CITY OF GARDEN CITY, IDAHO

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CITY OF GARDEN CITY, IDAHO

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Independent Auditor's Report

Honorable Mayor and City Council
City of Garden City, Idaho

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 the **City of Garden City, Idaho** (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013, on our consideration of the **City of Garden City, Idaho's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 37 through 38 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Garden City, Idaho's** financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bailey & Co.

Nampa, Idaho
February 6, 2013

The Management of the City of Garden City would like to offer the readers of the financial statements an overview and analysis of the financial activities for the Fiscal Year October 1, 2011 through September 30, 2012.

FINANCIAL HIGHLIGHTS

- As of September 30, 2012 the assets of the City of Garden City exceeded its liabilities by $ 28,835,836. Of this amount, unrestricted net assets of $ 3,779,586 may be used to meet the City's ongoing obligations to citizens and creditors.

- As of September 30, 2012 the total net assets of the City increased by $1,146,514. The net assets of Business Activities increased by $1,241,870 and for Government Activity funds the net assets decreased by $(95,356).

- The increase of $1,241,870 in Business net assets came primarily from capital contributions by the Urban Renewal Agency, a transfer from the General Fund, utilization of reserves that were set aside to mitigate inflow and infiltration problems in wastewater lines and from continued efforts to find operational efficiencies in Water and Sewer activities.

- The decrease in of $(95,356) in Governmental net assets was due primarily to paying off the remaining balance of a note payable. The original note was used to provide financing for police department improvements that were completed in 1999.

- The unrestricted net assets of Governmental Activities totaled $2,592,555 and for Business Activities the unrestricted net assets total was $1,187,031.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These financial statements consist of the three components:

1) government-wide financial statements
2) fund financial statements
3) other supplementary information

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Government-wide financial statements distinguish functions of the City that are principally supported by taxes

and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks and recreation, community services, community development, and other charges. The major business-type activities of the City include water, wastewater treatment, solid waste disposal, and street lighting. The government-wide financial statements include the City of Garden City (known as the primary government).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Garden City can be divided into two categories: governmental funds, and proprietary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of available resources, as well as on balances of available resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between the two.

The City maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and other funds. Data from the other fund is combined into this single, aggregated presentation. Individual fund data for this non-major governmental fund is provided in the form of a combining statement elsewhere in this report.

Proprietary Funds The City maintains proprietary funds in the form of enterprise funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains three individual enterprise funds. Information is presented separately in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the Sanitation, Water and Sewer, and Street Light Funds, which are considered major funds.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. Component unit information of the Garden City Urban Renewal Agency (Agency) is also included.

Component Unit The Garden City Urban Renewal Agency is a discreet component unit of the City and financial statements are seperately issued by the Board of Commissioners for the Urban Renewal Agency.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets may serve as a useful indicator of a government's financial position. At September 30, 2012, the City's assets exceeded liabilities by $28,835,836. Of this amount, $24,905,251 is related to capital assets net of related debt. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

City of Garden City's Net Assets

	Governmental Activities		Business-type Activities	
	2010-2011	2011-2012	2010-2011	2011-2012
Current assets	$ 6,565,217	$ 6,570,669	1,732,101	2,061,933
Capital Assets	10,877,879	10,519,847	15,628,672	16,509,259
Other Noncurrent assets	250,000	-	235,423	226,981
Total assets	17,443,096	17,090,516	17,596,196	18,798,173
Short term liabilities	3,978,676	3,919,975	904,262	1,009,902
Long term liabilities	965,630	767,107	1,501,401	1,355,868
Total liabilities	4,944,306	4,687,082	2,405,663	2,365,770
Invested in capital assets (net of related debt)	9,658,831	9,810,879	13,992,271	15,094,372
Restricted for bond service requirement	-	-	151,000	151,000
Unrestricted net Assets	2,839,959	2,592,555	1,047,262	1,187,031
Total net assets	$ 12,498,790	$ 12,403,434	$ 15,190,533	$ 16,432,403

City of Garden City's Statement of Activities

	Governmental Activities		Business-type Activities	
	2010-2011	2011-2012	2010-2011	2011-2012
Revenues				
Program revenues				
Charges for services	$ 1,665,239	$ 1,758,759	$ 6,969,542	$ 7,329,380
Operating grants and contributions	67,215	107,971	-	
Capital grants and contributions	-	-	454,345	744,971
General revenues				
Property taxes	3,326,176	3,351,846	-	
Franchise fees	492,717	522,200	-	
Sales tax and other governmental	900,572	859,638	-	
Unrestricted investment earnings	24,982	30,244	26	
Miscellaneous	31,819	60,983	43,854	55,173
Transfers	-		-	
Gain (loss) on sale of fixed assets	-	23,293	-	-
Total revenues	6,508,720	6,714,934	7,467,767	8,129,524
Expenses				
General government administration	1,586,175	1,942,527	-	-
Public safety	3,947,981	4,041,721	-	-
Culture and recreation	780,396	792,057	-	-
Interest on long-term debt	49,827	33,985	-	-
Sanitation	-		1,936,455	2,007,561
Streetlights	-		123,359	76,541
Water and sewer	-		4,990,265	4,803,552
Total expenses	6,364,379	6,810,290	7,050,079	6,887,654
Change in Net Assets	$ 144,341	$ (95,356)	$ 417,688	$ 1,241,870

Governmental activities Governmental activities decreased the City's net assets by $(95,356). The decrease was primarily due to the payoff of the remaining debt $(179,156) that was issued to provide financing for the completion of the building of the Police Department facilities constructed in 1999. Offsetting this outlay of funds , were savings that came as a result of the continuing efforts of all departments to gain efficiencies in their operations. This effort resulted in approximately $274,512 in savings during the year.

Business-type activities Business-type activities increased the City's net assets by $1,241,870 accounting for 100% of the total growth in the net assets. The Urban Renewal Agency contributed approximately $621,000, there was a contribution by the General Fund of $159,000, a release of $125,000 in construction reserves that were used to fund continuing mitigation of the inflow and infiltration problems and cost savings in operations that provided an additional amount of approximately $336,870.

FINANCIAL ANALYSIS OF THE GOVERNMENTS' FUNDS

As noted earlier, the City of Garden City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds The purpose of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of cash and near cash resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the City's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was $2,526,417. It may be useful to compare the unassigned fund balance to total expenditures, as a measure of the general fund's liquidity. The unassigned fund balance is estimated to be approximately 38% of the upcoming projected Fiscal Year 2013 operating expenditures budget of $6,644,371.

The general fund has maintained at least a 38% level of fund balance for three consecutive years (fiscal years 2010, 2011 and 2012) based on continuing efforts by staff in all departments at maintaining operational efficiencies while maintaining current service levels.

Proprietary Funds The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets and explanations for the changes in the proprietary funds are as follows:

The balance in the Water and Sewer Fund is $948,769 with an increase of $304,604 from the prior year. This increase represents the net difference amongst the following items: 1) an increase in unrestricted net assets derived from operating and non-operating resources of $669,555; 2) a decrease in unrestricted net assets as a result of investment in fixed assets of $(1,109,922) ; 3) an increase as a result of contributions from the Urban Renewal Agency and the use of other reserves totaling $744,971.

The Sanitation Fund unrestricted balance is $212,924, a decrease of $156,150 from the prior fiscal year. This decrease is due primarily to a refund of one month of service charges to Sanitation customers in November 2011.

The Street Lights Fund unrestricted balance is $25,338, with a reduction of $ 9,062 from the prior year. During the year the street light fee ordinance was repealed. The Street Lights operations are no longer being funded by direct charges to customers and this operation will need to be funded by General Fund contributions in the future.

BUDGETARY HIGHLIGHTS

General Fund The City's fund balance, compared to the previous year, decreased by $(256,821),but this was still $214,098 better than the budgeted decrease in fund balance of $(470,919). This result was from two factors as follows: savings of $198,085 in expenditures compared to budget, and 2) revenues that were $ 16,013 more than the amount budgeted.

Over the course of the year there was an amendment to the budget which added $102,097 to budgeted revenues and expenditures. This amendment related primarily to increased revenues from grants and contributions from the Urban Renewal Agency.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets The City's investment in capital assets for its governmental and business type activities at September 30, 2012 amounts to $ 27,029,106 (net of accumulated depreciation). This investment in capital assets includes land, buildings, non-building improvements - including water and sewer service lines, streetlights, automobiles and equipment. The City added approximately $1,663,000 in capital assets during the year primarily as a result of the purchase of Utility Plant improvements for the Water and Sewer Enterprise Fund at a cost of approximately $1,167,000 , the purchase of machinery and equipment for the Water and Sewer Enterprise Fund at a cost of approximately $306,0000, the purchase of police vehicles and other machinery and equipment of approximately $181,000, and Parks equipment of $9,000. Depreciation expense for the year was $888,045 and total accumulated depreciation was $10,839,601. See Note 4 of the financial statements for further detail associated with the capital assets.

City of Garden City's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012
Land and improvements	$ 6,907,186	$ 6,907,186	$ -	$ -	$ 6,907,186	$ 6,907,186
Buildings and improvements	3,342,114	3,249,052	1,356,435	1,581,135	4,698,549	4,830,187
Utility plant and improvements	-	-	13,545,941	14,087,791	13,545,941	14,087,791
Machinery and equipment	378,579	363,609	726,296	840,333	1,104,875	1,203,942
Total assets	$ 10,627,879	$ 10,519,847	$ 15,628,672	$ 16,509,259	$ 26,256,551	$ 27,029,106

Long-term debt At the end of the current fiscal year, the City had $2,199,836 in outstanding debt including bonds, capital leases and notes payable. All of the debt was secured by specific revenue sources or the related equipment.

City of Garden City's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012
Bonds payable and bond premium	$ 685,000	$ 650,000	$ 1,636,401	$ 1,490,868	2,321,401	$ 2,140,868
Capital leases	109,048	58,968	-	-	109,048	58,968
Notes payable	175,000	-	-	-	175,000	-
Total outstaniding debt	$ 969,048	$ 708,968	$ 1,636,401	$ 1,490,868	$ 2,605,449	$ 2,199,836

It is noted that by state law the City of Garden City's legal debt limit for governmental funds for 2012 would be approximately $ 16,107,900, which represents 2% of the market valuation of the real and personal property in its taxing area. See Note 5 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S PLANS

Enterprise Fund Utility Rates- After holding a public hearing in May 2011, the City Council increased water and sewer utility rates by 3.45% and 6.26% respectively. The rates were increased for the purpose of funding the replacements of enterprise net assets as needed. There has not been an increase in utility rates since that date.

Pending Conditions of Significant Importance The City completed a Master Plan as a component part of its Comprehensive Plan in Fiscal Year 2009. During fiscal year 2011-12, there will be a continuing emphasis on rehabilitating and refurbishing the water and sewer plant and related facilities utilizing contributions from the Urban Renewal Agency as the primary source for funding these projects. This work was started in fiscal year 2009, was continued in Fiscal Years 2010 and 2011 and will continue in the future at a pace that will correspond with available funding from the Urban Renewal Agency and on a planned and priority basis as outlined by the Master Plan. In order to have increased water for needed fire flow capacity, the City will be building a new water reservoir. This reservoir is expected to cost approximately $2.0 million and will provide additional fire flow capacity of about 750,000 gallons of water per day.

Requests for Information This financial report is designed to provide a general overview of the City of Garden City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Attn: James R. Krueger-Treasurer/Clerk, City of Garden City, 6015 Glenwood Street, Garden City, Idaho 83714-1347.

CITY OF GARDEN CITY, IDAHO
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	$ 1,446,218	$ 944,664	$ 2,390,882	$ 1,409,382
Investments	1,109,893	-	1,109,893	-
Prepaid Expenses	49,853	2,121	51,974	-
Receivables				
Property taxes	3,606,228	-	3,606,228	826,461
Accounts	2,955	850,718	853,673	
Interest		-	-	238
Due from other governmental units	242,953	264,430	507,383	-
Franchise fees	99,433	-	99,433	-
Grants	13,136	-	13,136	-
Total current assets	6,570,669	2,061,933	8,632,602	2,236,081
Noncurrent Assets				
Deferred charges	-	75,981	75,981	-
Restricted Investment for Debt Service		151,000	151,000	
Capital assets				
Land, infrastructure, and other assets not depreciated	6,907,186	3,675,669	10,582,855	-
Buildings, improvements, and equipment, net of depreciation	3,612,661	12,833,590	16,446,251	-
	$ 17,090,516	$ 18,798,173	$ 35,888,689	$ 2,236,081

See Notes to Financial Statements

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 124,234	$ 601,676	$ 725,910	$ 2,388
Accrued payroll and taxes	184,338		184,338	-
Compensated absences	184,193	45,318	229,511	
Customer deposits	-	198,500	198,500	-
Interest payable	4,920	1,821	6,741	-
Unearned revenue	3,480,429	27,587	3,508,016	721,127
Current portion of long-term liabilities	92,536	135,000	227,536	-
Total current liabilities	4,070,650	1,009,902	5,080,552	723,515
Noncurrent Liabilities				
Lease Payable	6,432	-	6,432	-
Bonds payable	610,000	1,355,868	1,965,868	-
Total liabilities	4,687,082	2,365,770	7,052,852	723,515
Net Assets				
Invested in capital assets, net of related debt	9,810,879	15,094,372	24,905,251	-
Restricted	-	151,000	151,000	1,530,476
Unrestricted	2,592,555	1,187,031	3,779,586	(17,910)
Total net assets	$ 12,403,434	$ 16,432,403	$ 28,835,837	$ 1,512,566

CITY OF GARDEN CITY, IDAHO
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government					
Governmental Activities					
General government	$ 1,942,527	1,272,252	$ -	$ -	$ (670,275)
Public safety	4,041,721	364,547	68,855	-	(3,608,319)
Culture and recreation	792,057	121,960	39,116	-	(630,981)
Interest on long-term debt	33,985	-	-	-	(33,985)
Total governmental activities	6,810,290	1,758,759	107,971	-	(4,943,560)
Business-Type Activities					
Sanitation	2,007,561	1,851,405	-	-	(156,156)
Streetlights	76,541	53,154	-	-	(23,387)
Water and sewer	4,803,552	5,424,821	-	744,971	1,366,240
Total business-type activities	6,887,654	7,329,380	-	744,971	1,186,697
Total primary government	13,697,944	9,088,139	107,971	744,971	(3,756,863)
Component Unit					
Urban Renewal	$ 715,608	$ -	$ -	$ -	$ (715,608)

CITY OF GARDEN CITY, IDAHO
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net assets				
Net (expense) revenue	$ (4,943,560)	$ 1,186,697	$ (3,756,863)	$ (715,608)
General revenues				
Shared revenues				
Property taxes, levied for general purposes	3,285,976	-	3,285,976	779,057
Property taxes, levied for debt service	65,870	-	65,870	-
Franchise fees	522,200	-	522,200	-
Sales tax and other governmental	859,638	-	859,638	-
Investment earnings	30,244	-	30,244	3,500
Miscellaneous	60,983	55,173	116,156	-
Fixed Assets transfer from Enterprise Fund		-	-	-
Gain (loss) on disposal of fixed assets	23,293		23,293	-
Total general revenues	4,848,204	55,173	4,903,377	782,557
Change in Net Assets	(95,356)	1,241,870	1,146,514	66,949
Net Assets, Beginning	12,498,790	15,190,533	27,689,323	1,445,617
Net Assets, Ending	$ 12,403,434	$ 16,432,403	$28,835,837	$ 1,512,566

CITY OF GARDEN CITY, IDAHO
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General	Other Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 1,355,268	$ 90,950	$ 1,446,218
Investments	1,109,893	-	1,109,893
Prepaid Expenses	49,853	-	49,853
Receivables			
Property taxes	3,536,705	69,523	3,606,228
Accounts	2,955	-	2,955
Due from other governmental units	242,953	-	242,953
Franchise fees	99,433	-	99,433
Grants	13,136		13,136
Long-term investments		-	-
	$ 6,410,196	$ 160,473	$ 6,570,669
Liabilities and Fund Balance			
Liabilities			
Accounts payable	$ 124,234	$ -	$ 124,234
Accrued payroll and taxes	184,338	-	184,338
Compensted absences payable	33,519	-	33,519
Deferred revenue	3,491,835	160,473	3,652,308
	3,833,926	160,473	3,994,399
Fund Balance:			
Nonspendable	49,853	-	49,853
Unassigned	2,526,417		2,526,417
Total fund balance	2,576,270	-	2,576,270
	$ 6,410,196	$ 160,473	$ 6,570,669

CITY OF GARDEN CITY, IDAHO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Fund balance - total governmental funds	$ 2,576,270
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.	10,519,847
Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.	171,880
Long Term Compensated Absences Payable are not recorded in the governmental funds but are recorded as a liability in the government wide basis statements.	(150,675)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(4,920)
Long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(708,968)
Net assets of governmental activities	$ 12,403,434

CITY OF GARDEN CITY, IDAHO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	$ 3,269,240	$ 65,870	$ 3,335,110
Licenses and permits	34,252	-	34,252
Charges for services	1,238,000	-	1,238,000
Intergovernmental	859,638	-	859,638
Fines and forfeitures	364,547	-	364,547
Grants	107,972	-	107,972
Franchise fees	522,200	-	522,200
Interest	30,244	-	30,244
Library fees	121,960	-	121,960
Miscellaneous	60,983	-	60,983
Total revenues	6,609,036	65,870	6,674,906
Expenditures			
General government	1,881,129	-	1,881,129
Public safety	3,846,043	-	3,846,043
Culture and recreation	740,087	-	740,087
Capital outlay	189,709	-	189,709
Debt service			
Principal	50,080	210,000	260,080
Interest	4,653	35,026	39,679
Total expenditures	6,711,701	245,026	6,956,727
Excess (deficiency) of revenues over Expenditures	(102,665)	(179,156)	(281,821)
Other Financing Sources			
Proceeds from sale of asset held for sale	25,000	-	25,000
Operating transfers in (out)	(179,156)	179,156	-
Total other financing sources (uses)	(154,156)	179,156	25,000
Net Change in Fund balance	(256,821)	-	(256,821)
Fund Balance, Beginning of Year	2,833,091	-	2,833,091
Fund Balance, end of Year	$ 2,576,270	$ -	$ 2,576,270

See Notes to the Financial Statements

CITY OF GARDEN CITY, IDAHO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds	$ (256,821)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense ($296,034) is more than capital outlay ($189,709)	(106,325)
Long-term accrued vacation leave recognized as expenditure on government wide basis but not recognized as expenditure on governmental basis	(13,012)
Sale of assets available for sale, book value less than proceeds from sale	(1,708)
Some property tax revenue that provides a current resource is not reported as a revenue in the statement of activities.	16,736
Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.	5,694
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.	260,080
Change in net assets of governmental activities	$ (95,356)

CITY OF GARDEN CITY, IDAHO
STATEMENT OF NET ASSETS –PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Water and Sewer Fund	Sanitation Fund	Street Lights Fund	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 764,965	$ 152,707	$ 26,992	$ 944,664
Investments	-	-	-	-
Prepaid Expenses	2,121	-	-	2,121
Due from other governmental units	264,430	-	-	264,430
Customer accounts receivable less allowance for uncollectible accounts of $9,340, $3,300, and $0, respectively	650,785	198,933	1,000	850,718
Total current assets	1,682,301	351,640	27,992	2,061,933
Noncurrent Assets				
Restricted Investment for Debt Service	151,000			151,000
Capital assets				
Improvements on building and land	3,675,669	-	-	3,675,669
Utility plant and improvements	18,197,315	-	-	18,197,315
Machinery and equipment	3,139,124	4,543	186,682	3,330,349
	25,012,108	4,543	186,682	25,203,333
Accumulated depreciation	(8,594,177)	(4,543)	(95,354)	(8,694,074)
Total noncurrent assets	16,568,931	-	91,328	16,660,259
Other Assets				
Deferred charges, net of accumulated amortization	75,981	-	-	75,981
	$ 18,327,213	$ 351,640	$ 119,320	$ 18,798,173

See Notes to the Financial Statements

	Water and Sewer Fund	Sanitation Fund	Street Lights Fund	Total
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 460,315	$ 138,707	$ 2,654	$ 601,676
Compensated absenses payable	45,309	9	-	45,318
Deferred revenue	27,587	-	-	27,587
Interest payable	1,821	-	-	1,821
Customer deposits	198,500	-	-	198,500
Current portion of long-term liabilities	135,000	-	-	135,000
Total current liabilities	868,532	138,716	2,654	1,009,902
Noncurrent Liabilities				
Bonds payable	1,355,868	-	-	1,355,868
Total noncurrent liabilities	1,355,868	-	-	1,355,868
Total liabilities	2,224,400	138,716	2,654	2,365,770
Net Assets				
Invested in capital assets, net of related debt	15,003,044	-	91,328	15,094,372
Restricted for payment of Debt Service	151,000	-	-	151,000
Unrestricted	948,769	212,924	25,338	1,187,031
Total net assets	16,102,813	212,924	116,666	16,432,403
	$ 18,327,213	$ 351,640	$ 119,320	$ 18,798,173

CITY OF GARDEN CITY, IDAHO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Water and Sewer Fund	Sanitation Fund	Street Lights Fund	Total
Operating Revenues				
Charges for services	$ 5,424,821	$ 1,851,405	$ 53,154	$ 7,329,380
Miscellaneous revenues	48,286	6	6,881	55,173
Total operating revenues	5,473,107	1,851,411	60,035	7,384,553
Operating Expenses				
Personnel services	1,314,940	4,742	$ (336)	1,319,346
Contractual services	1,089,377	1,579,613		2,668,990
Overhead	820,196	417,804	-	1,238,000
Supplies	448,762	5,025	17,649	471,436
Repairs	333,174			333,174
Depreciation and amortization	592,632	377	7,444	600,453
Telephone and utilities	168,123	-	51,784	219,907
Total operating expenses	4,767,204	2,007,561	76,541	6,851,306
Operating income (loss)	705,903	(156,150)	(16,506)	533,247
Nonoperating Revenues (Expenses)				
Interest expense	(36,348)	-	-	(36,348)
Total nonoperating (expenses) revenues	(36,348)	-	-	(36,348)
Income (Loss) before Contributions	669,555	(156,150)	(16,506)	496,899
Contributions from other governmental agencies	744,971	-	-	744,971
Change in Net Assets	1,414,526	(156,150)	(16,506)	1,241,870
Net Assets, Beginning of Year	14,688,287	369,074	133,172	15,190,533
Net Assets, End of Year	$ 16,102,813	$ 212,924	$ 116,666	$ 16,432,403

CITY OF GARDEN CITY, IDAHO
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Water and Sewer Fund	Sanitation Fund	Street Lights Fund	Total
Cash Flows from Operating Activities				
Receipts from customers and users	$ 5,314,585	$ 1,839,150	$ 67,013	$ 7,220,748
Payments to suppliers	(1,912,839)	(1,580,695)	(69,344)	(3,562,878)
Payments for overhead	(820,196)	(417,804)	-	(1,238,000)
Payments to employees	(1,302,707)	(4,901)	-	(1,307,608)
Net Cash from (used for) Operating Activities	1,278,843	(164,250)	(2,331)	1,112,262
Cash flows from Capital and Related Financing Activities				
Interest paid	(47,154)	-	-	(47,154)
Payment of current portion of bonds bonds payable	(135,000)			- (135,000)
Acquisition of capital assets	(1,472,598)	-	-	(1,472,598)
Cash contributions from Other Governmental Agencies	480,541	-	-	480,541
Net Cash used for Capital and Related Financing Activities	(1,174,211)	-	-	(1,174,211)
Net Increase (Decrease) in Cash and Cash Equivalents	104,632	(164,250)	(2,331)	(61,949)
Cash, Cash Equivalents and Investments, Beginning of Year	660,333	316,957	29,323	1,006,613
Cash, Cash Equivalents and Investments, End of Year	$ 764,965	$ 152,707	$ 26,992	$ 944,664

See Notes to the Financial Statements

CITY OF GARDEN CITY, IDAHO
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Water and Sewer Fund	Sanitation Fund	Street Lights Fund	Total
Reconciliation of operating income to net cash (used) provided by operating activities				
Operating income	$ 705,903	$ (156,150)	$ (16,506)	$ 533,247
Adjustments to reconcile operating income to net cash (used) provided by operating activities				
Depreciation and amortization	592,632	377	7,444	600,453
Changes in assets and liabilities				
Accounts receivable	(123,509)	(12,261)	6,978	(128,792)
Prepaids	1,441	-	-	1,441
Accounts payable	125,156	3,943	89	129,188
Compensated absences payable	12,233	(159)	(336)	11,738
Deferred Revenue	(40,232)			(40,232)
Customer deposits	5,219	-	-	5,219
net cash provided (used) by operating activities	$ 1,278,843	$ (164,250)	$ (2,331)	$ 1,112,262

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Garden City (City) was incorporated May 9, 1967. The City operates under a mayor and council form of government and provides the following services as authorized by its charter: Public Safety (police), Sanitation, 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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the GASB, the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Financial Reporting Entity

For financial reporting purposes, in conformity with GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* the financial statements for the City include all organizations for which the City is financially accountable, and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Under Statement No. 39, component units are organizations that are included in the reporting entity because of the significance of their operational or financial relationships with the City.

The Component Unit column in the Government-wide financial statements is the financial data of the City's single component unit, the Urban Renewal Agency (URA). The URA is a separate and distinct legal entity created by state statute. The Directors for URA are appointed by the Mayor and approved by the City Council. URA provides urban renewal services for the citizens of the City. Complete financial statements can be obtained from City Hall, 6015 Glenwood Drive, Garden City Idaho 83714

The City contributes to the multi-employer Public Employer Retirement System of Idaho (the System). The System is administered by the State of Idaho and the City is not the major participant in the plan; therefore, the plan financial statements are not included in this report.

(continued on next page)

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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The City reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the City. It is used for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for all revenues earned and expenses incurred in the operation of the water and wastewater systems.

Sanitation Fund - The Sanitation fund is used to account for all revenues earned and expenses incurred in the operation of the sanitation department.

Streetlight Fund - The Streetlight fund is used to account for all revenues earned and expenses incurred in the operation of the city's streetlights.

These funds are used to account for operations financed and operated in a manner similar to private business when the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or the governing body has decided that periodic determination of revenues earned, expenditures incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the government when elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and products and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for services to customers for sales and services. The Water and Sewer Funds also recognizes as operating revenue the portion of hook-on 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 non-operating revenues and expenses.

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Fund Balance Classification

The City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

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

Restricted—Amounts that can be spent only for specific purposes because of the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by City Council.

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet as discussed as discussed above. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by Council or the Assignment has been changed by the Mayor. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

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

General Fund

The General Fund has Unassigned Fund Balance of $ 2,526,417 at September 30, 2012. Prepaid items of $49,853 are considered Nonspendable. The City has no restrictions, commitments or assignments of fund balance as of September 30, 2012.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments, including restricted cash, with a maturity of three months or less when purchased to be cash equivalents.

Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, commercial paper, corporate bonds, repurchase agreements, City coupon and local improvement district bonds.

Investments are stated at fair value as determined by quoted market prices, except for the certificates of deposit which are non-participating contracts, and are therefore carried at amortized costs. The City pools its investment funds to maximize interest income. The City allocates interest income on investments to the various funds based on the average balance of the net contribution of the respective fund.

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Property Taxes Receivable and Deferred Revenue

Within the governmental fund financial statement, property taxes, including those within the Component Unit, are recognized as revenue when the amount of taxes levied is measurable, and proceeds are available to finance current period expenditures.

Available tax proceeds include property tax receivables expected to be collected within sixty days after year end. Property taxes attach as liens on properties on January 1, and are levied in September of each year. Tax notices are sent to taxpayers during November, with tax payments scheduled to be collected on or before December 20. Taxpayers may pay all or one half of their tax liability on or before December 20, and if one half of the amount is paid, they may pay the remaining balance by the following June 20. Since the City and its Component Unit is on a September 30 fiscal year end, property taxes levied during September for the succeeding year's collection are recorded as deferred revenue at the City and its Component Unit's year end and recognized as revenue in the following fiscal year. Ada County bills and collects taxes for the City and its Component Unit.

Customer Services Receivable

Amounts owed to the City for customer services are due from area residents and businesses and relate to water and sewer, trash, and street lighting services provided by the City.

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. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair value on the date donated. Public domain fixed assets consisting of roads, bridges, streets and sidewalks, and lighting systems are also reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	Estimated Useful Life (Years)
Buildings and improvements	50
Service lines and land improvements	10-50
Machinery and equipment	3-25
Public domain infrastructure	30-50

Maintenance, repairs and minor renewals are charged to operations as incurred. When an asset is disposed of, accumulated depreciation is deducted from the original cost, and any gain or loss arising from its disposal is credited or charged to operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during construction of capital assets of business-type activities are capitalized when they are material. There was no interest cost included as part of the costs of capital assets under construction in the current year.

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Compensated Absences Payable

The City provides vacation and sick leave to its full-time employees. Compensated absences are typically paid from the general fund. Earned vacation is paid to employees when taken or paid to employees or beneficiaries upon the employees' termination, retirement or death. The City does not pay earned sick pay upon the employees' termination, retirement or death. Therefore, sick pay is not accrued since the amount cannot be reasonably estimated.

Risk Management

The City is exposed to various risks of loss related to theft of, damage to, or destruction of assets. The City participates in a public entity risk pool, Idaho Counties Risk Management Pool (ICRMP), for property and liability insurance. The City's exposure to loss from its participation in ICRMP is limited to the extent of the deductible only.

Deferred Charges

Deferred charges of $75,406 representing bond issuance costs for the 2001 Revenue bonds are being amortized over the life of that bond, and bond issuance costs of $ 46,401 on the 2011 Revenue bonds will be amortized over the remaining life of the bonds. Current year amortization expense is $8,442. The unamortized amount of the deferred costs for Revenue bond series 2001 and Revenue bond series 2011 is $75,981.

Bonded Indebtedness

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize long-term obligations as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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NOTE 2 - CASH AND INVESTMENTS

At year end, the carrying amount of the primary government's deposits, including restricted cash, was $3,651,774 and bank balances totaled $3,864,263. Of the total cash and investment balances, $1,560,963 was covered by Federal Deposit Insurance Corporation (FDIC) insurance,$105,159 was covered by the National Credit Union Administration Insurance, $1,007,180 was invested through the Certificate of Account Deposit Registry (CDARS), which allows for investments in FDIC backed investment instruments and $1,190,961 was uninsured and uncollateralized. All cash and investments are held in regional or national financial institutions. Investments are stated at fair value , as determined by quoted market prices, except for any certificates of deposit, which are non-participating contracts, and are therefore carried at amortized cost. Interest earned is allocated on a basis of average investment balance. Idaho Code provides authorization for the investment of funds as well as to what constitutes an allowable investment. The City policy allows for investment of idle funds consistent with the Idaho State Code 67-1210 and 67-1210A.

As identified in Note 6, the City issued Revenue bond series 2011 on September 1, 2011. The bond covenants for Bond series 2011 require that a restricted cash balance be maintained in the Water and Sewer Enterprise fund to be used only for the payment of principal and interest in the event that the city is unable to make those payments on a timely basis using available cash on hand in the Water and Sewer Enterprise Fund. The City opted to utilize available cash to fund this debt service reserve versus purchasing insurance for that purpose and put it into a certificate of deposit. The balance in the restricted investment account is $151,000 and is shown in the Water and Sewer Fund balance sheet as restricted investment and Restricted Net Assets for that same amount.

The Code and the City investment policy limits investments to the following general types:

Certain revenue bonds, general obligation bonds, local improvement district bonds and registered warrants of state and local governmental entities.

Time deposit accounts, tax anticipation and interest-bearing notes.

Bonds, treasury bills, debentures, or other similar obligations of the United States Government and United States Government Agencies.

Repurchase agreements secured by the above.

The City voluntarily invests in the State of Idaho Local Government Investment Pool (LGIP), which does not have a credit rating. The pool is not registered with the Securities and Exchange Commission or any other regulatory body. The LGIP is a part of the Joint Powers Investment Pool managed by the State of Idaho Treasurer's Office and was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. Oversight is with the Treasurer of the State of Idaho and Idaho Code 67-1210A defines allowable investments. The fair value of the Agency's investment in the pool is the same as the value of the pool shares.

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Interest Rate Risk. Investments that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. The City is invested in certificates of deposit, overnight repurchase agreements and the State of Idaho Local Investment Pool which comply with the City's investment policy. All investments have maturities that are no more than three years. As of September 30, 2012 the amount of cash, cash equivalents and invested cash is as follows:

	Maturities	Fair Value
Cash	N/A	
Cash	N/A	$ 638,661
Cash Equivalents		
Money Market Accounts	Daily	966,848
State of Idaho Local Government Investment Pool		
External Investment Pool	132 Days	997,861
Investments		
Certificates of Deposit	One year or less	859,893
Certificate of Deposit-Restricted	September 30, 2013	151,000
Certificates of Deposit-Unrestricted	January 13, 2013	250,000
		$ 3,864,263

Credit Risk. Credit risk is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation and is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's and Fitch's. The City is not invested in any debt instruments or investments that are rated by rating organizations. This risk is mitigated by investments that are insured by the FDIC, NCUA and by credit ratings on quality ratings of A or better.

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Concentration of Credit Risk. When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The Governmental Accounting Standards Board has adopted a principal that governments should provide note disclosure when five percent of the total entity's investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. Government, mutual funds, and other pooled investments are exempt from disclosure. The City's investment policy is to have at least five different financial institutions in which all cash and cash investments are placed and in which no more than 50% of all available cash invested is in any one institution at one time. The City has investments placed with ten different financial institutions, with the objective of mitigating the concentration of credit risk. The following table represents the City's diversification of its investments:

	Amount Deposited	% of Total
Cash		
US Bank Cash Management Accounts	$ 414,748	10.73%
Idaho Banking Company Checking Account	78,351	2.03%
Mountain West Restricted Cash	151,000	3.91%
Mountain West Flexible Spending Account	40,403	1.05%
Mountain West Bank, Money Market Account	500,645	12.96%
Les Bois Credit Union Checking Account	105,159	2.72%
Zions Bank Money Market Account	217,323	5.62%
State of Idaho Local Government Investment Pool	997,861	25.82%
Wells Fargo Bank Certificate of Deposit	50,684	1.31%
Idaho Banking Certificate of Deposit	200,000	5.18%
Mountain West Bank, Certificates of Deposit	558,133	14.44%
Key Bank, Certificates of Deposit	248,880	6.44%
Washington Trust Bank, Certificates of Deposit	51,076	1.32%
Bank of the Cascades, Certificates of Deposit	250,000	6.47%
	$ 3,864,263	100.00%

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City accepts the risk of having certain cash balances above FDIC insurance. The City's investment in the cash management account was held by the counterparty that was acting as the City's agent in the securities transactions.

NOTE 3 – INTERFUND TRANSFERS

Transfer to the Debt Service Fund from:	
General Fund	$ 179,156

This transfer of $179,156 was made from the General Fund to the Debt Service Fund for the purpose of early retirement of the note payable to First Security Bank. This proceeds from this note were used to finance the construction of the police building in fiscal year 1999.

(continued on next page)

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

The following summarizes the intergovernmental receivables at September 30, 2012:

State of Idaho		
State Tax Commission	$	177,904
Liquor Distribution		36,048
Office of Highway Safety		3,750
Ada County		
Court Revenue		15,233
Department of Justice		
COPS Grant		6,707
Garden City Urban Renewal Agency		267,741
Total	$	507,383

NOTE 5 – CAPITAL ASSETS

Changes in capital assets are as follows:

	October 1, 2011	Additions	Delections	Transfers	September 30, 2012
Governmental activities					
Capital assets, not depreciated					
Land and land improvements	$ 6,907,186	$ -	$ -	$ -	$ 6,907,186
Capital assets, depreciated					
Buildings and improvements	4,008,459	-	-	-	$ 4,008,459
Machinery and equipment	1,670,965	189,709	(110,946)	-	$ 1,749,728
Total capital assets, depreciated	5,679,424	189,709	(110,946)	-	5,758,187
Less accumulated depreciation					
Buildings and improvements	(666,345)	(93,062)	-	-	$ (759,407)
Machinery and equipment	(1,292,386)	(202,972)	109,239	-	$ (1,386,119)
Total accumulated depreciation	(1,958,731)	(296,034)	109,239	-	(2,145,526)
Total net capital assets, depreciated	3,720,693	(106,325)	(1,707)	-	$ 3,612,661
Governmental activities Capital assets, Net	$ 10,627,879	$ (106,325)	$ (1,707)	$ -	$ 10,519,847

(continued on next page)

	October 1, 2011	Additions	Deletions	Transfers	September 30, 2012
Business-type activities					
Capital Assets, not depreciated					
Construction/Work in progress	$ -	$ 192,944	$ -	$ -	$ 192,944
Total capital assets, not depreciated	-	192,944	-	-	192,944
Capital assets, depreciated					
Improvements of buildings	3,634,155	41,513	-	-	$ 3,675,668
Utility plant and improvements	17,056,839	947,534	-	-	$ 18,004,373
Machinery and equipment	3,044,741	290,608	(5,000)	-	$ 3,330,349
Total capital assets, depreciated	23,735,735	1,279,655	(5,000)	-	25,010,390
Less accumulated depreciation for					
Improvements of buildings	(2,022,350)	(72,183)	-	-	$ (2,094,533)
Utility plant and improvements	(3,766,267)	(343,259)	-	-	$ (4,109,526)
Machinery and equipment	(2,318,447)	(176,569)	5,000	-	$ (2,490,016)
Total accumulated depreciation	(8,107,064)	(592,011)	5,000	-	$ (8,694,075)
Business-type activities					
Capital assets, net	$ 15,628,671	$ 880,588	$ -	$ -	$ 16,509,259

Depreciation expense was charged to functions/programs of the City as follows:.

Governmental activities	
General Government	$ 58,981
Public Safety	188,401
Culture and recreation	48,652
Total depreciation expense-governmental activities	$ 296,034
Business-type activities	
Water and sewer	$ 584,190
Sanitation	377
Street lights	7,444
Total depreciation expense-business-type activities	$ 592,011

As provided in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the City has elected to not retroactively capitalize their infrastructure assets.

(continued on next page)

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following as of September 30, 2012:

Governmental activities

General Obligation bonds

On December 21, 2004, the City issued $860,000 in General Obligation bonds for the construction of the new City Hall and Library. The bonds are payable in annual principal installments varying from $30,000 to $65,000 through August 2025, plus interest ranging from 2.85% to 4.95% payable semi-annually. The bonds are secured by ad valorem taxes to be levied against all taxable property within the City. $ 650,000

Capital Lease Payable

On October 1, 2008 the City entered into a lease/purchase agreements with US National Bank for ordinary and necessary public safety vehicles that cost $240,305.The lease is payable in semi-annual installments of $20,795 in January and $27,367 in July of each year through July 2014. The interest rate on the lease is 4.95% and is secured by the vehicles.

$ 58,968

Business-type activities

Revenue bonds

On September 1, 2011, the City issued $1,510,000 in Revenue Bonds to refinance the Revenue Bonds that were originally issued on November 1, 2001 for the construction of the Water Filtration System. The bonds are payable in annual principal installments varying from $135,000 to $175,000 through September 2021, plus interest ranging from 2% to 4% payable semi-annually. $ 1,375,000

Premium	115,867
Total Revenue Bonds	$ 1,490,867

(continued on next page)

The annual requirements to amortize all debt outstanding at September 30, 2012, are as follows:

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	$ 92,536	$ 31,720	$ 135,000	$ 43,700
2014	46,432	28,063	140,000	41,000
2015	40,000	26,303	140,000	38,200
2016	45,000	24,623	150,000	35,400
2017	45,000	22,688	150,000	30,900
2018-2022	255,000	81,733	660,000	67,400
2023-2025	185,000	18,353	-	-
	$708,968	$233,483	$1,375,000	$256,600

Total interest cost incurred during 2012 was $ 86,833 which related to long-term debt and capital leases.

The City is obligated under a lease accounted for as a capital lease. The leased asset and related obligation are accounted for in the Statement of Net Assets in the Government-Wide Financial Statements. The original capitalized amount of the capital lease was $240,305 with total accumulated depreciation of $ 186,638.Depreciation expense in the current year associated with the lease was $45,258.

The following is a schedule of the future minimum payments under the capital lease, together with the net present value of the minimum lease payments as of September 30, 2012.

2013	54,733
2014	6,571
Minimum lease payments for the Capital Lease	61,305
Less: Amount representing interest	(2,337)
Present value of minimum lease payments at 9/30/2012	$ 58,968

In Idaho, a municipality is allowed a debt limit, excluding enterprise fund debt, of 2% of the market valuation of the real and personal property in its taxing area. The City's legal debt limits for governmental funds for 2012, based on data available from Ada County as of August 31, 2012, would be approximately $16,107,900.

(continued on next page)

The following is a summary of changes in long-term debt of the City for the year ended September 30, 2012:

	2011 Balance	Additions	Reductions	2012 Balance	Due in One Year
Governmental Activities					
Bonds payable	$ 685,000	-	$ (35,000)	$ 650,000	$ 40,000
Capital leases	109,048	-	(50,080)	58,968	52,536
Notes Payable	175,000	-	(175,000)	-	-
Governmental activities long-term liabilities	$ 969,048	$ -	$ (260,080)	$ 708,968	$ 92,536
Business-Type Activities					
Bonds payable	$ 1,510,000	$ -	$ (135,000)	$ 1,375,000	$ 135,000
Business-type activities long-term liabilities	$ 1,510,000	$ -	$ (135,000)	$ 1,375,000	$ 135,000

NOTE 7- PLEDGED REVENUES

The city has pledged future water and sewer customer revenues, net of specified operating expenses, to repay $1,510,000 in water and sewer system revenue bonds issued on September 1, 2011. Proceeds from these bonds were used to refund Revenue bonds series 2001 that provided financing for water filtration facilities. The bonds are payable solely from water and sewer customer net revenues and are payable through September 2021. Annual principal and interest payments on the bonds are expected to require less than 23 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,631,600. Principal and interest paid for the current year and total customer net revenues were $183,333 (based on the refunded revenue bond series 2011) and $1,278,843, respectively.

The city has pledged a portion of future *ad valorem* property tax revenues to be levied against all taxable property in the City to repay $860,000 in bonds issued in December, 2004 to finance the building of the new library and city hall. The bonds are payable solely from the property taxes. The additional property tax levy produces 100 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $881,143, payable through August 1, 2025. For the current year, principal and interest paid and total property tax revenues were $65,870.

NOTE 8 - CONTINGENT LIABILITIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Any disallowed claims, including accounts already collected, could become a liability of the City. City management believes disallowance, if any, will not be material.

The City has been named as defendant in various legal actions, the results of which are not presently determinable. However, in the opinion of City management, the amount of losses that might be sustained, if any, would not materially affect the City's financial position.

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NOTE 9 - DEFINED BENEFIT PENSION PLAN

The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring both the member and the employer to 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. Financial reports for the plan are available from PERSI upon request.

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% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. The contribution requirements of the City and its employees are established and may be amended by the PERSI Board of Trustees. For the fiscal year ended September 30, 2012, the required contribution rate for general employees was 10.39% and 6.23% of covered payroll for the City and its employees, respectively, and 10.73% and 7.69% for police for the City and its employees, respectively.

The City's contributions required and paid were $455,806, $463,081 and $469,985 for the three years ended September 30, 2012, 2011, and 2010, respectively.

NOTE 10 – SUBSEQUENT EVENT

The City has received a grant from the Idaho Transportation Department to build a pedestrian bridge on the west end of the city boundaries. The grant is expected to provide approximately 80% of the bridge construction cost, which is expected to be approximately $1,000,000. The remaining 20% of the construction costs will be funded by the City General Fund and by other local contributions from governmental and private non-profit entities. Approximately $90,000 will be transferred to the Capital Projects fund from the General fund in fiscal year 2013 for this project.

NOTE 11– COMPONENT UNIT

The Garden City Urban Renewal Agency (Agency) is a separate and distinct legal entity of the City of Garden City (City) created by and existing under the Idaho Urban Renewal Law of 1965, as amended. The Directors for the Agency are appointed by the Mayor and approved by the City Council. The Agency provides urban renewal services for the citizens of the City.

The following is a summary of the disclosures required for a fair presentation of the component unit in the City's financial statements.

Cash and Cash Equivalents

At year-end, the bank balance of the Agency's deposits was $ 520,157. All cash is held in a national financial institution and is insured.

As part of the Agency's main business cash management account, excess deposits are swept nightly into an investment account under a Repurchase Agreement with the bank. These deposits are uninsured and unregistered but are fully collateralized by the investment purchased under the agreement. As of September 30, 2012 there were no balances in the sweep account.

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The Agency also voluntarily invests in the State of Idaho Local Government Investment Pool (LGIP), which does not have a credit rating. The pool is not registered with the Securities and Exchange Commission or any other regulatory body. The LGIP is a part of the Joint Powers Investment Pool managed by the State of Idaho Treasurer's Office and was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. Oversight is with the Treasurer of the State of Idaho and Idaho Code 67-1210A defines allowable investments. The fair value of the Agency's investment in the pool is the same as the value of the pool shares.

As of September 30, 2012, the amount of deposits invested in cash equivalents include:

Investment Type	Maturities	Fair Value
Cash equivalents		
Money Market	N/A	$ 242,493
State of Idaho Local Government Investment Pool		
External Investment Pool	132 Days	1,157,465
		$ 1,399,958

Interest Rate Risk. The Agency's formal policy is to invest only in vehicles with maturities of one year or less to mitigate exposure to fair value losses caused by changing interest rates.

Credit Risk and Custodial Credit Risk. In the event of a bank failure, the Agency's deposits may not be returned or that an issuer or other counter party to an investment will not fulfill its obligations. The Agency's formal policy is to only deposit in banks that are FDIC insured and only invest in A grade or higher vehicles for collateralization.

Concentration of Credit Risk. When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The Agency has no policy to analyze the benefits of diversification against its costs for each investment. If diversification is considered impracticable, the Agency accepts the risk associated with that concentration. However, the Agency will separate enterprise fund deposits from general fund deposits through the use of different investment vehicles. Idaho Code 67-2739 does limit the total deposits of a state depository.

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CITY OF GARDEN CITY, IDAHO

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GARDEN CITY, IDAHO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,211,648	$ 3,211,648	$ 3,269,240	$ 57,592
Licenses and permits	38,952	38,952	34,252	(4,700)
Charges for services	1,238,000	1,238,000	1,238,000	-
Intergovernmental	830,170	866,155	859,638	(6,517)
Fines and forfeitures	395,790	395,790	364,547	(31,243)
Grants	132,552	150,007	107,972	(42,035)
Franchise fees	495,073	495,073	522,200	27,127
Interest	22,780	22,780	30,244	7,464
Rent				
Library fees	121,300	128,268	121,960	(6,308)
Miscellaneous	29,661	71,350	60,983	(10,367)
Total revenues	6,515,926	6,618,023	6,609,036	(8,987)
Expenditures				
General government	2,224,357	2,224,357	1,881,129	343,228
Public safety	3,827,295	3,829,119	3,846,043	(16,924)
Culture and recreation	727,970	757,893	740,087	17,806
Capital outlay	152,490	222,840	189,709	33,131
Debt service				
Principal	44,963	44,963	50,080	(5,117)
Interest	9,770	9,770	4,653	5,117
Total expenditures	6,986,845	7,088,942	6,711,701	377,241
Excess of Revenues Over (under) Expenditures	(470,919)	(470,919)	(102,665)	368,254
Other financing sources (uses)				
Operating transfer in (out)	-	-	(179,156)	(179,156)
Proceeds from sale of asset held for sale	-	-	25,000	25,000
Total other financing sources (uses)	-	-	(154,156)	(154,156)
Excess of Revenues and Other Uses over (under) Expenditures	$ (470,919)	$ (470,919)	$ (256,821)	$ 214,098
Fund Balance, Beginning of Year			2,833,091	
Fund Balance, End of Year			$ 2,576,270	

See Notes to Required Supplementary Information

Budgets and Budgetary Accounting

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

Prior to September 1, the City Treasurer/Budget Director and Mayor, with input from the City's Department heads, prepare a proposed budget for the fiscal year commencing on October 1. Final approval of the proposed budget is then made by the City Council. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted at City Hall to obtain taxpayer comments.

Prior to October 1, the budget is legally enacted through passage of an ordinance.

Amendments to the budget are approved by Council prior to September 30. The proposed amendments are published and public hearings are conducted at City Hall. The amendments are legally enacted through passage of an ordinance.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles. The budget included in the financial statements is the legal budget as amended.

CITY OF GARDEN CITY, IDAHO

OTHER FINANCIAL INFORMATION

CITY OF GARDEN CITY, IDAHO
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENT FUNDS
SEPTEMBER 30, 2012

	Debt Service Library	Capital Projects	Total Non Major Governmental Funds
Assets			
Cash and cash equivalents	$ -	$ 90,950	$ 90,950
Receivables			
Property taxes	69,523	-	69,523
	$ 69,523	$ 90,950	$ 160,473
Liabilities and Fund Balance			
Liabilities			
Deferred revenue	$ 69,523	90,950	$ 160,473
	69,523	90,950	160,473
Fund Balance			
Unreserved	-	-	-
	$ 69,523	$ 90,950	$ 160,473

CITY OF GARDEN CITY, IDAHO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – NON-MAJOR GOVERNMENT FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Debt Service Library	Capital Projects	Total Governmental Funds
Revenues			
Taxes	$ 65,870	$ -	$ 65,870
Total revenues	65,870	-	65,870
Expenditures			
Debt service			
Principal	210,000	-	210,000
Interest	35,026	-	35,026
Total expenditures	245,026	-	245,026
Deficiency of Revenues under Expenditures	(179,156)	-	(179,156)
Other financing sources (uses)			
Operating transfers in	179,156	-	179,156
Total other financing sources	179,156	-	179,156
Net Change in Fund Balance	-	-	-
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	$ -	$ -	$ -

CITY OF GARDEN CITY, IDAHO

SUPPLEMENTARY INFORMATION

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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 Garden City, Idaho

We have audited 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 Garden City, Idaho,** as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of **City of Garden City, Idaho,** in a separate letter dated February 6, 2013.

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

Bailey & Co.

Nampa, Idaho
February 6, 2013