

CITY OF HAYDEN

FINANCIAL STATEMENT
SEPTEMBER 30, 2014

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditors' Report 1 - 2

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position3

Statement of Activities 4 – 5

Fund Financial Statements:

Governmental Funds:

Balance Sheet6 – 7

Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position8

Statement of Revenues, Expenditures and Changes in Fund Balances 9 –10

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities11

Proprietary Funds:

Statement of Net Position12

Statement of Revenues, Expenses and Changes in Fund Net Position.....13

Statement of Cash Flows14

Agency Funds:

Statement of Fiduciary Net Position..... 15

Notes to the Financial Statements..... 16 – 32

Required Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual

General Fund.....33

Public Works Fund34

Impact Fees Fund.....35

Report Required by the GAO

Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

36 – 37

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hayden, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Hayden's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 unit, each major fund, and the aggregate remaining fund information of City of Hayden, as of September 30, 2014, 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.

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2015 on our consideration of City of Hayden's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hayden's internal control over financial reporting and compliance.

Magnuson, McHugh & Company, P.A.

March 5, 2015

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Hayden

STATEMENT OF NET POSITION
September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
ASSETS				
Cash	\$ 4,861,847	\$ 239,735	\$ 5,101,582	\$ 1,959,631
Investments	1,028,220	2,078,817	3,107,037	-
Receivables	1,247,734	341,016	1,588,750	24,467
Other assets	51,752	-	51,752	1,069
Restricted cash and cash equivalents	110,962	-	110,962	-
Land	2,729,193	512,877	3,242,070	393,000
Fixed assets, net of depreciation	35,525,205	9,577,695	45,102,900	-
Total assets	<u>45,554,913</u>	<u>12,750,140</u>	<u>58,305,053</u>	<u>2,378,167</u>
LIABILITIES				
Accounts payable and accrued expenses	301,613	2,592,313	2,893,926	14,121
Unearned revenue	-	262,485	262,485	-
Surety deposits	107,239	-	107,239	-
Accrued interest payable	21,464	-	21,464	-
Noncurrent liabilities:				
Due within one year	62,583	-	62,583	-
Due in more than one year	839,395	217,800	1,057,195	-
Total liabilities	<u>1,332,294</u>	<u>3,072,598</u>	<u>4,404,892</u>	<u>14,121</u>
NET POSITION				
Net investment in capital assets	37,524,738	7,453,448	44,978,186	393,000
Restricted for capital improvements / expansion	2,108,310	628,343	2,736,653	1,971,046
Unrestricted	4,589,571	1,595,751	6,185,322	-
Total net position	<u>\$ 44,222,619</u>	<u>\$ 9,677,542</u>	<u>\$ 53,900,161</u>	<u>\$ 2,364,046</u>

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

City of Hayden

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Primary government:			
Governmental activities:			
General government	\$ 1,433,419	\$ 192,313	\$ -
Public safety	507,831	710,945	-
Highways and streets	4,056,377	-	-
Recreation	353,167	-	-
Interest on long-term debt	31,657	-	-
Total governmental activities	6,382,451	903,258	-
Business-type activities:			
Sewer	2,300,536	2,222,683	-
Sewer expansion	845,272	900,312	-
Total business-type activities	3,145,808	3,122,995	-
Total primary government	\$ 9,528,259	\$ 4,026,253	\$ -
Component unit:			
Hayden Urban Renewal Agency	\$ 200,656		
Total component unit	\$ 200,656		

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

Change in net position

Net position - beginning

Prior period adjustment

Net position - ending

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

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

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
\$ (1,241,106)	\$ -	\$ (1,241,106)	
203,114	-	203,114	
(4,056,377)	-	(4,056,377)	
(353,167)	-	(353,167)	
(31,657)	-	(31,657)	
<u>(5,479,193)</u>	<u>-</u>	<u>(5,479,193)</u>	
-	(77,853)	(77,853)	
-	55,040	55,040	
<u>-</u>	<u>(22,813)</u>	<u>(22,813)</u>	
<u>(5,479,193)</u>	<u>(22,813)</u>	<u>(5,502,006)</u>	
			<u>\$ 200,656</u>
			<u>200,656</u>
1,142,133	-	1,142,133	565,696
115,477	31,638	147,115	6,625
51,963	-	51,963	100
-	-	-	62,374
1,682,415	-	1,682,415	-
438,422	-	438,422	-
184,617	-	184,617	-
<u>3,615,027</u>	<u>31,638</u>	<u>3,646,665</u>	<u>634,795</u>
(1,864,166)	8,825	(1,855,341)	434,139
45,836,045	9,668,717	55,504,762	1,929,907
250,740	-	250,740	-
<u>\$ 44,222,619</u>	<u>\$ 9,677,542</u>	<u>\$ 53,900,161</u>	<u>\$ 2,364,046</u>

City of Hayden

**BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2014**

	General	Public Works
ASSETS		
Cash and cash equivalents	\$ 2,492,732	\$ 316,150
Investments	732,708	295,512
Other receivables	243,996	173,333
Prepaid insurance	51,752	-
Taxes receivable	25,284	-
Restricted cash and cash equivalents	-	-
Total assets	\$ 3,546,472	\$ 784,995
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Vouchers payable	\$ 33,856	\$ 149,061
Accrued expenses	47,193	28,396
Other current liabilities	26,631	-
Surety deposits	107,239	-
Total liabilities	214,919	177,457
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	18,278	-
Unavailable revenue-special assessments	-	-
Total deferred inflows of resources	18,278	-
 Fund balances:		
Restricted	-	-
Assigned	-	607,538
Unassigned	3,313,275	-
Total fund balances	3,313,275	607,538
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,546,472	\$ 784,995

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

Impact Fees	2004-1 LID	2002 Consolidated LID	Total
\$ 2,013,697	\$ -	\$ 39,268	\$ 4,861,847
-	-	-	1,028,220
-	564,229	240,892	1,222,450
-	-	-	51,752
-	-	-	25,284
-	110,962	-	110,962
<u>\$ 2,013,697</u>	<u>\$ 675,191</u>	<u>\$ 280,160</u>	<u>\$ 7,300,515</u>
\$ 16,222	\$ 127	\$ -	\$ 199,266
-	-	127	75,716
-	-	-	26,631
-	-	-	107,239
<u>16,222</u>	<u>127</u>	<u>127</u>	<u>408,852</u>
-	-	-	18,278
-	564,229	240,892	805,121
-	564,229	240,892	823,399
1,997,475	110,835	-	2,108,310
-	-	-	607,538
-	-	39,141	3,352,416
<u>1,997,475</u>	<u>110,835</u>	<u>39,141</u>	<u>6,068,264</u>
<u>\$ 2,013,697</u>	<u>\$ 675,191</u>	<u>\$ 280,160</u>	<u>\$ 7,300,515</u>

City of Hayden

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2014**

Total fund balances at September 30, 2014 - Governmental Funds		\$ 6,068,264
Cost of capital assets at September 30, 2014	\$ 88,865,831	
Less: Accumulated depreciation as of September 30, 2014		
Buildings and structures	(1,028,196)	
Equipment	(1,931,681)	
Infrastructure	<u>(47,651,556)</u>	38,254,398
Elimination of deferred revenue		823,399
Long-term liabilities at September 30, 2014		
Accrued interest	(21,464)	
Compensated absences	(172,318)	
Capital leases and long term debt	<u>(729,660)</u>	<u>(923,442)</u>
Net position at September 30, 2014		<u><u>\$ 44,222,619</u></u>

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

City of Hayden

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

For the Year Ended September 30, 2014

	General	Public Works
REVENUES		
Taxes and special assessments	\$ 1,146,859	\$ -
Licenses and permits	439,867	271,078
Growth service fees	32,904	-
Grants	-	-
Intergovernmental revenue	1,070,665	611,750
Investment income	-	-
Charges for services	159,409	-
Fines and forfeits	30,038	-
Impact fees	-	-
Miscellaneous revenues	9,646	12,279
Principal payments on LID	-	-
Total revenues	2,889,388	895,107
EXPENDITURES		
General government	1,260,236	-
Public safety	507,831	-
Public works	-	1,723,496
Recreation	285,665	-
Capital expenditures	-	-
Debt service - principal retirement	-	47,114
Debt service - interest expense	-	4,238
Total expenditures	2,053,732	1,774,848
Excess (deficiency) of revenues over (under) expenditures	835,656	(879,741)
OTHER FINANCING SOURCES (USES)		
Debt proceeds	-	-
Contingency	-	-
Net investment earnings (losses)	44,582	4,632
Sale of general capital assets	435,357	-
Transfers in	63,109	878,711
Transfers out	(817,157)	(27,154)
Total other financing sources (uses)	(274,109)	856,189
Net change in fund balances	561,547	(23,552)
Fund balances - beginning	2,751,728	631,090
Fund balances - ending	\$ 3,313,275	\$ 607,538

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

Impact Fees	2004-1 LID	2002 Cons. LID	Total
\$ -	\$ -	\$ -	\$ 1,146,859
-	-	-	710,945
-	-	-	32,904
-	-	-	-
-	-	-	1,682,415
2,204	36,079	27,980	66,263
-	-	-	159,409
-	-	-	30,038
438,422	-	-	438,422
-	-	-	21,925
-	37,433	111,641	149,074
<u>440,626</u>	<u>73,512</u>	<u>139,621</u>	<u>4,438,254</u>
-	-	3,407	1,263,643
-	-	-	507,831
5,170	3,381	-	1,732,047
-	-	-	285,665
638,338	-	-	638,338
-	13,423	-	60,537
-	27,867	-	32,105
<u>643,508</u>	<u>44,671</u>	<u>3,407</u>	<u>4,520,166</u>
<u>(202,882)</u>	<u>28,841</u>	<u>136,214</u>	<u>(81,912)</u>
-	-	-	-
-	-	-	-
-	-	-	49,214
-	-	-	435,357
-	-	-	941,820
-	-	(97,509)	(941,820)
-	-	(97,509)	484,571
(202,882)	28,841	38,705	402,659
<u>2,200,357</u>	<u>81,994</u>	<u>436</u>	<u>5,665,605</u>
<u>\$ 1,997,475</u>	<u>\$ 110,835</u>	<u>\$ 39,141</u>	<u>\$ 6,068,264</u>

City of Hayden

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2014

Total net changes in fund balances for year ended September 30, 2014	\$ 402,659
Add: Capital outlay which is considered expenditures	809,771
Less: Depreciation expense for the year ended September 30, 2014	(2,699,577)
Elimination of interfund revenues and expenditures:	
Add: Interfund transfers out	941,820
Less: Interfund transfers in	(941,820)
Add: Debt principal payments considered as an expenditure	60,537
Add: Accrued interest expense	448
Less: Change in compensated absences	(33,464)
Less: Gain on disposal of fixed assets	(250,740)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(4,726)
Less: Difference between revenue earned LID assessments on modified accrual basis versus revenue on LID's on accrual basis	<u>(149,074)</u>
Change in net position for year ended September 30, 2014	<u><u>\$ (1,864,166)</u></u>

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

City of Hayden

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2014**

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 21,935	\$ 217,800	\$ 239,735
Investments	1,706,321	372,496	2,078,817
Receivables	302,969	38,047	341,016
Total current assets	<u>2,031,225</u>	<u>628,343</u>	<u>2,659,568</u>
Noncurrent assets:			
Land	-	512,877	512,877
Capital assets	6,703,245	2,874,450	9,577,695
Total noncurrent assets	<u>6,703,245</u>	<u>3,387,327</u>	<u>10,090,572</u>
Total assets	<u>8,734,470</u>	<u>4,015,670</u>	<u>12,750,140</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	172,989	2,419,324	2,592,313
Unearned revenue	262,485	-	262,485
Total current liabilities	<u>435,474</u>	<u>2,419,324</u>	<u>2,854,798</u>
Non current liabilities:			
Capital advance DEQ	-	217,800	217,800
Total non current liabilities	<u>-</u>	<u>217,800</u>	<u>217,800</u>
Total liabilities	<u>435,474</u>	<u>2,637,124</u>	<u>3,072,598</u>
NET POSITION			
Invested in capital assets (net of related debt)	6,703,245	750,203	7,453,448
Restricted for expansion	-	628,343	628,343
Unrestricted	1,595,751	-	1,595,751
Total net position	<u>\$ 8,298,996</u>	<u>\$ 1,378,546</u>	<u>\$ 9,677,542</u>

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

City of Hayden

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

For the Year Ended September 30, 2014

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 2,161,270	\$ 900,312	\$ 3,061,582
Miscellaneous	61,413	-	61,413
Total operating revenues	<u>2,222,683</u>	<u>900,312</u>	<u>3,122,995</u>
OPERATING EXPENSES			
Personal services	179,991	-	179,991
Contractual services	1,901,665	709,888	2,611,553
Other services and charges	79,661	11,400	91,061
Depreciation	139,219	123,984	263,203
Total operating expenses	<u>2,300,536</u>	<u>845,272</u>	<u>3,145,808</u>
Operating income (loss)	<u>(77,853)</u>	<u>55,040</u>	<u>(22,813)</u>
NONOPERATING REVENUES (EXPENSE)			
Net investment income (loss)	27,411	4,227	31,638
Total nonoperating revenues (expenses)	<u>27,411</u>	<u>4,227</u>	<u>31,638</u>
Change in net position	(50,442)	59,267	8,825
Total net position - beginning	<u>8,349,438</u>	<u>1,319,279</u>	<u>9,668,717</u>
Total net position - ending	<u>\$ 8,298,996</u>	<u>\$ 1,378,546</u>	<u>\$ 9,677,542</u>

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

City of Hayden

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2014**

	Sewer	Sewer Expansion	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,258,346	\$ 907,375	\$ 3,165,721
Payments to employees	(179,991)	-	(179,991)
Payments to suppliers	(2,151,457)	(721,288)	(2,872,745)
Net cash (used) provided by operating activities	(73,102)	186,087	112,985
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from interest	27,411	4,227	31,638
Purchase of securities	59,359	(189,662)	(130,303)
Net cash provided (used) by investing activities	86,770	(185,435)	(98,665)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from DEQ note	-	217,800	217,800
Purchase of capital assets	(7,700)	(652)	(8,352)
Net cash provided (used) by capital and related financing activities	(7,700)	217,148	209,448
Net increase in cash and cash equivalents	5,968	217,800	223,768
Cash and cash equivalents, beginning	15,967	-	15,967
Cash and cash equivalents, ending	\$ 21,935	\$ 217,800	\$ 239,735
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (77,853)	\$ 55,040	\$ (22,813)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	139,219	123,984	263,203
Decrease in receivables	35,663	7,063	42,726
(Decrease) in vouchers payable	(170,131)	-	(170,131)
Net cash (used) provided by operating activities	\$ (73,102)	\$ 186,087	\$ 112,985

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

City of Hayden

STATEMENT OF FIDUCIARY NET POSITION
September 30, 2014

	<u>Museum</u>
ASSETS	
Cash and cash equivalents	\$ 1,006
Total assets	<u>\$ 1,006</u>
LIABILITIES	
Held in trust for others - Museum	\$ 1,006
Total liabilities	<u>\$ 1,006</u>

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

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

D. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Investments - Investments are stated at fair value. Investments on hand at year end meet the guidelines as set by regulations of the State of Idaho.

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

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

Kootenai County - Due from Kootenai County are taxes and other County collections allocable to the fiscal year ended September 30, 2014, which were collected and held by the County at September 30, 2014, but not yet remitted to the City until after September 30, 2014.

3. **Prepaid items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

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

5. **Compensated absences** – Paid time off

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

6. **Long-term obligations** - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

7. **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.

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

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

The City reports the following classifications:

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

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Concluded)

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

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

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

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

E. 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.

F. Estimates

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

G. Budgets and budgetary accounting

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

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

NOTE 2: CASH AND INVESTMENTS

General:

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

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the City's deposits and investments may not be returned to it. The carrying amount of the City's deposits and investments is \$8,320,587 and the bank balance is \$8,514,433. As of September 30, 2014, the City's deposits and investments were not exposed to custodial credit risk and were categorized as follows:

Deposits without exposure to custodial credit risk:

Deposits:	
Amount insured by FDIC	\$ 250,000
Amount collateralized with securities held in trust, but not in the City's name	5,157,395
Total	5,407,395
Investments:	
Amount registered in the name of the City	3,107,038
Total deposits without exposure to custodial credit risk	3,107,038
Total deposits and investmetns without exposure to custodial credit risk	\$ 8,514,433
Statement of Net positon	
Cash	\$ 5,101,582
Investments	3,107,037
Restricted cash and cash equivalents	110,962
Total	8,319,581
Statement of fiduciary net position	
Cash	1,006
Total	1,006
Total carring amount deposits and investments	\$ 8,320,587

Credit risk:

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

Interest rate risk and concentration of credit risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Concentration of credit risk as defined by GASB exists when more than 5% of an investment portfolio is allocated to one security. As of September 30, 2014, the City had the following investments (and associated maturities) in its internal investment portfolio:

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.

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

Fair value:

Maturity	Investment / Cusip #	Fair value	Maturity			
			Less than 2 years	2-5 years	6-10 years	10 years or more
<u>U.S. Agencies:</u>						
9/20/2021	FFCB - 3133EAX45	\$ 355,112	\$ -	\$ -	\$ 355,112	\$ -
2/24/2022	FHLB - 313376XX8	511,234	-	-	511,234	-
4/29/2020	FHLB - 3133814M4	381,498	-	381,498	-	-
3/15/2031	FHLMC - 3434A4BQ6	426,398	-	-	-	426,398
11/21/2019	FNMA - 3136G04P3	371,544	-	371,544	-	-
12/27/2018	FNMA - 3136G16A2	333,194	-	333,194	-	-
11/15/2020	FNMA - 31358C7U4	363,974	-	-	363,974	-
12/15/2021	TENN VALLEY - 88059ES70	346,031	-	-	346,031	-
		<u>\$ 3,088,985</u>	<u>\$ -</u>	<u>\$ 1,086,236</u>	<u>\$ 1,576,351</u>	<u>\$ 426,398</u>

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

The balances that the City has in the State Investment Pool are carried at its cost of \$3,520,890, which materially approximates fair market value. The City's portion of the State Investment Pool had an unrealized gain of \$4,577 at September 30, 2014, which has not been recognized in the financial statements.

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 3: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Additions	Deletions	Adjustment	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 2,979,933	\$ -	\$ 250,740	\$ -	\$ 2,729,193
Total capital assets not being depreciated	<u>2,979,933</u>	<u>-</u>	<u>250,740</u>	<u>-</u>	<u>2,729,193</u>
Capital assets being depreciated:					
Buildings and improvements	2,909,330	43,145	-	-	2,952,475
Machinery and equipment	2,274,664	89,819	-	-	2,364,483
Infrastructure	80,142,873	676,807	-	-	80,819,680
Total capital assets being depreciated	<u>85,326,867</u>	<u>809,771</u>	<u>-</u>	<u>-</u>	<u>86,136,638</u>
Less accumulated depreciation for:					
Buildings	932,776	95,420	-	-	1,028,196
Equipment	1,822,818	108,863	-	-	1,931,681
Infrastructure	45,156,262	2,495,294	-	-	47,651,556
Total accumulated depreciation	<u>47,911,856</u>	<u>2,699,577</u>	<u>-</u>	<u>-</u>	<u>50,611,433</u>
Total capital assets being depreciated, net	<u>37,415,011</u>	<u>(1,889,806)</u>	<u>-</u>	<u>-</u>	<u>35,525,205</u>
Total assets, net	<u>\$ 40,394,944</u>	<u>\$ (1,889,806)</u>	<u>\$ 250,740</u>	<u>\$ -</u>	<u>\$ 38,254,398</u>
	Ending Balance	Additions	Deletions	Adjustment	Ending Balance
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 512,877	\$ -	\$ -	\$ -	\$ 512,877
Total capital assets not being depreciated	<u>512,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>512,877</u>
Capital assets being depreciated:					
Infrastructure	10,056,765	2,064,223	-	-	12,120,988
Total capital assets	<u>10,056,765</u>	<u>2,064,223</u>	<u>-</u>	<u>-</u>	<u>12,120,988</u>
Less accumulated depreciation for:					
Infrastructure	2,280,091	263,203	-	(1)	2,543,293
Total accumulated depreciation	<u>2,280,091</u>	<u>263,203</u>	<u>-</u>	<u>(1)</u>	<u>2,543,293</u>
Total capital assets being depreciated, net	<u>7,776,674</u>	<u>1,801,020</u>	<u>-</u>	<u>-</u>	<u>9,577,695</u>
Total assets, net	<u>\$ 8,289,551</u>	<u>\$ 1,801,020</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 10,090,572</u>

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

Governmental activities:		
General government		\$ 150,377
Public safety		-
Highways and streets		2,481,698
Culture and recreation		67,502
Total depreciation expense- governmental activities		<u>\$ 2,699,577</u>
Business-type activities:		
Sewer		\$ 263,203
Total depreciation expense- business type activities		<u>\$ 263,203</u>

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 4: LONG-TERM DEBT

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

Fiscal year ending September 30:	Total Payment	Interest	Principal
2015	\$ 41,290	\$ 27,297	\$ 13,993
2016	41,290	26,702	14,588
2017	41,290	26,082	15,208
2018	41,290	25,436	15,854
2019	41,290	24,762	16,528
2020-2024	206,450	112,658	93,792
2025-2029	206,450	90,960	115,490
2030-2034	206,450	64,241	142,209
2035-2039	206,450	31,341	175,109
2040	41,190	1,679	39,511
	\$ 1,073,440	\$ 431,158	\$ 642,282

NOTE 5: DEQ LOAN ADVANCE

For the year ended September 30, 2014 the City reports in the Sewer Expansion Fund accounts payable to HARSB of \$2,419,324. The funds to satisfy the HARSB payable will be from the DEQ financing. These capital advances will be secured by a promissory note or bond in the amount of \$8,777,754. The promissory note or bond will be issued upon project completion.

At September 30, 2014 the City has received \$217,800 from DEQ and is reported as a non-current liability.

NOTE 6: CAPITAL LEASES

Government Funds – The City has entered into equipment leases using governmental funds. These leases qualify as capital leases because ownership of the asset transfers to the City at the end of the lease. The leases carry interest at rates between 4% and 4.5%, and require annual principal payments. The leases are secured by the equipment, the cost of which is \$241,208. As of September 30, 2014, current year amortization of the leased assets totaled \$37,492 and is included in depreciation expense on the financial statements. The total accumulated depreciation is \$114,130.

Future minimum lease payments are as follows:

2015	\$ 51,352
2016	40,026
Total	91,378
Less amount representing interest	(4,000)
Present value of capital leases	\$ 87,378

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 7: CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2014, is as follows:

	Beginning 09/30/13	Additions	Deletions	Ending 09/30/14	Current Portion
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 138,854	\$ 33,464	\$ -	\$ 172,318	\$ -
Note payable - Rural Development	655,705	-	13,423	642,282	13,993
Capital leases	134,492	-	47,114	87,378	48,590
Total debt - Governmental activities	<u>\$ 929,051</u>	<u>\$ 33,464</u>	<u>\$ 60,537</u>	<u>\$ 901,978</u>	<u>\$ 62,583</u>
BUSINESS-TYPE ACTIVITIES					
Capital advance DEQ	\$ -	\$ 217,800	\$ -	\$ 217,800	\$ -
Total debt - Governmental activities	<u>\$ -</u>	<u>\$ 217,800</u>	<u>\$ -</u>	<u>\$ 217,800</u>	<u>\$ -</u>

NOTE 8: ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

Total sewer fund receivables	\$ 344,221
Allowance for doubtful accounts	<u>(41,252)</u>
Net realizable value	<u>\$ 302,969</u>

NOTE 9: DEFINED BENEFIT PENSION PLAN

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

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

The actuarially determined contribution requirements of the City of Hayden and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2014, the required contribution rate as a percentage of covered payrolls for members was 6.79% for general members. The employer rate as a percentage of covered payroll was 11.32%. The City of Hayden employer contributions required and paid were \$157,611, \$143,726 and \$145,080 for the three years ended September 30, 2014, 2013 and 2012, respectively.

NOTE 10: COMMITMENTS AND CONTINGENCIES

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement from grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City management believes such disallowances, if any, will be immaterial.

The City is a party to legal actions arising in the ordinary course of its business. In management's opinion, the City has adequate legal defenses and/or insurance coverage regarding these legal actions and does not believe that they will materially affect the City's operations or financial position.

Wastewater Treatment Plant Upgrade and Expansion

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

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

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

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 10: COMMITMENTS AND CONTINGENCIES (CONCLUDED)

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.

Construction Commitments

The Board is currently committed to only Phase 1 of the Facility Master Plan, which is budgeted at approximately \$15,821,000 total costs to complete. Of this amount, approximately \$10,426,000 is related to replacement and regulatory upgrades, with the remaining \$5,395,000 in costs for expansion. As of the fiscal year-ended September 30, 2014, costs incurred to date on Phase 1 were \$4,206,037. Phase 1 is expected to span from fiscal years 2013 through 2017.

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

Financing of the Facility Master Plan

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

During the year ended September 30, 2014, the City of Hayden and the Hayden Lake Recreational Water and Sewer District both successfully obtained financing through the DEQ for their share of the construction costs, which allowed for Phase 1 of the project to begin.

Accounting Treatment

HARSB is responsible for paying construction costs as incurred, and subsequently invoices the members of the Joint Powers Board for their respective allocated share of the costs. Accordingly, as of September 30, 2014, the Board has combined net receivable of \$125,305 due from the entities for reimbursement of Phase 1 costs expended. The amounts contributed by the Joint Powers Board members are being accounted for as a non-operating contribution of capital to HARSB. The amount of non-operating contributed capital recognized by HARSB related to the project for the year ended September 30, 2014 is \$2,628,111.

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 11: RISK MANAGEMENT

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

NOTE 12: INTERFUND TRANSACTIONS

Interfund transfers as of September 30, 2014

	Transfers in	Transfers out
General fund	\$ 63,109	\$ 817,157
Public works fund	878,711	27,154
2002 Cons. LID	-	97,509
	\$ 941,820	\$ 941,820

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

NOTE 13: RESTRICTIONS ON NET POSITION

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

NOTE 14: RESTRICTIONS ON CASH AND CASH EQUIVALENTS

The note payable to the Idaho Department of Rural Development requires a minimum of \$30,000 to be maintained in a separate bank account. The restricted cash and cash equivalents within the 2004-1 LID fund amount of \$110,962 represents the deposits the City has set aside to comply with this requirement.

NOTE 15: PRIOR PERIOD ADJUSTMENT

The City has a prior period adjustment at the Statement of Net Position for the purchase of land in a prior year. The result of the adjustment increased the Statement of Net Position by \$250,740.

NOTE 16: COMPONENT UNIT DISCLOSURES

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

Cash and Investments

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The carrying amount of the Agency's deposits is \$1,959,631 and the bank balance is \$1,959,631. As of September 30, 2014, the Agency's deposits and investments were not exposed to custodial credit risk.

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

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 16: COMPONENT UNIT DISCLOSURES (CONCLUDED)

Capital Assets

The following is a summary of fixed asset activity for the year ended September 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$393,000	\$ -	\$ -	\$ 393,000
Total	\$393,000	\$ -	\$ -	\$ 393,000

Transactions with primary government

During the fiscal year ending September 30, 2014, the Hayden Urban Renewal Agency paid the City of Hayden \$25,218 pursuant to a contract to provide administrative services for the Hayden Urban Renewal Agency. This amount is included in general government expenditures of \$47,014.

Commitments & Contingencies

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

Risk Management

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

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

Restricted fund balance / Net Position:

The Agency was established to promote urban development and improvement in and around the City of Hayden, however the funding received through tax increment revenues is restricted to specific geographic boundaries which are smaller than the geographic boundaries of the City of Hayden. Accordingly all fund balances / Net Position reported as of September 30, 2014, are considered restricted. This is because the funding limitation comes from a legislation outside of the Agency's control, and the restriction indicates the funds are to be used for purposes which are less in scope than the overall purpose of the Agency.

(Continued)

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

City of Hayden

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

For the Year Ended September 30, 2014

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes and special assessments	\$ 1,121,784	\$ 1,146,859	\$ 25,075
Licenses and permits	407,850	439,867	32,017
Growth service fees	45,000	32,904	(12,096)
Intergovernmental revenue	1,036,210	1,070,665	34,455
Investment income	10,000	-	(10,000)
Charges for services	124,329	159,409	35,080
Fines and forfeits	30,000	30,038	38
Miscellaneous revenues	7,575	9,646	2,071
Total revenues	<u>2,782,748</u>	<u>2,889,388</u>	<u>106,640</u>
EXPENDITURES			
General government	1,303,897	1,260,236	43,661
Public safety	508,831	507,831	1,000
Recreation	304,068	285,665	18,403
Total expenditures	<u>2,116,796</u>	<u>2,053,732</u>	<u>63,064</u>
Excess of revenues over expenditures	<u>665,952</u>	<u>835,656</u>	<u>169,704</u>
OTHER FINANCING (USES)			
Net investment earnings (losses)	-	44,582	44,582
Sale of general capital assets	-	435,357	435,357
Transfers in	63,109	63,109	-
Transfers out	(985,754)	(817,157)	168,597
Total other financing (uses)	<u>(922,645)</u>	<u>(274,109)</u>	<u>648,536</u>
Net change in fund balances	(256,693)	561,547	818,240
Fund balances - beginning	<u>256,693</u>	<u>2,751,728</u>	<u>2,495,035</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 3,313,275</u>	<u>\$ 3,313,275</u>

* Budget was not amended

City of Hayden

PUBLIC WORKS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL For the Year Ended September 30, 2014

	*Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Licenses and permits	\$ 245,000	\$ 271,078	\$ 26,078
Grants	300	-	(300)
Intergovernmental revenue	695,000	611,750	(83,250)
Investment income	2,700	-	(2,700)
Miscellaneous revenues	1,500	12,279	10,779
Total revenues	<u>944,500</u>	<u>895,107</u>	<u>(49,393)</u>
EXPENDITURES			
Public works	1,912,602	1,723,496	189,106
Principal retirement	47,114	47,114	-
Interest expense	4,238	4,238	-
Total expenditures	<u>1,963,954</u>	<u>1,774,848</u>	<u>189,106</u>
(Deficiency) of revenues (under) expenditures	<u>(1,019,454)</u>	<u>(879,741)</u>	<u>139,713</u>
OTHER FINANCING SOURCES			
Net investment earnings (losses)	-	4,632	4,632
Contingency	(317,157)	-	317,157
Transfers in	1,020,154	878,711	(141,443)
Transfers out	-	(27,154)	(27,154)
Total other financing sources	<u>702,997</u>	<u>856,189</u>	<u>153,192</u>
Net change in fund balances	(316,457)	(23,552)	292,905
Fund balances - beginning	<u>316,457</u>	<u>631,090</u>	<u>314,633</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 607,538</u>	<u>\$ 607,538</u>

* Budget was not amended

City of Hayden

IMPACT FEES FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL For the Year Ended September 30, 2014

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Impact fees	\$ 504,900	\$ 438,422	\$ (66,478)
Interest	3,600	2,204	(1,396)
Total revenues	<u>508,500</u>	<u>440,626</u>	<u>(67,874)</u>
EXPENDITURES			
Public works	-	5,170	(5,170)
Capital expenditures	1,087,440	638,338	449,102
Total expenditures	<u>1,087,440</u>	<u>643,508</u>	<u>443,932</u>
Excess of revenues over expenditures	<u>(578,940)</u>	<u>(202,882)</u>	<u>376,058</u>
Net change in fund balances	(578,940)	(202,882)	376,058
Fund balances - beginning	<u>578,940</u>	<u>2,200,357</u>	<u>1,621,417</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 1,997,475</u>	<u>\$ 1,997,475</u>

* Budget was not amended

FINANCIAL SECTION

REPORT REQUIRED BY THE GAO

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hayden as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Hayden's basic financial statements, and have issued our report thereon dated March 5, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

Purpose of this Report

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

Magnuson, McHugh & Company, P.A.

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

March 5, 2015