,071,710	7,555,139
Total liabilities, deferred inflows of resources and fund balances	\$ 5,333,071	\$ 2,039,452	\$ 1,508,166	\$ 8,880,689

See accompanying notes to the financial statements
and independent auditors' report

City of Hayden, Idaho

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION September 30, 2017

Total fund balances at September 30, 2017 - Governmental Funds		\$ 7,555,139
Cost of capital assets at September 30, 2017	\$ 92,450,074	
Less: Accumulated depreciation as of September 30, 2017	<u>(58,412,407)</u>	34,037,667
Unavailable revenue - property taxes		19,773
Unavailable revenue - special assessments		435,385
Net pension liability		(770,804)
Deferred outflows of resources-pension plan		204,609
Deferred inflows of resources-pension plan		(111,287)
Accrued interest		(19,861)
Long-term liabilities at September 30, 2017:		
Compensated absences	\$ (161,308)	
Note payable - Rural Development	(598,493)	
Capital leases	<u>(594,889)</u>	(1,354,690)
Net position of governmental activities at September 30, 2017		<u><u>\$ 39,995,931</u></u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2017

	General	Impact Fees Circulation	Other Governmental Funds	Total
REVENUES				
Intergovernmental revenue	\$ 2,182,493	\$ -	\$ -	\$ 2,182,493
Taxes	1,346,548	-	-	1,346,548
Licenses and permits	1,031,855	-	42,647	1,074,502
Charges for services	171,283	-	-	171,283
Growth service fees	108,818	-	-	108,818
Grants	92,840	154,822	-	247,662
Interest income	47,887	25,001	46,579	119,467
Net increase (decrease) in fmv of investments	(17,817)	-	-	(17,817)
Fines and forfeitures	35,031	-	-	35,031
Impact fees	-	424,580	111,706	536,286
Miscellaneous revenue	38,962	-	-	38,962
Special assessments payments	-	-	122,511	122,511
Total revenues	<u>5,037,900</u>	<u>604,403</u>	<u>323,443</u>	<u>5,965,746</u>
EXPENDITURES				
General government	1,518,150	-	7,458	1,525,608
Public safety	434,767	-	-	434,767
Public works	1,682,042	9,274	-	1,691,316
Recreation	372,573	-	15,621	388,194
Capital expenditures	335,285	595,124	23,303	953,712
Debt service - principal retirement	43,442	-	15,208	58,650
Debt service - interest expense	16,547	-	26,082	42,629
Total expenditures	<u>4,402,806</u>	<u>604,398</u>	<u>87,672</u>	<u>5,094,876</u>
Excess (deficiency) of revenues over (under) expenditures	<u>635,094</u>	<u>5</u>	<u>235,771</u>	<u>870,870</u>
OTHER FINANCING SOURCES (SOURCES)				
Sale of general capital assets	120	-	-	120
Transfers in	76,939	-	-	76,939
Transfers out	-	-	(76,939)	(76,939)
Total other financing sources (uses)	<u>77,059</u>	<u>-</u>	<u>(76,939)</u>	<u>120</u>
NET CHANGE IN FUND BALANCES	<u>712,153</u>	<u>5</u>	<u>158,832</u>	<u>870,990</u>
FUND BALANCES - beginning	3,794,312	2,036,947	912,878	6,744,137
PRIOR PERIOD ADJUSTMENT	(59,988)	-	-	(59,988)
FUND BALANCES - ending	<u><u>\$ 4,446,477</u></u>	<u><u>\$ 2,036,952</u></u>	<u><u>\$ 1,071,710</u></u>	<u><u>\$ 7,555,139</u></u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017**

Total net changes in fund balances for the year ended September 30, 2017	\$ 870,990
Add: Capital outlay which is considered expenditures	953,712
Less: Depreciation expense for the year ended September 30, 2017	(2,741,098)
Add: Debt principal payments considered as an expenditure	58,650
Add: Accrued interest expense	648
Add: Change in compensated absences	8,534
Add: Difference between revenue earned on property taxes on the modified accrual basis versus revenue on property taxes on the full accrual basis	2,788
Less: Difference between revenue earned on special assessments on the modified accrual basis versus revenue on special assessments on the full accrual basis	(122,310)
Add: Current year PERSI contributions	178,740
Less: PERSI pension plan expense	(133,870)
Change in net position of governmental activities for the year ended September 30, 2017	<u>\$ (923,216)</u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2017**

	Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,702,091
Investments	1,870,028
Receivables, net of allowance of \$41,252	501,153
HARSB O & M refund receivable	161,352
Total current assets	4,234,624
Non-current assets:	
Land	563,142
Capital assets, net of accumulated depreciation	7,707,568
Total non-current assets	8,270,710
Total assets	12,505,334
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflows	20,593
Total deferred outflows of resources	20,593
 LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	660,643
Unearned revenue	370,734
Lawsuit liability	972,514
Current portion of DEQ loan	329,421
Total current liabilities	2,333,312
Non-current liabilities:	
Net pension liability	69,587
DEQ loan	7,200,585
Total non-current liabilities	7,270,172
Total liabilities	9,603,484
 NET DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows	14,776
Total deferred inflows of resources	14,776
 NET POSITION	
Invested in capital assets (net of related debt)	8,270,710
Restricted	16,223
Unrestricted	(5,379,266)
Total net position	\$ 2,907,667

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

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

For the Year Ended September 30, 2017

	Sewer
OPERATING REVENUES	
Charges for services	\$ 4,753,262
Miscellaneous	736
Total operating revenues	4,753,998
OPERATING EXPENSES	
Personal services	149,573
Contractual services	3,570,236
Other services and charges	96,741
Depreciation	239,365
Pension expense	10,355
Loss on lawsuit	243,110
Total operating expenses	4,309,380
Operating income (loss)	444,618
NON-OPERATING REVENUES (EXPENSE)	
Interest income	35,452
Net increase (decrease) in the fair value of investments	(25,903)
Interest expense	(155,472)
Proportionate share of HARSB waste water project	(1,531)
Total non-operating revenues (expenses)	(147,454)
Change in net position	297,164
Total net position - beginning	2,610,503
Total net position - ending	\$ 2,907,667

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,816,007
Payments to suppliers	(3,195,146)
Payments to employees	(153,044)
Net cash provided by operating activities	1,467,817
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment on DEQ note	(322,930)
Proportionate shares of HARSB waste water project	(1,531)
Interest paid	(155,472)
Net cash (used) by capital and related financing activities	(479,933)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	528,985
Net cash provided by investing activities	528,985
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,516,869
CASH, beginning of year	185,222
CASH, end of year	\$ 1,702,091
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 444,618
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	239,365
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable	(84,606)
HARSB O & M receivable	100,371
Deferred outflows of resources	31,137
Increase (decrease) in liabilities and deferred inflows of resources:	
Vouchers payable	482,186
Unearned revenue	46,244
Net pension liability	(18,028)
Deferred inflows of resources	(16,580)
Net cash provided by operating activities	\$ 1,224,707

See accompanying notes to the financial statements and independent auditors' report

City of Hayden, Idaho

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2017

	Museum Trust Funds
ASSETS	
Cash and cash equivalents	\$ 1,021
Total assets	<u>1,021</u>
LIABILITIES	<u>-</u>
NET POSITION	
Held in trust for museum expenses	<u>\$ 1,021</u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the Year Ended September 30, 2017

	<u>Museum Trust Funds</u>
ADDITIONS	
Investment earnings	\$ 9
Total additions	<u>9</u>
DEDUCTIONS	<u>-</u>
Change in net position	9
Net position, beginning of year	<u>1,012</u>
Net position, end of year	<u><u>\$ 1,021</u></u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- ✓ the organization is legally separate (can sue and be sued in their own name)
- ✓ the City holds the corporate powers of the organization
- ✓ the City appoints a voting majority of the organization's board
- ✓ the City is able to impose its will on the organization
- ✓ the organization has the potential to impose a financial benefit/burden on the City
- ✓ there is fiscal dependency by the organization on the City

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

The City of Hayden (the City) is an incorporated City of the State of Idaho. The City operates under a Mayor/Council form of government. The City has oversight responsibility and control over all activities related to the City's functions. The City is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since the public elects the City council members. The City provides a wide range of municipal service. Sewer and sewer expansion services are provided by the City and are accounted for as proprietary enterprise funds.

The accompanying financial statements include all aspects controlled by the City Council of the City of Hayden. A reporting entity consists of the primary government; organizations for which the primary government is financial 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, in September 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 blighted areas in and 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. 61 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. Separate statements for the Agency may be obtained from City Hall.

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.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payments between the City and Component Units

Resource flows (except those that affect the statement of net position, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions – that is, as revenues and expenses.

The Agency operates on the same fiscal year as the City. Complete financial statements of the Agency can be obtained directly from:

Hayden Urban Renewal Agency
8930 North Government Way
Hayden, ID 83835

Basis of Presentation, Government-Wide Statements and Fund Financial Statements

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government and its component units, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

The statement of activities presents a comparison between direct and program revenues for the business-type activities of the City and for each function of the City's and its component units' governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category- *governmental, proprietary, and fiduciary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation, Government-Wide Statements and Fund Financial Statements (continued)

The City reports the following major governmental funds:

General Fund – This 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.

Special Revenue Fund – Impact Fees Circulation - Developmental impact fees are charged on new construction. The revenue generated from these fees will be used for capital improvements for Streets.

The City reports the following major enterprise fund:

Sewer Fund – used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including capitalized infrastructure and depreciation) of providing sewer operation and maintenance services to the general public on a continuing basis are financed through user charges.

Additionally, the government reports the following non major fund types:

Special Revenue Fund – Honeysuckle Boat Launch – Accounts for the accumulation of resources to be used for repairs and maintenance on the Honeysuckle boat launch.

Special Revenue Fund – Council Media Center – Accounts for the accumulation of resources to be used to purchase and maintain equipment for televising council meetings.

Special Revenue Fund – Impact Fees Parks - Developmental impact fees are charged on new construction. The revenue generated from these fees will be used for Parks expenses.

Special Revenue Fund – Impact Fees Law Enforcement - Developmental impact fees are charged on new construction. The revenue generated from these fees will be used for Law Enforcement expenses.

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.

Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the types 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.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting (continued)

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The City pools all individual fund cash balances in bank accounts. 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 the Statement of Cash Flows, the City defines cash and cash equivalents as all cash and highly liquid investments with an original maturity of three months or less (both restricted and unrestricted). In addition, the City considers all unrestricted investments held in the pooled accounts of the City to be cash equivalents, as the City is able to access the funds at any time.

Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowance for uncollectibles for the governmental funds was -0- and proprietary funds was \$41,252 as of September 30, 2017.

Receivables for State Highway User's Tax, State Liquor, and State Revenue Sharing are recorded as revenue in the general fund.

The City records enterprise fund charges when earned, not when collected.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINTUED)

Due To and From Other Funds and Advances To and From Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Inventories and Prepaid Items

All inventories are valued at cost using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 at an estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects when 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. Land and construction in progress are not depreciated.

The other property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	30
Infrastructure	30
Equipment	5-20

Because the City is a Phase 3 government (governments with total annual revenues of less than \$10 million), the City is encouraged but not required to report major infrastructure assets retroactively prior to October 1, 2003. The City has made the decision to not record infrastructure assets retroactively.

In December 2007, The City contracted with an independent appraisal firm to perform a complete inventory of fixed assets. When original costs were not available, assets were valued at an estimated historical cost. The City continues to update this inventory.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the non-current portion of capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources.

In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees who qualify.

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 does have items that qualify for reporting in this category, Note 9 outlines the outflows of resources associated with the PERSI base pension plan.

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 these items, which arise under the government-wide accrual basis of accounting that qualifies for reporting in this category and one item, which arises only under a modified accrual basis of accounting. 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 other item (reported in the government-wide statements) is an amount related to the pension base plan. See note 9 for details on the pension plan. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, or unassigned.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those restricted fund balance classifications can be used.

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.

Net Position Flow Assumptions

Net position represents the difference between assets and liabilities. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, series, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Tax Revenues

Property taxes are levied each November based on the assessed value of property as listed on the previous September tax rolls. Assessed values are an approximation of market value. The county assessor establishes assessed values. Property tax payments are due in one-half installments every December and June.

Property tax becomes a lien on the property when it is levied. State statute sets maximum property tax rates from the various funds of the City of Hayden. For the general fund, the City cannot levy more than 103% of the prior year levy rate. For other funds, the 3% increase is not applicable but is limited by statute.

Proprietary Funds Operating and Non-Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating 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 enterprise funds are charges to customers for sales and service. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses 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 non-operating revenues and expenses.

Contributed Capital

Contributed capital represents donations by developers, grants restricted for capital construction, and assets whose construction was financed by special assessments. Capitalization fees may be used only for expansion of the systems, improvement or expansion of the present plant, or the construction of additional electric, water and wastewater facilities. When the cash received for capitalization fees is spent, the assets purchased are recorded as plant and equipment.

Pensions

For purposes of measuring the net pension liability 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 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.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENT BALANCES

General

State statutes authorize the City's investments. The City of Hayden 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.

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 City does not have a deposit policy for custodial credit risk. The carrying amount of the City's deposits and investments is \$11,378,830 and the bank balance is \$11,459,945.

As of September 30, 2017, the City's deposits and investments were not exposed to custodial credit risk.

Deposits and investments without exposure to custodial credit risk:

Deposits

Amount insured by FDIC or other agencies	\$ 2,083,228
Amount collateralized with securities held in trust, but not in the City's name	6,133,799
Total deposits without exposure to custodial credit risk	<u>8,217,027</u>

Investments

Amounts registered in the name of the city	3,242,918
Total bank balance (deposits) and investments	<u>\$ 11,459,945</u>

The carrying amount is displayed as follows in the financial statements:

Statement of net position	
Cash and cash equivalents	\$ 5,250,368
Investments	3,242,918
Restricted cash and cash equivalents	<u>2,884,523</u>
	<u>11,377,809</u>
Statement of fiduciary net position	
Cash and cash equivalents	<u>1,021</u>
Total carrying amount of cash and investments	<u>\$ 11,378,830</u>

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENT BALANCES (CONTINUED)

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.

Investments in 2a7-like pools are valued based upon the value of pool shares. The City invests in one 2a7-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 pool does not include any involuntary participants.

The balances that the City has in the State Investment Pool are carried at its cost of \$6,133,799. The City's portion of the State Investment Pool had an unrealized gain of \$22,694 as of September 30, 2017. This unrealized gain has been recorded in the City's books. The unrealized gain was based on a fair market value adjustment factor of 1.0037 that was calculated by the State of Idaho's Treasurer's Office.

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.

GASB Statement No. 40 requires the City to assign risk categories for its investments, except those in which securities are not used as evidence of the investment. Credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. The City's exposure to credit risk is not available.

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, 2017, the City had the following investments (and associated maturities) in its internal investment portfolio:

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 2 – DEPOSITS AND INVESTMENT BALANCES (CONTINUED)

Investment	Maturity Date	Cusip #	Fair Value	Less than 2 years	2-5 Years	6 - 10 Years	10 Years or More
U.S. Agencies							
Federal Home Loan Mortgage Corp	11/25/2024	3134G9LC9	\$ 402,874	\$ -	\$ -	\$ 402,874	\$ -
Federal Home Loan Banks	4/28/2026	3130A7UE3	383,640	-	-	383,640	-
Federal Home Loan Banks	7/27/2026	3130A8SX2	290,844	-	-	290,844	-
Federal Home Loan Banks	4/18/2023	3130A7R98	399,302	-	-	399,302	-
Federal National Mortgage Association	10/20/2022	3136G3GQ	334,166	-	-	334,166	-
Federal Fam Credit Banks	2/16/2024	3133EFA23	377,881	-	-	377,881	-
Federal Fam Credit Banks	12/27/2022	3133EGHB4	394,784	-	-	394,784	-
Federal Home Loan Banks CPN-Quarterly	7/25/2025	3130A8RV7	290,196	-	-	290,196	-
Federal National Mortgage Association CPN	3/16/2021	3136G2ZT7	299,520	-	299,520	-	-
			<u>\$3,173,207</u>	<u>\$ -</u>	<u>\$299,520</u>	<u>\$2,873,687</u>	<u>\$ -</u>

Restricted 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 \$197,757 represents the deposits the City has set aside to comply with this requirement.

Impact fees are restricted by statute for future capital improvements. Cash in these accounts are presented as restricted.

NOTE 3 – RECEIVABLES

Receivables in the Government-wide Financial Statements consist of the following:

Governmental Activities	
Other receivables	\$ 52,202
Property tax receivable	21,841
HURA receivable	1,712
Franchise fees receivable	53,406
State receivables	80,023
Highway user receivable	169,008
Sales tax receivable	202,136
Special assessment receivables	435,385
	<u>\$ 1,015,713</u>
Business-type Receivables	
Sewer fund receivables	542,405
Less allowance for doubtful accounts	<u>(41,252)</u>
	<u>501,153</u>

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.

See independent auditors' report.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 4 – SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2017:

	<u>LID 2004-1</u>	<u>LID 2002</u>	<u>Total</u>
Beginning assessment - principal	\$ 477,940	\$ 79,755	\$ 557,695
Assessments collected - principal	(48,841)	(73,469)	(122,310)
Ending assessments - principal	<u>\$ 429,099</u>	<u>\$ 6,286</u>	<u>\$ 435,385</u>

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 5 – CAPITAL ASSETS

The changes in capital assets during fiscal year 2017 were as follows:

	<u>Balance 9/30/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2017</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,338,596	\$ 333,876	\$ -	\$ 3,672,472
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>3,338,596</u>	<u>333,876</u>	<u>-</u>	<u>3,672,472</u>
Capital assets being depreciated:				
Buildings and improvements	3,025,590	-	-	3,025,590
Machinery & equipment	2,836,488	536,055	-	3,372,543
Infrastructure	82,295,688	83,781	-	82,379,469
Total capital assets being depreciated	<u>88,157,766</u>	<u>619,836</u>	<u>-</u>	<u>88,777,602</u>
Less accumulated depreciation for:				
Buildings	1,222,001	97,858	-	1,319,859
Machinery & equipment	1,909,278	156,213	-	2,065,491
Infrastructure	52,540,030	2,487,027	-	55,027,057
Total accumulated depreciation	<u>55,671,309</u>	<u>2,741,098</u>	<u>-</u>	<u>58,412,407</u>
Total capital assets being depreciated, net	<u>32,486,457</u>	<u>(2,121,262)</u>	<u>-</u>	<u>30,365,195</u>
Total governmental activities capital assets, net	<u>\$ 35,825,053</u>	<u>\$ (1,787,386)</u>	<u>\$ -</u>	<u>\$ 34,037,667</u>

See independent auditors' report.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Balance 9/30/2016	Increases	Decreases	Balance 9/30/2017
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 563,142	\$ -	\$ -	\$ 563,142
Total capital assets, not being depreciated	563,142	-	-	563,142
Capital assets being depreciated:				
Sewer system	10,911,416	-	-	10,911,416
Less accumulated depreciation	2,964,483	239,365	-	3,203,848
Total capital assets being depreciated, net	7,946,933	(239,365)	-	7,707,568
Total business-type activities capital assets, net	\$ 8,510,075	\$ (239,365)	\$ -	\$ 8,270,710

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

Governmental activities:	
General government	\$ 44,266
Public safety	-
Highways and streets	2,586,926
Culture and recreation	109,906
Total depreciation expense-governmental activities	<u>\$ 2,741,098</u>
Business-type activities:	
Sewer	239,365
	<u>\$ 239,365</u>

See independent auditors' report.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 6 – LONG-TERM LIABILITIES

Changes in long-term obligations for the year ended September 30, 2017 are as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 169,842	\$ -	\$ 8,534	\$ 161,308	\$ 9,000
Note payable - Rural Development	613,701	-	15,208	598,493	15,854
Capital leases	638,331	-	43,442	594,889	44,673
	<u>\$ 1,421,874</u>	<u>\$ -</u>	<u>\$ 67,184</u>	<u>\$ 1,354,690</u>	<u>\$ 69,527</u>
Business-type Activities					
DEQ Note payable	<u>\$ 7,852,936</u>	<u>\$ -</u>	<u>\$ 322,930</u>	<u>\$ 7,530,006</u>	<u>\$ 329,421</u>

DEQ Loan

The City was the recipient of a loan program through the Department of Environmental Quality and the State of Idaho. Repayment terms are 20 years at 2.0% interest with semi-annual payments.

A reserve fund equal to one year's payment of principal, fees and interest is required to be established. The City has ten years to establish the reserve, setting aside 10% of one year's payment into the reserve fund each year. This requirement will begin in fiscal year ending September 30, 2017.

Presented below is a summary of debt service requirement to maturity by years:

<u>Fiscal Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	329,421	148,981	478,402
2019	336,043	142,359	478,402
2020	342,430	135,972	478,402
2021	349,680	128,722	478,402
2022	356,709	121,693	478,402
2023-2027	1,893,712	498,298	2,392,010
2028-2032	2,091,807	300,203	2,392,010
2033-2036	1,830,204	83,405	1,913,609
	<u>7,530,006</u>	<u>1,559,633</u>	<u>9,089,639</u>

See independent auditors' report.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Note Payable – Rural Development

The City has a 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:

<u>Fiscal Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	15,854	25,436	41,290
2019	16,528	24,762	41,290
2020	17,230	24,060	41,290
2021	17,963	23,327	41,290
2022	18,726	22,564	41,290
2023-2027	106,265	100,185	206,450
2028-2032	130,851	75,599	206,450
2033-2037	161,122	45,328	206,450
2038-2041	113,954	9,816	123,770
	<u>598,493</u>	<u>351,077</u>	<u>949,570</u>

Capital Leases

The City 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 2.8%, and require annual principal payments. The leases are secured by the equipment, the cost of which is \$724,338. As of September 30, 2017, current year amortization of the leased assets totaled \$72,435 and is included in depreciation expense on the financial statements. The total accumulated depreciation is \$217,305.

Future minimum lease payments are as follows:

<u>Fiscal Year ending September 30</u>	
2018	59,989
2019	59,989
2020	<u>505,450</u>
	Minimum lease payments
	625,428
	Less amount representing interest
	<u>(30,539)</u>
	Present value of minimum lease payments
	<u>\$ 594,889</u>

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 7 – FUND BALANCE CLASSIFICATIONS

The City has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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 non-spendable, restricted, committed, assigned, or unassigned.

The City reports the following classifications:

Non-spendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

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. Legal enforceability means that the City can be compelled by an external party (e.g., citizens, public interest groups, the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

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

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances do not have to be made by the City Council, they are more easily imposed and removed and they may be assigned for specific purposes even after the City's year end.

Unassigned Fund Balance – All amounts not included in other spendable classifications.

NOTE 8 – RISK MANAGEMENT

The City faces a number of risks of loss including damage to and loss of property and contents, professional liability, i.e. errors and omissions, and health insurance costs of employees. The City contracts with an insurance company for property insurance for property insurance and general liability insurance.

The City's workman's compensation coverage is provided by the Idaho State Insurance Fund.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLAN

PERSI BASE 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.

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.

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.

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. 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) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of September 30, 2017 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The City's contributions were \$188,941 for the year ended September 30, 2017.

See independent auditors' report.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

PERSI BASE PLAN (continued)

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

At September 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2017, the City's proportion was .0534658 percent.

For the year ended September 30, 2017, the City recognized pension expense of \$144,225. At September 30, 2017, the City 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	\$ 116,421	\$ 75,712
Changes in assumptions or other inputs	15,542	-
Net difference between projected and actual earnings on pension plan investments	-	50,351
Changes in the City's proportion and differences between the City's contributions and the City's proportionate contributions	42,641	-
City's contributions subsequent to the measurement date	50,598	-
Total	\$ 225,202	\$ 126,063

\$50,598 reported as deferred outflows of resources related to pensions resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2018.

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, 2016 the beginning of the measurement period ended June 30, 2017 is 4.9 and 5.5 for the measurement period June 30, 2016.

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:	Total
2018	(60,390)
2019	64,251
2020	9,170
2021	(49,773)
2022	-

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

PERSI BASE PLAN (continued)

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 June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25% - 10.00%
Salary inflation	3.75%
Investment rate of return	7.10% *
Cost-of-living adjustments	1.00%

* Net of pension plan investment expenses

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

An experience study was performed for the period July 1, 2007 through June 30, 2013 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, 2017 is based on the results of an actuarial valuation date of July 1, 2017.

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.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

PERSI BASE PLAN (continued)

Actuarial Assumptions

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, 2017.

Capital Market Assumptions

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	0.90%	0%	0% - 5%
	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Total Fund				
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

*Expected arithmetic return net of fees and expenses

<u>Actuarial Assumptions</u>	
Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
 Portfolio Arithmetic Mean Return	 8.08%
 Portfolio Long-Term Expected Geometric Rate of Return	 7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	<u><u>7.10%</u></u>

See independent auditors' report.

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

PERSI BASE PLAN (continued)

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 City's proportionate share of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the City'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%)
City's proportionate share of the net pension liability (asset)			
Total Plan	\$ 1,953,241	\$ 840,391	\$ (84,417)

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.

NOTE 10 – INTER-FUND TRANSFERS

Individual fund inter-fund transfers at September 30, 2017 were as follows:

	Transfers in	Transfers out
General fund	\$ 76,939	\$ -
2002 Consolidated LID	-	76,939
	\$ 76,939	\$ 76,939

The principle purpose for the transfer of funds from the 2002 Consolidated LID fund to the General was to cover the operating costs of the fund.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Intergovernmental Grants – 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 request for reimbursements to 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.

Litigation - The City is party to legal claims arising in the ordinary course of its business. In management's opinion, the City has adequate legal defenses or insurance coverage relative to these actions. Management does not believe any actions will materially affect the City's operations or financial position.

Judgement - In April 2017, a judgment was entered in a lawsuit that arose from a challenge to the City's Wastewater Capacity Fee. The District Court of the First Judicial District of the State of Idaho entered a judgement of \$729,404 on April 12, 2017. The amount of attorney fees the City may have to pay is \$243,110. The City filed a Notice of Appeal on June 2, 2017. The appeal of the case will likely be in the Fall/Winter of 2018. The City has recorded the \$729,404 and the attorney fees of \$243,110 as a liability.

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 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.

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Wastewater Treatment Plant Upgrade and Expansion (continued)

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.

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.

Wastewater Treatment Plant Upgrade and Expansion Construction Commitments

The Board is currently committed to only Phase 1 of the Facility Master Plan, which was budgeted at approximately \$15,821,000 total costs to complete. Of this amount, approximately \$10,426,000 was budgeted for replacement and regulatory upgrades, with the remaining \$5,395,000 in costs for expansion.

As of the fiscal year-ended September 30, 2016, costs incurred to date on Phase 1 were \$13,178,453. Phase 1 is now complete. The City's portion of this cost at September 30, 2016, which was financed by a loan through the Idaho Department of Environmental Quality, was \$7,852,936; this amount includes \$160,194 of accrued interest.

Phase 2 of the Plan, which will complete the current draft permit regulatory and facility replacement requirements, is estimated to cost \$13,000,000. Construction will begin in 2021 to be completed by 2022.

Wastewater Treatment Plant Upgrade and Expansion 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.

Wastewater Treatment Plant Upgrade and Expansion 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. The amounts contributed by the Joint Powers Board members are being accounted for as a non-operating contribution of capital to HARSB.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The City restated the beginning net position in the statement of activities for the governmental activities by \$81,984. Of this amount, \$59,988 was due to an error in reporting prepaid expenses relating to the prior year, the remaining \$21,996 was due to an error in reporting the compensated absence liability in the prior year, this decreased the beginning net position for September 30, 2016, decreased prepaid expenses in the amount of \$59,988 and increased the compensated absence liability in the amount of \$21,996.

The City restated the beginning fund balance by \$59,988 due to the same error in reporting prepaid expenses relating to the prior year.

NOTE 13 – COMPONENT UNIT DISCLOSURES

As disclosed in Note 1, Hayden Urban Renewal Agency meets the criteria for discrete presentation in the City's financial statements as a component unit. The following paragraphs describe 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 \$2,258,805 and the bank balance is \$2,263,805. As of September 30, 2017, the Agency's deposits and investments were not exposed to custodial credit risk.

Deposits without exposure to custodial credit risk:

Amount insured by FDIC or other agencies	\$ 923,590
Amount collateralized with securities held in trust, but not in the City's name	<u>1,340,215</u>
Total deposits without exposure to custodial credit risk	<u>2,263,805</u>

Deposits with exposure to custodial credit risk:

Amounts uninsured-exposed to custodial credit risk	-
Total bank balance (deposits)	<u>\$2,263,805</u>

The carrying amount is displayed as follows in the financial statements:

Statement of net position	
Cash and cash equivalents	<u>\$2,258,805</u>
	<u>\$2,258,805</u>

Cash and Cash equivalents at September 30, 2017 consist of the following:

Cash	
Deposits with financial institutions	\$ 918,590
Cash equivalents	
Idaho state investment pool	<u>1,340,215</u>
	<u>\$2,258,805</u>

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

See independent auditors' report.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 13 – COMPONENT UNIT DISCLOSURES (CONTINUED)

Capital Assets

The following is a summary of fixed asset activity for the year ended September 30, 2017:

	Balance 9/30/2016	Increases	Decreases	Balance 9/30/2017
Land	1,010,120	-	-	1,010,120

Transactions with Primary Government

During the fiscal year ending September 30, 2017, the Hayden Urban Renewal Agency paid the City of Hayden \$43,917 pursuant to a contract to provide administrative services for the Hayden Urban Renewal Agency.

Commitments & Contingencies

On December 14, 2016, a limited Recourse Promissory Note was entered into between the Agency and Hayden Village, LLC, an Idaho limited liability company, and New Frontiers Investments, LLC in the amount of \$411,875 at 0.00% simple interest per annum. The note is scheduled to be paid in semi-annual payments at 75% of the tax revenue allocation proceeds from the private development known as the New Frontiers Property. Payments will continue until paid in full or by December 31, 2030.

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 are maintained. Automobile liability has a \$2,000,000 single limit of liability.

Assigned Fund Balance

The Agency has designated 5% of current tax assessments collected to be used for the arts. As of September 30, 2017, the Agency has \$44,816 remaining to be used for the arts.

Redevelopment Projects

Expenditures for redevelopment projects for Hayden Urban Renewal Agency for the fiscal year ended September 30, 2017 related to projects on North Government Way and Hayden Avenue.

See independent auditors' report.

FINANCIAL SECTION
REQUIRED SUPPLEMENTARY INFORMATION

City of Hayden, Idaho

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017**

	*		
	Final Budgeted Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes and special assessments	\$ 1,321,634	\$ 1,346,548	\$ 24,914
Licenses and permits	832,395	1,031,855	199,460
Growth service fees	39,900	108,818	68,918
Grants	300	92,840	92,540
Intergovernmental revenue	2,061,095	2,182,493	121,398
Interest income	21,050	47,887	26,837
Net increase (decrease) in the fair value of investments	-	(17,817)	(17,817)
Charges for services	149,480	171,283	21,803
Fines and forfeits	25,000	35,031	10,031
Impact fees	-	-	-
Contributions	-	-	-
Miscellaneous revenues	11,209	38,962	27,753
Total revenues	<u>4,462,063</u>	<u>5,037,900</u>	<u>575,837</u>
EXPENDITURES			
General government	1,688,995	1,518,150	(170,845)
Public safety	539,587	434,767	(104,820)
Public works	1,989,202	1,682,042	(307,160)
Recreation	415,190	372,573	(42,617)
Capital expenditures	71,500	335,285	263,785
Contingency	-	-	-
Debt service - principal retirement	85,442	43,442	(42,000)
Debt service - interest expense	19,547	16,547	(3,000)
Total expenditures	<u>4,809,463</u>	<u>4,402,806</u>	<u>(406,657)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(347,400)</u>	<u>635,094</u>	<u>982,494</u>
OTHER FINANCING SOURCES			
Sale of general capital assets	40,400	120	(40,280)
Transfers in	78,000	76,939	(1,061)
Total other financing sources	<u>118,400</u>	<u>77,059</u>	<u>(41,341)</u>
NET CHANGE IN FUND BALANCES	<u>(229,000)</u>	<u>712,153</u>	<u>941,153</u>
FUND BALANCES, beginning	229,000	3,794,312	3,565,312
PRIOR PERIOD ADJUSTMENT	-	(59,988)	(59,988)
FUND BALANCES, ending	<u>\$ -</u>	<u>\$ 4,446,477</u>	<u>\$ 4,446,477</u>

* Budget was not amended

*See accompanying notes to the required supplementary information
and independent auditors' report*

City of Hayden, Idaho

**IMPACT FEES - CIRCULATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017**

	*		
	Final Budgeted Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Grants	\$ -	\$ 154,822	\$ 154,822
Interest income	2,500	25,001	22,501
Impact fees	302,000	424,580	122,580
Total revenues	304,500	604,403	299,903
EXPENDITURES			
Public works	950,000	9,274	940,726
Capital expenditures	592,125	595,124	(2,999)
Total expenditures	1,542,125	604,398	937,727
NET CHANGE IN FUND BALANCES	(1,237,625)	5	1,237,630
FUND BALANCES - beginning	1,237,625	2,036,947	(799,322)
FUND BALANCES - ending	\$ -	\$ 2,036,952	\$ 438,308

* Budget was not amended

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION September 30, 2017

NOTE 1: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the general fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the general fund.

This is in conformance with Idaho State Statutes, which require that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation. The budget was not amended in the current fiscal year.

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.

Lapsing of Appropriations – At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.

The City properly prepared and published its budget for the year, as required by US generally accepted accounting principles and Idaho Code 33-2713A.

City of Hayden

SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY

PERSI - Base Plan

Last 10 - Fiscal Years *

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
City of Hayden's portion of the net pension liability	0.0534658%	0.0538430%	0.0494326%
City of Hayden's proportionate share of the net pension liability	\$ 840,391	\$ 1,123,371	\$ 650,946
City of Hayden's covered-employee payroll	\$ 1,667,382	\$ 1,644,803	\$ 1,396,486
City of Hayden's proportional share of the net pension liability as a percentage of its covered-employee payroll	50.40%	68.30%	46.61%
Plan fiduciary net position as a percentage of the total pension liability	90.68%	87.26%	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, City of Hayden will present information for those to use for which information is available.

Data reported is measured as of June 30, 2017 (measurement date)

SCHEDULE OF CITY'S CONTRIBUTIONS

PERSI - Base Plan

Last 10 - Fiscal Years *

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Statutorily required contribution	\$ 180,293	\$ 160,055	\$ 161,695
Contributions in relation to the statutorily required contribution	\$ (190,535)	\$ (180,703)	\$ (158,798)
Contribution (deficiency) excess	\$ (10,242)	\$ (20,648)	\$ 2,897
City's covered-employee payroll	\$ 1,667,382	\$ 1,644,803	\$ 1,396,486
Contributions as a percentage of covered-employee payroll	11.43%	10.99%	11.37%

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

Data reported is measured as of June 30, 2017 (measurement date)

FINANCIAL SECTION
SUPPLEMENTARY INFORMATION

City of Hayden, Idaho

COMBINING BALANCE SHEET - BY FUND TYPE
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2017

	Special Revenue Funds	Debt Service Funds	Total
ASSETS			
Cash and cash equivalents	\$ 174,771	\$ 52,939	\$ 227,710
Other receivables	-	435,385	435,385
Restricted cash and cash equivalents	646,582	198,489	845,071
Total assets	<u>\$ 821,353</u>	<u>\$ 686,813</u>	<u>\$ 1,508,166</u>
LIABILITIES			
Vouchers payable	\$ 988	\$ -	\$ 988
Accrued expenses	-	83	83
Total liabilities	<u>988</u>	<u>83</u>	<u>1,071</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	<u>-</u>	<u>435,385</u>	<u>435,385</u>
FUND BALANCES			
Restricted	666,408	198,406	864,814
Committed	153,957	-	153,957
Unassigned	-	52,939	52,939
Total fund balances	<u>820,365</u>	<u>251,345</u>	<u>1,071,710</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 821,353</u>	<u>\$ 686,813</u>	<u>\$ 1,508,166</u>

See accompanying notes to the financial statements
and independent auditors' report

City of Hayden, Idaho

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017**

	Special Revenue Funds	Debt Service Funds	Total
REVENUES			
Licenses and permits	\$ 42,647	\$ -	\$ 42,647
Interest income	9,142	37,437	46,579
Impact fees	111,706	-	111,706
Special assessments payments	-	122,511	122,511
Total revenues	<u>163,495</u>	<u>159,948</u>	<u>323,443</u>
EXPENDITURES			
General government	-	7,458	7,458
Public safety	-	-	-
Public works	-	-	-
Recreation	15,621	-	15,621
Debt service - principal payments	-	15,208	15,208
Debt service - interest expense	-	26,082	26,082
Total expenditures	<u>38,924</u>	<u>48,748</u>	<u>87,672</u>
Excess (deficiency) of revenues over (under) expenditures	<u>124,571</u>	<u>111,200</u>	<u>235,771</u>
OTHER FINANCING SOURCES			
Transfers out	-	(76,939)	(76,939)
Total other financing sources	<u>-</u>	<u>(76,939)</u>	<u>(76,939)</u>
NET CHANGE IN FUND BALANCES	124,571	34,261	158,832
FUND BALANCES - beginning	695,794	217,084	912,878
FUND BALANCES - ending	<u>\$ 820,365</u>	<u>\$ 251,345</u>	<u>\$ 1,071,710</u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

September 30, 2017

	Honeysuckle Boat Launch	Council Media Center	Impact Fees Parks	Impact Fees Law Enforcement	Total
ASSETS					
Cash and cash equivalents	\$ 153,939	\$ 20,832	\$ -	\$ -	\$ 174,771
Restricted cash and cash equivalents	-	-	578,097	68,485	646,582
Total assets	<u>\$ 153,939</u>	<u>\$ 20,832</u>	<u>\$ 578,097</u>	<u>\$ 68,485</u>	<u>\$ 821,353</u>
LIABILITIES					
Vouchers payable	\$ (18)	\$ -	\$ 1,006	\$ -	\$ 988
Total liabilities	<u>(18)</u>	<u>-</u>	<u>1,006</u>	<u>-</u>	<u>988</u>
FUND BALANCES					
Restricted	-	20,832	577,091	68,485	666,408
Committed	153,957	-	-	-	153,957
Total fund balances	<u>153,957</u>	<u>20,832</u>	<u>577,091</u>	<u>68,485</u>	<u>820,365</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 153,939</u>	<u>\$ 20,832</u>	<u>\$ 578,097</u>	<u>\$ 68,485</u>	<u>\$ 821,353</u>

See accompanying notes to the financial statements
and independent auditors' report

City of Hayden, Idaho

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2017

	Honeysuckle Boat Launch	Council Media Center	Impact Fees Parks	Impact Fees Law Enforcement	Total
REVENUES					
Licenses and permits	\$ 42,647	\$ -	\$ -	\$ -	\$ 42,647
Interest income	1,703	180	6,666	593	9,142
Impact fees	-	-	111,706	-	111,706
Total revenues	44,350	180	118,372	593	163,495
EXPENDITURES					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Recreation	15,621	-	-	-	15,621
Capital expenditures	-	-	23,303	-	23,303
Debt service - principal payments	-	-	-	-	-
Debt service - interest expense	-	-	-	-	-
Total expenditures	15,621	-	23,303	-	38,924
NET CHANGE IN FUND BALANCES	28,729	180	95,069	593	124,571
FUND BALANCES - beginning	125,228	20,652	482,022	67,892	695,794
FUND BALANCES - ending	\$ 153,957	\$ 20,832	\$ 577,091	\$ 68,485	\$ 820,365

See accompanying notes to the financial statements
and independent auditors' report

City of Hayden, Idaho

**COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2017**

	LID 2004-1	LID 2002 Consolidated	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 52,939	\$ 52,939
Other receivables	429,099	6,286	435,385
Restricted cash and cash equivalents	198,489	-	198,489
Total assets	<u>\$ 627,588</u>	<u>\$ 59,225</u>	<u>\$ 686,813</u>
LIABILITIES			
Accrued Expenses	\$ 83	\$ -	\$ 83
Total liabilities	<u>83</u>	<u>-</u>	<u>83</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	<u>429,099</u>	<u>6,286</u>	<u>435,385</u>
FUND BALANCES			
Restricted	198,406		198,406
Unassigned	-	52,939	52,939
Total fund balances	<u>198,406</u>	<u>52,939</u>	<u>251,345</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 627,588</u>	<u>\$ 59,225</u>	<u>\$ 686,813</u>

*See accompanying notes to the financial statements
and independent auditors' report*

City of Hayden, Idaho

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2017**

	LID 2004-1	LID 2002 Consolidated	Total
REVENUES			
Interest income	\$ 30,430	\$ 7,007	\$ 37,437
Special assessments payments	48,841	73,670	122,511
Total revenues	<u>79,271</u>	<u>80,677</u>	<u>159,948</u>
EXPENDITURES			
General government	3,770	3,688	7,458
Debt service - principal payments	15,208	-	15,208
Debt service - interest expense	26,082	-	26,082
Total expenditures	<u>45,060</u>	<u>3,688</u>	<u>48,748</u>
Excess (deficiency) of revenues over (under) expenditures	<u>34,211</u>	<u>76,989</u>	<u>111,200</u>
OTHER FINANCING SOURCES			
Transfers out	-	(76,939)	(76,939)
Total other financing sources	<u>-</u>	<u>(76,939)</u>	<u>(76,939)</u>
NET CHANGE IN FUND BALANCES	34,211	50	34,261
FUND BALANCES - beginning	164,195	52,889	217,084
FUND BALANCES - ending	<u>\$ 198,406</u>	<u>\$ 52,939</u>	<u>\$ 251,345</u>

*See accompanying notes to the financial statements
and independent auditors' report*

FINANCIAL SECTION
REPORT REQUIRED BY GAO



1810 E Schneidmiller Ave. Ste. 310
Post Falls, Idaho 83854
208-777-1099 (phone) 208-773-5108 (fax)

**INDEPENDENT AUDITOR'S 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**

To the 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 units, each major fund, and the aggregate remaining fund information of The City of Hayden, Idaho, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Hayden's basic financial statements and have issued our report thereon dated May 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Hayden's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies 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 the City of Hayden's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Anderson Bros. CPA's, P.A.
Post Falls, ID
May 21, 2018