

CITY OF HAYDEN

FINANCIAL STATEMENT
SEPTEMBER 30, 2013

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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, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT 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 July 24, 2014 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.

July 24, 2014

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Hayden

STATEMENT OF NET POSITION
September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hayden Urban Renewal Agency
ASSETS				
Cash	\$ 4,060,423	\$ 15,967	\$ 4,076,390	\$ 1,506,328
Investments	1,493,930	1,948,514	3,442,444	
Receivables	1,378,982	355,274	1,734,256	29,925
Other assets	42,785	-	42,785	10,000
Restricted cash and cash equivalents	82,099	-	82,099	
Land	2,729,193	512,877	3,242,070	393,000
Fixed assets, net of depreciation	37,415,011	7,776,673	45,191,684	-
Total assets	<u>47,202,423</u>	<u>10,609,305</u>	<u>57,811,728</u>	<u>1,939,253</u>
LIABILITIES				
Accounts payable and accrued expenses	369,156	706,571	1,075,727	9,346
Unearned revenue	-	234,017	234,017	-
Surety deposits	46,259	-	46,259	-
Accrued interest payable	21,912	-	21,912	-
Noncurrent liabilities:				
Due within one year	60,537	-	60,537	-
Due in more than one year	868,514	-	868,514	-
Total liabilities	<u>1,366,378</u>	<u>940,588</u>	<u>2,306,966</u>	<u>9,346</u>
NET POSITION				
Net investment in capital assets	39,354,007	7,776,673	47,130,680	393,000
Restricted for capital improvements / expansion	2,282,351	377,370	2,659,721	1,536,907
Unrestricted	4,199,687	1,514,674	5,714,361	
Total net position	<u>\$ 45,836,045</u>	<u>\$ 9,668,717</u>	<u>\$ 55,504,762</u>	<u>\$ 1,929,907</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, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Primary government:			
Governmental activities:			
General government	\$ 1,387,013	\$ 132,844	\$ -
Public safety	362,632	598,699	-
Highways and streets	3,831,709	-	36,282
Recreation	331,257	-	-
Interest on long-term debt	33,656	-	-
Total governmental activities	5,946,267	731,543	36,282
Business-type activities:			
Sewer	2,223,014	2,076,033	-
Sewer expansion	943,164	758,929	-
Total business-type activities	3,166,178	2,834,962	-
Total primary government	\$ 9,112,445	\$ 3,566,505	\$ 36,282
Component unit:			
Hayden Urban Renewal Agency	\$ 42,394		
Total component unit	\$ 42,394		

General revenues:
 Property taxes
 Investment earnings
 Miscellaneous
 Intergovernmental revenue
 Impact fees
 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
\$ (1,254,169)	\$ -	\$ (1,254,169)	
236,067	-	236,067	
(3,795,427)	-	(3,795,427)	
(331,257)	-	(331,257)	
(33,656)	-	(33,656)	
<u>(5,178,442)</u>	<u>-</u>	<u>(5,178,442)</u>	
-	(146,981)	(146,981)	
-	(184,235)	(184,235)	
<u>-</u>	<u>(331,216)</u>	<u>(331,216)</u>	
<u>(5,178,442)</u>	<u>(331,216)</u>	<u>(5,509,658)</u>	
			<u>\$ 42,394</u>
			<u>42,394</u>
1,098,498	-	1,098,498	555,900
40,935	(29,798)	11,137	6,108
66,566	-	66,566	-
1,715,780	-	1,715,780	-
436,939	-	436,939	-
<u>3,358,718</u>	<u>(29,798)</u>	<u>3,328,920</u>	<u>562,008</u>
(1,819,724)	(361,014)	(2,180,738)	519,614
47,671,840	10,139,660	57,811,500	1,410,293
<u>(16,071)</u>	<u>(109,929)</u>	<u>(126,000)</u>	<u>-</u>
<u>\$ 45,836,045</u>	<u>\$ 9,668,717</u>	<u>\$ 55,504,762</u>	<u>\$ 1,929,907</u>

City of Hayden

**BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2013**

	General	Public Works
ASSETS		
Cash and cash equivalents	\$ 1,345,869	\$ 316,298
Investments	1,235,773	258,157
Other receivables	225,963	159,023
Prepaid insurance	42,785	-
Taxes receivable	38,549	-
Restricted cash and cash equivalents	-	-
Total assets	2,888,939	733,478
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Vouchers payable	\$ 22,422	\$ 79,249
Accrued expenses	36,164	23,139
Other current liabilities	9,837	-
Surety deposits	46,259	-
Total liabilities	114,682	102,388
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	22,529	-
Unavailable revenue-special assessments	-	-
Total deferred inflows of resources	22,529	-
 Fund balances:		
Restricted	-	-
Assigned	-	631,090
Unassigned	2,751,728	-
Total fund balances	2,751,728	631,090
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,888,939	\$ 733,478

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

Impact Fees	2004-1 LID	2002 Consolidated LID	Total
\$ 2,398,256	\$ -	\$ -	\$ 4,060,423
-	-	-	1,493,930
232	601,664	353,551	1,340,433
-	-	-	42,785
-	-	-	38,549
-	82,099	-	82,099
<u>2,398,488</u>	<u>683,763</u>	<u>353,551</u>	<u>7,058,219</u>
\$ 198,131	\$ 107	\$ -	\$ 299,909
-	-	107	59,410
-	-	-	9,837
-	-	-	46,259
<u>198,131</u>	<u>107</u>	<u>107</u>	<u>415,415</u>
-	-	-	22,529
-	601,662	353,008	954,670
-	601,662	353,008	977,199
2,200,357	81,994	-	2,282,351
-	-	-	631,090
-	-	436	2,752,164
<u>2,200,357</u>	<u>81,994</u>	<u>436</u>	<u>5,665,605</u>
<u>\$ 2,398,488</u>	<u>\$ 683,763</u>	<u>\$ 353,551</u>	<u>\$ 7,058,219</u>

City of Hayden

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION September 30, 2013

Total fund balances at September 30, 2013 - Governmental Funds		\$ 5,665,605
Cost of capital assets at September 30, 2013	\$ 88,056,060	
Less: Accumulated depreciation as of September 30, 2013		
Buildings and structures	(932,776)	
Equipment	(1,822,818)	
Infrastructure	<u>(45,156,262)</u>	40,144,204
Elimination of deferred revenue		977,199
Long-term liabilities at September 30, 2013		
Accrued interest	(21,912)	
Compensated absences	(138,854)	
Capital leases and long term debt	<u>(790,197)</u>	<u>(950,963)</u>
Net position at September 30, 2013		<u>\$ 45,836,045</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, 2013**

	General	Public Works
REVENUES		
Taxes and special assessments	\$ 1,129,125	\$ -
Licenses and permits	343,419	255,280
Growth service fees	23,032	-
Grants	10,000	300
Intergovernmental revenue	1,044,841	670,939
Investment income	-	-
Charges for services	109,812	-
Fines and forfeits	41,844	-
Impact fees	-	-
Miscellaneous revenues	2,481	22,241
Principal payments on LID	-	-
Total revenues	2,704,554	948,760
EXPENDITURES		
General government	1,202,266	-
Public safety	361,404	-
Public works	-	1,514,950
Recreation	273,450	-
Capital expenditures	-	-
Debt service - principal retirement	-	45,680
Debt service - interest expense	-	5,672
Total expenditures	1,837,120	1,566,302
Excess (deficiency) of revenues over (under) expenditures	867,434	(617,542)
OTHER FINANCING SOURCES (USES)		
Net investment earnings (losses)	(27,816)	(2,461)
Transfers in	114,764	580,195
Transfers out	(580,195)	-
Total other financing sources (uses)	(493,247)	577,734
Net change in fund balances	374,187	(39,808)
Fund balances - beginning	2,393,570	671,401
Prior period adjustment	(16,029)	(503)
Fund balances - ending	\$ 2,751,728	\$ 631,090

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

Impact Fees	2004-1 LID	2002 Cons. LID	Total
\$ -	\$ -	\$ -	\$ 1,129,125
-	-	-	598,699
-	-	-	23,032
25,982	-	-	36,282
-	-	-	1,715,780
3,682	35,757	31,773	71,212
-	-	-	109,812
-	-	-	41,844
436,939	-	-	436,939
-	-	-	24,722
-	25,862	99,362	125,224
<u>466,603</u>	<u>61,619</u>	<u>131,135</u>	<u>4,312,671</u>
-	-	3,605	1,205,871
1,228	-	-	362,632
7,857	3,573	-	1,526,380
-	-	-	273,450
336,965	-	-	336,965
-	12,875	-	58,555
-	28,415	-	34,087
<u>346,050</u>	<u>44,863</u>	<u>3,605</u>	<u>3,797,940</u>
<u>120,553</u>	<u>16,756</u>	<u>127,530</u>	<u>514,731</u>
-	-	-	(30,277)
-	-	-	694,959
-	-	(114,764)	(694,959)
-	-	(114,764)	(30,277)
120,553	16,756	12,766	484,454
<u>2,079,301</u>	<u>53,053</u>	<u>(103)</u>	<u>5,197,222</u>
<u>503</u>	<u>12,185</u>	<u>(12,227)</u>	<u>(16,071)</u>
<u>\$ 2,200,357</u>	<u>\$ 81,994</u>	<u>\$ 436</u>	<u>\$ 5,665,605</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, 2013

Total net changes in fund balances for year ended September 30, 2013	\$ 484,454
Add: Capital outlay which is considered expenditures	505,943
Less: Depreciation expense for the year ended September 30, 2013	(2,671,831)
Elimination of interfund revenues and expenditures:	
Add: Interfund transfers out	694,959
Less: Interfund transfers in	(694,959)
Add: Debt principal payments considered as an expenditure	58,555
Add: Accrued interest expense	431
Less: Change in compensated absences	(41,425)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(30,627)
Less: Difference between revenue earned LID assessments on modified accrual basis versus revenue on LID's on accrual basis	<u>(125,224)</u>
Change in net position for year ended September 30, 2013	<u><u>\$ (1,819,724)</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, 2013**

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 15,967	\$ -	\$ 15,967
Investments	1,765,680	182,834	1,948,514
Receivables	310,164	45,110	355,274
Total current assets	<u>2,091,811</u>	<u>227,944</u>	<u>2,319,755</u>
Noncurrent assets:			
Land	-	512,877	512,877
Capital assets	<u>6,834,764</u>	<u>941,909</u>	<u>7,776,673</u>
Total noncurrent assets	<u>6,834,764</u>	<u>1,454,786</u>	<u>8,289,550</u>
Total assets	<u>8,926,575</u>	<u>1,682,730</u>	<u>10,609,305</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	343,120	363,451	706,571
Unearned revenue	<u>234,017</u>	-	<u>234,017</u>
Total current liabilities	<u>577,137</u>	<u>363,451</u>	<u>940,588</u>
Total liabilities	<u>577,137</u>	<u>363,451</u>	<u>940,588</u>
NET POSITION			
Invested in capital assets (net of related debt)	6,834,764	941,909	7,776,673
Restricted for expansion	-	377,370	377,370
Unrestricted	<u>1,514,674</u>	-	<u>1,514,674</u>
Total net position	<u>\$ 8,349,438</u>	<u>\$ 1,319,279</u>	<u>\$ 9,668,717</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, 2013

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 2,075,691	\$ 758,929	\$ 2,834,620
Miscellaneous	342	-	342
Total operating revenues	<u>2,076,033</u>	<u>758,929</u>	<u>2,834,962</u>
OPERATING EXPENSES			
Personal services	182,261	-	182,261
Contractual services	1,833,405	576,467	2,409,872
Other services and charges	71,867	329,423	401,290
Depreciation	135,481	37,274	172,755
Total operating expenses	<u>2,223,014</u>	<u>943,164</u>	<u>3,166,178</u>
Operating income (loss)	<u>(146,981)</u>	<u>(184,235)</u>	<u>(331,216)</u>
NONOPERATING REVENUES (EXPENSE)			
Net investment income (loss)	(22,275)	(7,523)	(29,798)
Transfers in	1,086,375	-	1,086,375
Transfers out	-	(1,086,375)	(1,086,375)
Total nonoperating revenues (expenses)	<u>1,064,100</u>	<u>(1,093,898)</u>	<u>(29,798)</u>
Change in net position	917,119	(1,278,133)	(361,014)
Total net position - beginning	<u>7,870,619</u>	<u>2,269,041</u>	<u>10,139,660</u>
Prior period adjustment	<u>(438,300)</u>	<u>328,371</u>	<u>(109,929)</u>
Total net position - ending	<u>\$ 8,349,438</u>	<u>\$ 1,319,279</u>	<u>\$ 9,668,717</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, 2013

	<u>Sewer</u>	<u>Sewer Expansion</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,081,472	\$ 735,416	\$ 2,816,888
Payments to employees	(182,261)	-	(182,261)
Payments to suppliers	(1,968,033)	(619,990)	(2,588,023)
Net cash (used) provided by operating activities	<u>(68,822)</u>	<u>115,426</u>	<u>46,604</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from interest	21,040	6,188	27,228
Purchase of securities	1,536,473	578,294	2,114,767
Net cash provided by investing activities	<u>1,557,513</u>	<u>584,482</u>	<u>2,141,995</u>
CASH FLOWS FORM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	699,908	(699,908)	-
Net cash provided by (used for) noncapital financing activities	<u>699,908</u>	<u>(699,908)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(2,172,632)	-	(2,172,632)
Net cash (used) by capital and related financing activities	<u>(2,172,632)</u>	<u>-</u>	<u>(2,172,632)</u>
Net increase in cash and cash equivalents	15,967	-	15,967
Cash and cash equivalents, October 1, 2012	-	-	-
Cash and cash equivalents, September 30, 2013	<u>\$ 15,967</u>	<u>\$ -</u>	<u>\$ 15,967</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (146,981)	\$ (184,235)	\$ (331,216)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135,481	37,274	172,755
(Increase) in receivables	5,439	(23,513)	(18,074)
Increase in vouchers payable	(62,761)	285,900	223,139
Net cash (used) provided by operating activities	<u>\$ (68,822)</u>	<u>\$ 115,426</u>	<u>\$ 46,604</u>

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

City of Hayden

STATEMENT OF FIDUCIARY NET POSITION
September 30, 2013

	<u>Museum</u>
ASSETS	
Cash and cash equivalents	\$ 1,005
Total assets	<u>\$ 1,005</u>
LIABILITIES	
Held in trust for others - Museum	\$ 1,005
Total liabilities	<u><u>\$ 1,005</u></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, 2013

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, 2013

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, 2013

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, 2013

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, 2013, which were collected and held by the County at September 30, 2013, but not yet remitted to the City until after September 30, 2013.

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, 2013**

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

Regular full time employees accrue vacation in the following manner:

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

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

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

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2013

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, 2013

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, 2013

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.

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the City's deposits and investments may not be returned to it. The carrying amount of the City's deposits and investments is \$7,601,938 and the bank balance is \$7,821,312. As of September 30, 2013, the City's deposits and investments were not exposed to custodial credit risk and were categorized as follows:

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2013

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Deposits and investments without exposure to custodial credit risk:

Deposits:

Amount insured by FDIC	\$ 270,938
Amount collateralized with securities held in trust, but not in the City's name	<u>3,442,444</u>
Total	<u>3,713,382</u>

Investments:

Amount registered in the name of the City	4,107,930
Total	<u>4,107,930</u>

Total deposits and investments without exposure to custodial credit risk \$ 7,821,312

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, 2013, 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.

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>						
2/24/2022	FHLB - 313376XX8	\$ 505,935	\$ -	\$ -	\$ 505,935	\$ -
4/29/2020	FHLB - 3133814M4	377,645	-	-	377,645	-
3/15/2031	FHLMC - 3434A4BQ6	415,098	-	-	-	415,098
12/6/2018	FINANCING - 31771CT47	408,609	-	-	-	-
12/11/2013	FNMA - 31398AUJ9	351,921	351,921	-	-	-
11/21/2019	FNMA - 3136G04P3	372,260	-	-	372,260	-
12/27/2018	FNMA - 3136G16A2	325,868	-	-	-	-
11/15/2020	FNMA - 31358C7U4	353,545	-	-	353,545	-
12/15/2021	TENN VALLEY - 31358C7U4	329,010	-	-	329,010	-
		<u>\$ 3,439,891</u>	<u>\$ 351,921</u>	<u>\$ -</u>	<u>\$ 1,938,395</u>	<u>\$ 415,098</u>

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2013

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

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 \$3,417,420, which materially approximates fair market value. The City's portion of the State Investment Pool had an unrealized gain of \$11,277 at September 30, 2013, 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.

NOTE 3: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,721,336	\$ 7,857	\$ -	\$ 2,729,193
Total capital assets not being depreciated	<u>2,721,336</u>	<u>7,857</u>	<u>-</u>	<u>2,729,193</u>
Capital assets being depreciated:				
Buildings and improvements	2,909,330	-	-	2,909,330
Machinery and equipment	2,183,698	90,966	-	2,274,664
Infrastructure	79,735,753	407,120	-	80,142,873
Total capital assets being depreciated	<u>84,828,781</u>	<u>498,086</u>	<u>-</u>	<u>85,326,867</u>
Less accumulated depreciation for:				
Buildings	837,362	95,414	-	932,776
Equipment	1,725,206	97,612	-	1,822,818
Infrastructure	42,677,457	2,478,805	-	45,156,262
Total accumulated depreciation	<u>45,240,025</u>	<u>2,671,831</u>	<u>-</u>	<u>47,911,856</u>
Total capital assets being depreciated, net	<u>39,588,756</u>	<u>(2,173,745)</u>	<u>-</u>	<u>37,415,011</u>
Total assets, net	<u>\$ 42,310,092</u>	<u>\$ (2,165,888)</u>	<u>\$ -</u>	<u>\$ 40,144,204</u>
	Ending Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 512,877	\$ -	\$ -	\$ 512,877
Total capital assets not being depreciated	<u>512,877</u>	<u>-</u>	<u>-</u>	<u>512,877</u>
Capital assets being depreciated:				
Infrastructure	7,884,132	2,172,633	-	10,056,765
Total capital assets	<u>7,884,132</u>	<u>2,172,633</u>	<u>-</u>	<u>10,056,765</u>
Less accumulated depreciation for:				
Infrastructure	2,107,336	172,755	-	2,280,091
Total accumulated depreciation	<u>2,107,336</u>	<u>172,755</u>	<u>-</u>	<u>2,280,091</u>
Total capital assets being depreciated, net	<u>5,776,796</u>	<u>1,999,878</u>	<u>-</u>	<u>7,776,674</u>
Total assets, net	<u>\$ 6,289,673</u>	<u>\$ 1,999,878</u>	<u>\$ -</u>	<u>\$ 8,289,551</u>

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2013

NOTE 3: CHANGES IN FIXED ASSETS (CONCLUDED)

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

Governmental activities:	
General government	\$ 139,717
Public safety	-
Highways and streets	2,474,307
Culture and recreation	57,807
Total depreciation expense- governmental activities	\$ 2,671,831
 Business-type activities:	
Sewer	\$ 172,755
Total depreciation expense- business type activities	\$ 172,755

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
2014	\$ 41,290	\$ 27,867	\$ 13,423
2015	41,290	27,297	13,993
2016	41,290	26,702	14,588
2017	41,290	26,082	15,208
2018	41,290	25,436	15,854
2019-2023	206,450	116,481	89,969
2024-2028	206,450	95,669	110,781
2029-2033	206,450	70,038	136,412
2034-2038	206,450	38,480	167,970
2039-2040	82,480	4,973	77,507
	\$ 1,114,730	\$ 459,025	\$ 655,705

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE 5: CAPITAL LEASES

Government Funds – The City has entered into equipment leases using governmental funds. These leases qualify as capital leases because ownership of the asset transfers to the City at the end of the lease. The leases carry interest at rates between 4% and 4.5%, and require annual principal payments. The leases are secured by the equipment, the cost of which is \$241,208. As of September 30, 2013, current year amortization of the leased assets totaled \$37,491 and is included in depreciation expense on the financial statements. The total accumulated depreciation is \$76,638.

Future minimum lease payments are as follows:

2014	\$ 51,352
2015	51,352
2016	40,026
Total	142,730
Less amount representing interest	(8,238)
Present value of capital leases	\$ 134,492

NOTE 6: CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2013, is as follows:

	Beginning 09/30/12	Additions	Deletions	Ending 09/30/13	Current Portion
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 97,429	\$ 41,425	\$ -	\$ 138,854	\$ -
Note payable - Rural Development	668,580	-	12,875	655,705	13,423
Capital leases	180,177	-	45,680	134,492	47,114
Total debt - Governmental activities	\$ 946,186	\$ 41,425	\$ 58,555	\$ 929,051	\$ 60,537

NOTE 7: 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	\$ 351,074
Allowance for doubtful accounts	(41,252)
Net realizable value	\$ 310,164

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS September 30, 2013

NOTE 8: DEFINED BENEFIT PENSION PLAN

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

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

The actuarially determined contribution requirements of the City of Hayden and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2013, 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 \$143,726, \$145,080 and \$150,707 for the three years ended September 30, 2013, 2012 and 2011, respectively.

NOTE 9: CONTINGENCIES

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

NOTE 10: RISK MANAGEMENT

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

(Continued)

City of Hayden

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 11: INTERFUND TRANSACTIONS

The following table describes transfers between the various funds:

Description	General	Public Works	2002 Cons. LID
To cover operating deficit in the Public Works Fund.	\$ (580,195)	\$ 580,195	\$ -
To reimburse general fund for payment of debt.	114,764	-	(114,764)
	<u>\$ (465,431)</u>	<u>\$ 580,195</u>	<u>\$ (114,764)</u>

NOTE 12: RESTRICTIONS ON NET POSITION

Impact fees and 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 13: RESTRICTIONS ON CASH AND CASH EQUIVALENTS

The note payable to the Idaho Department of Rural Development requires a minimum of \$30,000 to be maintained in a separate bank account. The restricted cash and cash equivalents within the 2004-1 LID fund amount of \$82,099 represents the deposits the City has set aside to comply with this requirement.

NOTE 14: PRIOR PERIOD ADJUSTMENTS

The city made several prior period adjustments within the governmental funds. The overall effect was a decrease of \$16,071 in fund balance and net position.

Additionally the city made several prior period adjustments with the business-type proprietary funds. The majority of these prior period adjustments related to funds spent from the sewer capitalization account on projects or functions that were not associated with expansion of the City's sewer collection system. Also, the city corrected for an accounts payable adjustment in the sewer fund of \$119,899. The fund balance effect was a decrease of \$438,300 in the sewer fund and \$328,371 increase in the sewer expansion fund. The overall effect was a decrease of \$109,929 in net position.

NOTE 15: 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.

(Continued)

City of Hayden

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE 15: COMPONENT UNIT DISCLOSURES (CONCLUDED)

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 \$1,506,328 and the bank balance is \$1,506,352. As of September 30, 2013, \$710,267 of the Agency's bank balance was exposed to custodial credit risk, as this is the amount which exceeds FDIC insured limits.

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

Capital Assets

The following is a summary of fixed asset activity for the year ended September 30, 2013:

	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, 2013, 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 \$36,963.

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, 2013, are considered restricted. This is because the funding limitation comes from an legislation outside of the Agency's control, and the restriction indicates the funds are to be used for purposes which are less in scope than the overall purpose of the Agency.

(Concluded)

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, 2013

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes and special assessments	\$ 1,077,742	\$ 1,129,125	\$ 51,383
Licenses and permits	321,880	343,419	21,539
Growth service fees	37,000	23,032	(13,968)
Grants	-	10,000	10,000
Intergovernmental revenue	874,571	1,044,841	170,270
Investment income	35,000	-	(35,000)
Charges for services	86,005	109,812	23,807
Fines and forfeits	30,000	41,844	11,844
Miscellaneous revenues	4,420	2,481	(1,939)
Total revenues	<u>2,466,618</u>	<u>2,704,554</u>	<u>237,936</u>
EXPENDITURES			
General government	1,260,027	1,202,266	57,761
Public safety	367,803	361,404	6,399
Recreation	297,545	273,450	24,095
Debt service - principal retirement	-	-	-
Debt service - interest expense	-	-	-
Total expenditures	<u>1,925,375</u>	<u>1,837,120</u>	<u>88,255</u>
Excess of revenues over expenditures	<u>541,243</u>	<u>867,434</u>	<u>326,191</u>
OTHER FINANCING (USES)			
Net investment earnings (losses)	-	(27,816)	(27,816)
Contingency	(2,097,820)	-	2,097,820
Transfers in	128,477	114,764	(13,713)
Transfers out	(959,548)	(580,195)	379,353
Total other financing (uses)	<u>(2,928,891)</u>	<u>(493,247)</u>	<u>2,435,644</u>
Net change in fund balances	(2,387,648)	374,187	2,761,835
Fund balances - beginning	<u>2,387,648</u>	<u>2,393,570</u>	<u>5,922</u>
Prior period adjustment	<u>-</u>	<u>(16,029)</u>	<u>(16,029)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,751,728</u>	<u>\$ 2,751,728</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, 2013

	<u>*Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES			
Impact fees	\$ 339,000	\$ 436,939	\$ 97,939
Interest	5,100	3,682	(1,418)
Grants	324,310	25,982	(298,328)
Total revenues	<u>668,410</u>	<u>466,603</u>	<u>(201,807)</u>
EXPENDITURES			
Public works	-	7,857	(7,857)
Public safety	-	1,228	(1,228)
Capital expenditures	350,000	336,965	13,035
Total expenditures	<u>350,000</u>	<u>346,050</u>	<u>3,950</u>
Excess of revenues over expenditures	<u>318,410</u>	<u>120,553</u>	<u>(197,857)</u>
OTHER FINANCING (USES)			
Contingency	(2,170,148)	-	2,170,148
Total other financing (uses)	<u>(2,170,148)</u>	<u>-</u>	<u>2,170,148</u>
Net change in fund balances	(1,851,738)	120,553	1,972,291
Fund balances - beginning	<u>1,851,738</u>	<u>2,079,301</u>	<u>227,563</u>
Prior period adjustment	<u>-</u>	<u>503</u>	<u>503</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,200,357</u>	<u>\$ 2,200,357</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, 2013, 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 July 24, 2014.

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*.

Magnuson, McHugh & Company, P.A.

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

July 24, 2014