

CITY OF JEROME, IDAHO

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

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Rexroat, Harberd & Assoc., P.A.

Certified Public Accountants

P.O. Box 7 - 125 North Buchanan - Jerome, Idaho 83338
Telephone 208-324-2351 Fax 208-324-8266

February 11, 2013

Independent Auditors' Report

Mayor and Council
City of Jerome
Jerome, Idaho 83338

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jerome, Idaho, 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 management of the City of Jerome, Idaho. 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, each major fund, and the aggregate remaining fund information of the City of Jerome, 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 11, 2013, on our consideration of the City of Jerome, 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 the 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 important for 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 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 financial statements of the City of Jerome, Idaho, as a whole. The combining nonmajor fund financial statements, schedules, and charts are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and related 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. The schedules and charts have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reynold, Harberd & Assoc., P.A.

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

I. Background.

As a result of heightened fiscal responsibility, taxpayers demand better accounting of how and where their money is being spent. With the drafting in June 1999 of GASB 34 – the Government Accounting Standards Board Statement Number 34 – the scope of maintaining public asset records has been changing.

GASB 34 requires all government entities, including local and state governments, school districts, publicly operated hospitals, public utilities, and state universities, and all other public entities that collected tax revenues, to report on the value and condition of all capital and infrastructure assets. Two reporting methods are outlined in the statement: (1) the standard approach, which is a simple depreciation method; and (2) the modified method, which takes into account maintenance expenses and the value that these expenses add to an asset. This method requires a current inventory of all assets, a condition assessment every three years, and estimates of annual maintenance costs. In either case, local and state governments now must adhere to some of the accounting standards that have been required of private sector firms for years.

At the conclusion of Fiscal Year 2004, the City of Jerome implemented a new accounting reporting requirement. Fiscal Year 2012 represents the eighth year in which the City has followed the financial standards established with the adoption of GASB-34.

As part of these new standards, the City is now required to provide an overview of its financial activities in a narrative form called the “Management’s Discussion and Analysis”. This report highlights the general fiscal health of the City, outlines key financial decisions that were initiated by the City’s leadership and identifies future financial priorities and activities as determined by the Mayor, City Council and City Staff. In order to fully understand the financial statements included in the City’s Audit, residents should first read the Management’s Discussion and Analysis document. It is our goal that through its reading, our citizens will be better informed and involved.

II. Understanding this Report.

This Management’s Discussion and Analysis report is broken into three major components that include a Financial Statements Overview, a Debt Management and Administration Overview and a glimpse into the Fiscal Year 2013 Priorities. This report covers the Fiscal Year 2012 that began on October 1, 2011 and ended on September 30, 2012. Fiscal Year 2013 priorities address those financial activities that the City leadership is currently addressing as of the date of this analysis.

Like the report issued at the conclusion of the previous fiscal year, the Fiscal Year 2012 Management Discussion and Analysis provides financial comparisons and financial trends analysis, all designed to provide the reader with a greater understanding of the City’s overall financial health.

The City’s financial statements are broken into two categories: Government Wide Financial Statements and Fund Financial Statements.

- A. *Government-Wide Financial Statements.* Government-wide financial statements, presented on pages 13-14 of the audit, 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 of the City of Jerome’s assets and

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

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 of whether the financial position of the City is improving or deteriorating. In other words, it will help to show how solvent the City is.

The statement of activities presents information showing how the government's assets and liabilities changed during the most recent fiscal year. All changes in net assets are reported as they occur, regardless of the timing of related cash flows. This is accrual accounting and thus, revenues and expenses are reported in this statement for some items that might not reflect actual cash flows until future fiscal periods. (i.e., delinquent taxes and earned but unused compensated absences such as personal time off and short term disability).

The government-wide financial statements distinguish functions of the City of Jerome as either governmental activities, those activities that are supported primarily by taxes and intergovernmental activity or business-type activities, those activities that are intended to recover all or a significant portion of their costs through user fees and charges.

The governmental activities of the City of Jerome include general government administration and operations, transportation assets, capital projects and asset depreciation. Business-type activities of the City of Jerome include water and sewer administration and operations.

- B. *Fund Financial Statements.* A fund is a grouping of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives. All of the funds of the City of Jerome can be divided into two categories: government funds or proprietary funds.

(1) Government Funds. Government funds are used to account for essentially the same activities as previously identified under governmental activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of City liquid resources as well as balances of liquid resources at the end of the fiscal year. Such information is helpful when determining the City's near-term financing requirements and health.

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 both as readers may better understand the long-term impact of the government's near-term financing decisions.

The City of Jerome maintains four (4) individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Street Fund, Library Fund and Park Fund which are considered to be major funds. The other fund, which consists of the MVERT Fund, is considered an agency fund and the information related to this fund is presented on page 21 of the financial statements.

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

(2) Proprietary Funds. The City of Jerome maintains one type of proprietary funds called enterprise funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City of Jerome uses enterprise funds to account for its water and sewer operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the irrigation, sanitation, water, and sewer operations, all of which are considered to be major funds of the City of Jerome. Data for these funds is found on pages 18-20 of the financial statements.

If the reader comes upon either "Notes to the Financial Statements" or "Other Information", these sections are to provide additional narrative and required supplementary information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

III. Health of the City – Financial Statements Overview

Government-Wide Financial Analysis. One important question to ask about the City's finances is, "Is the City better or worse off as a result of the previous year's activities?" The information in the government-wide financial statement helps answer this question because it captures all city assets and liabilities using the accrual basis of accounting with the addition of reporting depreciation on capital assets. In this way, all of the City's financial transactions both in revenues and expenses are captured both for the long-term and the near-term and one can see the true financial health of the City.

For the City of Jerome for the Fiscal Year 2012, changes in governmental and business-type assets and liabilities are illustrated in Table 3.1, which appears on the following page.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

Table 3.1 Net Assets - FY 2011 & FY 2012						
	Governmental Activities FY 2011	Governmental Activities FY 2012	Business-Type Activities FY 2011	Business-Type Activities FY 2012	Total FY 2011	Total FY 2012
Current and Other Assets	\$2,000,623	\$2,681,651	\$4,617,782	\$4,813,108	\$6,618,405	\$7,494,759
Capital Assets - Net	\$9,797,542	\$10,508,885	\$27,680,482	\$27,695,934	\$37,478,024	\$38,204,819
Total Assets	\$11,798,165	\$13,190,536	\$32,298,264	\$32,509,042	\$44,096,429	\$45,699,578
Current Liabilities	\$544,228	\$616,195	\$1,051,095	\$852,290	\$1,595,323	\$1,468,485
Non-Current Liabilities	\$1,244,023	\$1,176,053	\$10,942,487	\$10,327,878	\$12,186,510	\$11,503,931
Total Liabilities	\$1,788,251	\$1,792,248	\$11,993,582	\$11,180,168	\$13,781,833	\$12,972,416
Net Assets:						
Invested in Capital Assets	\$8,821,387	\$9,597,340	\$16,498,898	\$17,036,883	\$25,320,285	\$26,634,223
Restricted	\$118,132	\$117,306	\$2,855,664	\$3,262,008	\$2,973,796	\$3,379,314
Unrestricted	\$1,070,395	\$1,683,642	\$950,120	\$1,029,983	\$2,020,515	\$2,713,625
Total Net Assets	\$10,009,914	\$11,398,288	\$20,304,682	\$21,328,874	\$30,314,596	\$32,727,162

As indicated in Table 3.1, the large proportion of the City of Jerome's net assets of \$32,727,162 are reflected in capital assets (land, buildings, machinery, equipment, etc.) less any debt used to acquire those assets that is still outstanding. The City of Jerome uses these assets to provide services to its citizens and so consequently, these assets are not available for future spending.

When looking at the City's net assets, the other area to look at is the restricted and unrestricted totals. The \$3,379,314 in the restricted column for Fiscal Year 2012 represents amounts that are subject to external restrictions on how they may be used. The majority of these assets are related to debt service required for the issuance of revenue related debt in the water and sewer enterprises and leases in governmental activities. The remaining \$2,713,625 in the unrestricted category represents assets that could be used to meet the City's ongoing obligations to citizens and creditors. For comparison purposes, at the end of Fiscal Year 2011, the City of Jerome had total restricted net assets of \$2,973,796 – which is an increase of \$405,518, or thirteen and sixty-three hundredths percent (13.63%) and total unrestricted net assets of \$2,020,515 – which is an increase of \$693,110, or thirty-four and thirty hundredths percent (34.30%).

At the end of the fiscal year, the City of Jerome is able to report positive balances in its assets for both governmental and business-type activities.

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

Table 3.2 Change in Net Assets - FY 2011 & FY 2012						
	Governmental Activities FY 2011	Governmental Activities FY 2012	Business-Type Activities FY 2011	Business-Type Activities FY 2012	Total FY 2011	Total FY 2012
Revenues						
Program Revenues:						
Charges for Service	\$721,081	\$1,599,581	\$5,634,469	\$6,181,714	\$6,355,550	\$7,781,295
Operating Grants & Contributions	\$338,030	\$236,485			\$338,030	\$236,485
Capital Grants & Contributions	\$319,301	\$199,635			\$319,301	\$199,635
General Revenues:						
Property Taxes	\$3,491,934	\$3,741,913			\$3,491,934	\$3,741,913
Other Governmental License & Permits	\$1,053,523	\$1,169,284			\$1,053,523	\$1,169,284
Investment Earnings	\$4,952	\$4,000	\$12,199	\$10,038	\$17,151	\$14,038
Grant Revenues						
Transfers:	\$11,000	\$11,000	(\$11,000)	(\$11,000)	\$0	\$0
Total Revenues	\$5,939,821	\$6,961,898	\$5,635,668	\$6,180,752	\$11,575,489	\$13,142,650
Expenses						
General Government	\$3,959,231	\$3,695,662			\$3,959,231	\$3,695,662
Street Services	\$1,235,081	\$1,255,712			\$1,235,081	\$1,255,712
Library Services	\$388,943	\$396,159			\$388,943	\$396,159
Park Services	\$147,941	\$154,851			\$147,941	\$154,851
Irrigation			\$180,737	\$140,667	\$180,737	\$140,667
Sanitation			\$251,502	\$241,627	\$251,502	\$241,627
Water			\$1,890,291	\$1,807,243	\$1,890,291	\$1,807,243
Sewer			\$3,730,651	\$3,494,712	\$3,730,651	\$3,494,712
Total Expenses	\$5,731,196	\$5,502,384	\$6,053,181	\$5,684,249	\$11,784,377	\$11,186,633
Change in Net Assets	\$208,625	\$1,459,514	(\$417,513)	\$496,503	(\$208,888)	\$1,956,017
Net Assets - beginning as reported	\$9,801,289	\$10,009,914	\$18,094,972	\$20,304,682	\$27,896,261	\$30,314,596
Prior Period adjustment for errors long term debt	\$0	(\$71,140)	\$0	\$303	\$0	(\$70,837)
Net Assets - beginning as corrected		\$9,938,774		\$20,304,985	\$27,896,261	\$30,243,759
Increase in contributed capital			\$2,627,223	\$527,386	\$2,627,223	\$527,386
Net Assets - ending	\$10,009,914	\$11,398,288	\$20,304,682	\$21,328,874	\$30,314,596	\$32,727,162

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

Table 3.2, Change in Net Assets, reflects the overall change in net assets for the City of Jerome. For the fiscal year, the City's total revenues were \$13,142,650 while total expenses were \$11,186,633. This indicates that the City was able to cover its year's overall costs. When looking at the Business-Type Activities, the City reports a \$496,503 change in assets.

Fund Financial Analysis. As noted earlier, the City of Jerome uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Government Funds. The focus of the City of Jerome governmental fund reporting is to provide information on near-term inflows, outflows, and balances of expendable resources. Perhaps the key area to look at in government fund balance sheets is the final unassigned fund balance as they indicate resources available for spending at the end of the fiscal year.

At the end of this last fiscal year, the City of Jerome reported positive combined ending fund balances of \$1,952,425, which accounts for financial activities in the General Fund, Street Fund, Park Fund and Library Fund. For comparison purposes, the combined ending fund balances at the conclusion of Fiscal Year 2011 were \$1,081,952. This represents an increase of \$870,473 or eighty and forty-five hundredths percent (80.45%). The City of Jerome reports positive balances in all of the governmental funds.

Proprietary Funds. The City of Jerome's proprietary funds include the Irrigation, Sanitation, Water, and Sewer Enterprise Funds. The City of Jerome reports a positive combined ending operating balance of \$21,328,874 for the Proprietary Funds part of which is attributed to \$27,695,934 in accumulated depreciated assets. When analyzing cash flows, the combined ending cash and cash equivalent balance at the end of the year was a positive \$3,516,932 which is an increase of \$563,574 from the previous year. The Water and Sewer Enterprise Funds have a combined unrestricted pooled cash reserve of \$119,666. (Not allocated to any debt payment).

In summary, the City of Jerome continues to face the fiscal challenges many municipalities are experiencing through state shared revenue, interest, and other revenue source declines. The general fund balance and street fund increased by \$435,953 and \$396,839, respectively, to keep in line with the City's desire to maintain an unrestricted fund balance for each of the cities funds at a minimum of 25% of the total budgeted annual expenditures. Net Assets did improve in both the water and sewer funds due to increased utility rates over the prior year, and cash balances continued to increase as well. The combined total of restricted and unrestricted assets is \$32,727,162. The City leadership is proactively analyzing financial activities in both the restricted and unrestricted net assets for both governmental and proprietary funds.

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

IV. Capital Assets and Debt Management Administration

Capital Assets. The City of Jerome's investment in capital assets for its governmental and business-type activities as of September 30, 2012 was \$38,204,819. This is an increase of \$726,795 from the previous year and reflects the following investments:

Table 4.1 Capital Assets				
	Balance 1-Oct-11	Increases	Decreases	Balance 30-Sep-12
Governmental Activities:				
Land	\$745,329	\$87,957		\$833,286
Buildings	\$3,770,750	\$23,440		\$3,794,190
Machinery and Equipment	\$4,984,652	\$106,776	(\$27,500)	\$5,063,928
Infrastructure	\$4,824,488	\$516,481		\$5,340,969
Construction in Progress	\$224,817	\$730,838	(\$224,817)	\$730,838
Less Accumulated Depreciation for:				
Buildings	\$1,157,234	\$112,069		\$1,269,303
Machinery and Equipment	\$3,199,702	\$234,920	(\$27,500)	\$3,407,122
Infrastructure	\$395,558	\$182,343		\$577,901
Net Capital Assets	\$9,797,542	\$936,160	(\$224,817)	\$10,508,885
Business Type Activities:				
Land	\$522,942	\$66,426		\$589,368
Buildings	\$13,110,823			\$13,110,823
Machinery and Equipment	\$1,813,197	\$45,894	(\$50,000)	\$1,809,091
Infrastructure	\$18,269,198	\$4,493,532		\$22,762,730
Construction in Progress	\$4,000,923	\$313,143	(\$4,000,923)	\$313,143
Less Accumulated Depreciation for:				
Infrastructure	\$1,262,559	\$528,775		\$1,791,334
Buildings	\$7,892,980	\$211,610		\$8,104,590
Machinery and Equipment	\$881,062	\$162,235	(\$50,000)	\$993,297
Net Capital Assets	\$27,680,482	\$4,016,375	(\$4,000,923)	\$27,695,934

Of the capital expenditures \$825,093 was received from various grant sources such as the Economic Development Administration (EDA), Environmental Protection Agency (EPA), Idaho Department of Environmental Quality (DEQ), and the City of Jerome's Urban Renewal Agency (JURA).

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

Debt Management and Administration. The City of Jerome currently maintains long-term debt in the amount of \$12,109,792. Included in long-term debt is the following:

- Revenue Bonds in the amount of \$10,659,051 in the Water and Sewer Funds (annual payments estimated at \$995,474),
- General Obligation Bond in the amount of \$688,464 for the Senior Citizen Center (annual payment of \$30,000),
- Lease/Purchase agreement on fire pumper in the amount of \$223,079 (annual payments of \$46,434),
- Debt payable to employees for compensated absences (e.g., vacation and compensated time) in the amount of \$490,071,
- Customer deposits to be refunded at a future date in the amount of \$49,127.

The table of long-term debt is as follows:

Table 4.2 Long-Term Debt				
	Balance 1-Oct-11	Additions	Payment Adjustments	Balance 30-Sep-12
Governmental Activities:				
Loan Payable/Capital	\$257,315		(\$34,236)	\$223,079
Bonds Payable	\$718,837		(\$30,373)	\$688,464
Compensated Absences	\$332,107	\$330,371	(\$332,107)	\$330,371
Business-Type Activities:				
Customer Deposits	\$78,110		(\$28,983)	\$49,127
Loans Payable:				
Revenue Bonds	\$11,181,584		(\$522,533)	\$10,659,051
Compensated Absences	\$202,793	\$159,700	(\$202,793)	\$159,700
Total	\$12,770,746	\$490,071	(\$1,151,025)	\$12,109,792

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

V. Fiscal Year 2013 Fiscal Priorities

In August of 2012, the Mayor, City Council and City Staff developed the Fiscal Year 2013 spending priorities to help focus the efforts of the City's resources in the current fiscal year that began on October 1, 2012 and ends on September 30, 2013. The priorities with significant allocations are illustrated in Table 5.1.

Table 5.1 2013 Fiscal Priorities		
Capital Improvements	Projected Cost	Explanation
Water System Improvements	\$1.2 million	In 2002 the City was approved for a \$3.6 million low interest loan from the Idaho Department of Environmental Quality's State Revolving Fund (IDEQ SRF). The purpose of the funding is to replace old water lines and create new water sources. In 2008 the City refinanced the loan and received \$1.2 million in bond proceeds for this project. \$962,314 was carried for this project.

CITY OF JEROME
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

Conclusion. This financial report is designed to provide a general overview of the City of Jerome's finances for all those with an interest in the government's finances and activities. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ross Hyatt, Finance Director, 152 East Avenue A, Jerome, Idaho 83338.

Ross Hyatt
Finance Director
City of Jerome

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

<u>ASSETS:</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Cash and cash equivalents	\$ 1,561,912	\$ 254,924	\$ 1,816,836
Receivables	988,223	1,132,312	2,120,535
Inventories .....	...	52,025	52,025
Restricted assets:			
Cash and cash equivalents	117,306	3,262,008	3,379,314
Capital assets:			
Land and construction in progress.....	1,564,124	902,511	2,466,635
Buildings, equipment and infrastructure, less accumulated depreciation	8,944,761	26,793,423	35,738,184
Other assets	14,210	111,839	126,049
Total assets	<u>13,190,536</u>	<u>32,509,042</u>	<u>45,699,578</u>
 <u>LIABILITIES:</u>			
Accounts payable and other accrued liabilities	550,334	312,290	862,624
Long-term liabilities:			
Current portion	65,861	540,000	605,861
Noncurrent portion	<u>1,176,053</u>	<u>10,327,878</u>	<u>11,503,931</u>
Total liabilities	<u>1,792,248</u>	<u>11,180,168</u>	<u>12,972,416</u>
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	9,597,340	17,036,883	26,634,223
Restricted for:			
Capital projects	113,660	2,257,389	2,371,049
Other	3,646	1,004,619	1,008,265
Unrestricted	<u>1,683,642</u>	<u>1,029,983</u>	<u>2,713,625</u>
Total net assets	<u>\$11,398,288</u>	<u>\$21,328,874</u>	<u>\$32,727,162</u>

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 3,695,662	\$ 606,452	\$ 151,618	\$...	\$ (2,937,592)	\$...	\$ (2,937,592)
Street services	1,255,712	973,945	83,731	199,635	1,599	...	1,599
Library services	396,159	18,668	610	...	(376,881)	...	(376,881)
Parks services	154,851	516	526	...	(153,809)	...	(153,809)
Total governmental activities	<u>\$ 5,502,384</u>	<u>\$1,599,581</u>	<u>\$ 236,485</u>	<u>\$ 199,635</u>	<u>(3,466,683)</u>	<u>...</u>	<u>(3,466,683)</u>
Business-type Activities:							
Irrigation	\$ 140,667	\$ 140,170	\$ ...	\$ ...	...	(497)	(497)
Sanitation	241,627	250,743	...	...	...	9,116	9,116
Water	1,807,243	2,463,414	...	...	...	656,171	656,171
Sewer	3,494,712	3,327,387	...	...	...	(167,325)	(167,325)
Total business-type activities	<u>\$ 5,684,249</u>	<u>\$6,181,714</u>	<u>\$...</u>	<u>\$...</u>	<u>...</u>	<u>497,465</u>	<u>497,465</u>
General Revenues:							
Property taxes					3,741,913	...	3,741,913
State shared revenue					1,169,284	...	1,169,284
Unrestricted investment earnings					4,000	10,038	14,038
Transfers					11,000	(11,000)	...
Total general revenues and transfers					<u>4,926,197</u>	<u>(962)</u>	<u>4,925,235</u>
Change in net assets					1,459,514	496,503	1,956,017
Net assets:							
Net assets beginning, as reported					10,009,914	20,304,682	30,314,596
Prior Period adjustment for deferred and irrigation revenue previously reported					(71,140)	303	(70,837)
Net assets beginning, as corrected					<u>9,938,774</u>	<u>20,304,985</u>	<u>30,243,759</u>
Increase in contributed capital .....					...	527,386	527,386
Net assets-ending					<u>\$11,398,288</u>	<u>\$21,328,874</u>	<u>\$ 32,727,162</u>

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	<u>General</u>	<u>Street</u>	<u>Library</u>	<u>Park</u>	<u>Total Governmental</u>
ASSETS:					
Pooled cash and cash equivalents	\$ 733,508	\$ 674,454	\$ 98,195	\$ 47,220	\$1,553,377
Non-pooled cash and cash equivalents	375	...	200	...	575
Receivables:					
Delinquent property taxes	195,054	53,189	24,970	11,580	284,793
Sales tax	43,872	12,347	5,827	2,700	64,746
Agriculture equipment tax	281	79	37	17	414
Highway user fees .....	...	89,202	...	...	89,202
Jerome Highway District .....	...	7,217	...	...	7,217
State revenue sharing	120,994	4,741	...	...	125,735
Other	149,204	175,454	...	...	324,658
Prepaid workers compensation premium	91,458	...	...	...	91,458
Restricted assets:					
Pooled cash and cash equivalents	15,780	100,000	...	1,526	117,306
Total assets	<u>\$1,350,526</u>	<u>\$1,116,683</u>	<u>\$ 129,229</u>	<u>\$ 63,043</u>	<u>\$2,659,481</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:

Accounts payable - trade	\$ 125,953	\$ 160,518	\$ 12,003	\$ 2,665	\$ 301,139
Accrued compensation	46,927	15,593	9,090	1,519	73,129
Accrued payroll taxes	88,287	...	...	...	88,287
Deferred revenue - taxes	163,971	49,824	20,978	9,728	244,501
Total liabilities	<u>425,138</u>	<u>225,935</u>	<u>42,071</u>	<u>13,912</u>	<u>707,056</u>

FUND BALANCES:

Non-spendable	91,458	...	...	...	91,458
Restricted	15,780	100,000	...	1,526	117,306
Committed	102,511	790,748	87,158	47,605	1,028,022
Assigned .....	...	...	...	...	...
Unassigned	715,639	...	...	...	715,639
Total fund balance	<u>925,388</u>	<u>890,748</u>	<u>87,158</u>	<u>49,131</u>	<u>1,952,425</u>
Total liabilities and fund equity ...	<u>\$1,350,526</u>	<u>\$1,116,683</u>	<u>\$ 129,229</u>	<u>\$ 63,043</u>	<u>\$2,659,481</u>

Reconciliation to Statement of Net Assets:

Total fund balances	\$1,952,425
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	10,508,885
Property taxes will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds ..	164,682
Deferred charges and related amortization are recognized in full in the year incurred and are not capitalized and amortized in the funds	14,210
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(1,241,914)
Net Assets of Governmental Activities as reported on the Statement of Net Assets	<u>\$11,398,288</u>

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	General	Street	Library	Park	Total Governmental
REVENUE:					
Property taxes	\$2,554,732	\$ 679,984	\$ 317,782	\$147,520	\$3,700,018
Penalties - property tax	33,724	9,076	4,241	1,993	49,034
Business and franchise taxes	151,272	56,817	...	...	208,089
Payment in lieu of taxes	6,747	1,793	838	389	9,767
Licenses and permits	119,521	...	...	...	119,521
Federal grant	149,809	83,731	...	...	233,540
State shared	613,081	525,988	20,648	9,567	1,169,284
Local grant .....	...	...	...	526	526
Taxable sales	7	49	10,390	...	10,446
Interest	1,087	1,802	228	155	3,272
Rents	27,904	...	...	...	27,904
Contributions	1,809	199,435	610	...	201,854
Refunds and reimbursements	113,561	915,060	669	516	1,029,806
Sale of city property	3	...	...	...	3
Fines	91,099	...	7,534	...	98,633
Miscellaneous	203,559	2,220	73	...	205,852
	<u>4,067,915</u>	<u>2,475,955</u>	<u>363,013</u>	<u>160,666</u>	<u>7,067,549</u>
EXPENDITURES:					
Current:					
Salaries	1,936,082	443,844	193,932	55,077	2,628,935
Personnel benefits	782,559	159,906	68,011	20,144	1,030,620
Office supplies	3,709	196	1,451	10	5,366
Operating supplies	81,397	163,359	10,749	4,240	259,745
Public relations	14,971	...	...	...	14,971
Professional services	134,395	1,586	...	...	135,981
Advertising and publishing	5,976	447	...	...	6,423
Insurance	36,021	30,615	122	...	66,758
Travel and meetings	1,803	...	...	...	1,803
Dues and subscriptions	10,766	189	370	175	11,500
Personnel training	46,492	2,631	2,942	489	52,554
Telephone	46,950	3,631	3,430	184	54,195
Utilities	30,941	6,560	8,154	53,348	99,003
Gas and oil	63,853	20,056	...	2,130	86,039
Repairs	63,419	32,395	10,457	4,060	110,331
Other purchased services	16,756	12,226	132	6,175	35,289
Cost share with Jerome County	106,468	...	...	...	106,468
Uniforms	13,814	56	...	...	13,870
Medical services	7,110	...	...	...	7,110
Street lighting .....	...	71,217	...	...	71,217
Books and magazines .....	...	...	27,494	...	27,494
Miscellaneous	6,992	212	793	34	8,031
Capital outlay	105,603	1,139,135	...	1,937	1,246,675
Debt service	109,209	...	...	...	109,209
	<u>3,625,286</u>	<u>2,088,261</u>	<u>328,037</u>	<u>148,003</u>	<u>6,189,587</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES ..	<u>442,629</u>	<u>387,694</u>	<u>34,976</u>	<u>12,663</u>	<u>877,962</u>
OTHER FINANCING SOURCES (USES):					
Net change in fair value of investments	404	260	34	29	727
Operating transfer in (out)	(54,945)	(4,579)	(17,110)	(2,222)	(78,856)
	<u>(54,541)</u>	<u>(4,319)</u>	<u>(17,076)</u>	<u>(2,193)</u>	<u>(78,129)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER)					
EXPENDITURES AND OTHER USES	<u>388,088</u>	<u>383,375</u>	<u>17,900</u>	<u>10,470</u>	<u>799,833</u>
FUND BALANCE:					
Fund balance October 1, 2011, as originally reported	489,435	493,909	62,858	35,750	1,081,952
Adjustment to correct prior year	47,865	13,464	6,400	2,911	70,640
Fund Balance October 1, 2011, as corrected .	<u>537,300</u>	<u>507,373</u>	<u>69,258</u>	<u>38,661</u>	<u>1,152,592</u>
FUND BALANCE SEPTEMBER 30, 2012	<u>\$ 925,388</u>	<u>\$ 890,748</u>	<u>\$ 87,158</u>	<u>\$ 49,131</u>	<u>\$1,952,425</u>

(Continued)

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2012

(Continued)

<u>Reconciliation to the Statement of Activities:</u>	
Net Change in Fund Balances (from previous page)	\$ 799,833
Repayment of note principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets	65,718
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:	
Capital outlay	1,213,175
Depreciation expense	(501,832)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	(117,380)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities ...	<u>\$1,459,514</u>

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Business-type Activities					Governmental Activities - Internal Service Funds
	Irrigation	Sanitation	Water	Waste Water Treatment Plant	Total	
ASSETS						
Current Assets:						
Pooled cash and cash equivalents	(\$7,205)	\$ 142,113	\$ 69,640	\$ 50,026	\$ 254,574	\$ 7,960
Non-pooled cash and cash equivalents .....	...	...	350	...	350	...
Patron receivables	76,822	38,735	490,232	488,622	1,094,411	...
Less allowance for uncollectible accounts ...	...	(114)	(1,501)	(1,317)	(2,932)	...
Accrued interest	21,463	...	...	...	21,463	...
Grant receivable .....	...	...	500	18,870	19,370	...
Inventory of supplies .....	...	...	52,025	...	52,025	...
Total current assets	<u>91,080</u>	<u>180,734</u>	<u>611,246</u>	<u>556,201</u>	<u>1,439,261</u>	<u>7,960</u>
Restricted assets:						
Pooled cash and cash equivalents .....	...	5,793	1,416,262	485,213	1,907,268	...
Non-pooled cash and cash equivalents .....	...	...	968,112	386,628	1,354,740	...
Total restricted assets ..	<u>...</u>	<u>5,793</u>	<u>2,384,374</u>	<u>871,841</u>	<u>3,262,008</u>	<u>...</u>
Noncurrent Assets:						
Land .....	...	...	296,834	292,534	589,368	...
Construction in progress .....	...	...	...	313,143	313,143	...
Infrastructure .....	...	...	4,210,152	18,552,578	22,762,730	...
Buildings .....	...	...	1,443,013	11,667,810	13,110,823	...
Machinery and equipment	45,306	...	837,633	926,152	1,809,091	...
Less accumulated depreciation	(15,877)	...	(1,861,850)	(9,011,494)	(10,889,221)	...
Total fixed assets	<u>29,429</u>	<u>...</u>	<u>4,925,782</u>	<u>22,740,723</u>	<u>27,695,934</u>	<u>...</u>
Other Assets:						
Deferred charge - Bonds .....	...	...	67,136	71,629	138,765	...
Less accumulated amortization .....	...	...	(10,849)	(16,077)	(26,926)	...
Total other assets	<u>...</u>	<u>...</u>	<u>56,287</u>	<u>55,552</u>	<u>111,839</u>	<u>...</u>
Total assets	<u>120,509</u>	<u>186,527</u>	<u>7,977,689</u>	<u>24,224,317</u>	<u>32,509,042</u>	<u>7,960</u>
LIABILITIES AND NET ASSETS						
LIABILITIES:						
Current Liabilities:						
Accounts payable - trade	2,653	14,946	22,562	179,265	219,426	7,960
Accrued interest payable .....	...	...	6,938	26,271	33,209	...
Accrued compensation	967	2,011	26,506	30,171	59,655	...
Current maturity of long-term liabilities .....	...	...	175,000	365,000	540,000	...
Total current liabilities	<u>3,620</u>	<u>16,957</u>	<u>231,006</u>	<u>600,707</u>	<u>852,290</u>	<u>7,960</u>
Long-Term Liabilities:						
Bonds payable (including amortized premium) .....	...	...	3,504,051	6,615,000	10,119,051	...
Customer deposits (payable from restricted assets) .....	...	5,793	16,443	26,891	49,127	...
Future compensated absences of employees	6,061	5,775	65,148	82,716	159,700	...
Total long-term liabilities	<u>6,061</u>	<u>11,568</u>	<u>3,585,642</u>	<u>6,724,607</u>	<u>10,327,878</u>	<u>...</u>
Total liabilities	<u>9,681</u>	<u>28,525</u>	<u>3,816,648</u>	<u>7,325,314</u>	<u>11,180,168</u>	<u>7,960</u>
NET ASSETS:						
Invested in capital assets, net of related debt	29,429	...	1,246,731	15,760,723	17,036,883	...
Restricted for:						
Capital projects .....	...	...	1,799,068	458,321	2,257,389	...
Other .....	...	5,793	585,306	413,520	1,004,619	...
Unrestricted	<u>81,399</u>	<u>152,209</u>	<u>529,936</u>	<u>266,439</u>	<u>1,029,983</u>	<u>...</u>
Total Net Assets	<u>\$110,828</u>	<u>\$ 158,002</u>	<u>\$ 4,161,041</u>	<u>\$16,899,003</u>	<u>\$21,328,874</u>	<u>\$</u>

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

Operating Revenues:	Business-type Activities					Governmental
	Waste Water					Activities -
	Irrigation	Sanitation	Water	Treatment Plant	Total	Internal Service Funds
Charges for services	\$123,747	\$ 247,168	\$ 2,433,686	\$ 3,107,616	\$ 5,912,217	\$...
Miscellaneous income	16,423	3,575	29,728	121,499	171,225	...
	140,170	250,743	2,463,414	3,229,115	6,083,442	...
Operating Expenses:						
Salaries	44,157	60,264	626,153	794,140	1,524,714	...
Personnel benefits	15,263	18,156	228,940	273,476	535,835	...
Office supplies	799	6,286	7,258	6,878	21,221	...
Operating supplies	24,142	2,073	115,986	356,780	498,981	26,953
Professional services	6,491	...	34,957	51,271	92,719	89,807
Purchased services	11,794	152,175	14,844	353,380	532,193	3,051
Advertising and publishing	85	...	361	1,313	1,759	2,161
Insurance and bonds .....	...	...	35,724	41,465	77,189	...
Dues .....	...	...	1,017	1,068	2,085	4,347
Personnel training .....	...	...	4,286	3,103	12,559	12,559
Telephone	1,512	57	16,942	18,687	37,141	2,626
Utilities	234	...	183,661	382,216	566,111	3,231
Gas and oil	438	...	39,231	61,900	101,569	1,815
Repairs	26,757	123	38,713	93,809	159,402	4,422
Cost share with Jerome County .....	...	...	5,604	...	5,604	...
Uniforms	90	...	1,520	1,028	2,638	...
Miscellaneous	16	354	3,268	4,296	7,934	...
Loss on uncollectible accounts .....	...	625	10,081	4,330	15,036	...
Allowance for depreciation	4,431	...	214,131	684,058	902,620	...
	136,209	240,056	1,582,677	3,133,198	5,092,140	150,972
Operating earnings (loss)	3,961	10,687	880,737	95,917	991,302	(150,972)
Nonoperating Revenues (Expenses):						
Interest revenue	41	653	7,521	2,395	10,610	...
Net change in fair value of investments	13	(47)	(453)	(85)	(572)	...
Amortization of bond issue costs/discount .....	...	...	(2,650)	(2,786)	(5,436)	...
Interest expense .....	...	...	(170,953)	(329,775)	(500,728)	...
Income before other revenues, expenses, gains, losses, and transfers	4,015	11,293	714,202	(234,334)	495,176	(150,972)
Capital Contributions .....	...	...	46,973	578,685	625,658	...
Operating transfer in (out)	(4,458)	(1,571)	(31,632)	(34,453)	(72,114)	150,972
Loss on disposition of asset .....	...	...	(24,831)	...	(24,831)	...
Increase (decrease) in net assets	(443)	9,722	704,712	309,898	1,023,889	...
Net Assets:						
Net Assets October 1, 2011, as reported	110,968	148,280	3,456,329	16,589,105	20,304,682	...
Prior Period adjustment for irrigation	303	...	...	...	303	...
Net Assets October 1, 2011, as corrected	111,271	148,280	3,456,329	16,589,105	20,304,985	...
Net Assets - September 30, 2012	\$110,828	\$ 158,002	\$ 4,161,041	\$16,899,003	\$21,328,874	\$

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities					Governmental Activities- Internal Service Funds
	Irrigation	Sanitation	Water	Waste Water Treatment Plant	Totals	
<u>Cash Flows from Operating Activities:</u>						
Receipts from customers	\$ 128,297	\$ 250,232	\$ 2,490,288	\$ 3,247,034	\$ 6,115,851	\$...
Payments to employees	(62,586)	(78,592)	(867,289)	(1,085,016)	(2,093,483)	...
Payments to suppliers	(72,801)	(159,717)	(521,068)	(1,607,617)	(2,361,203)	(170,063)
Net cash provided (used) by operating activities	<u>(7,090)</u>	<u>11,923</u>	<u>1,101,931</u>	<u>554,401</u>	<u>1,661,165</u>	<u>(170,063)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>						
Operating subsidies and transfers to other funds	(4,458)	(1,571)	(31,632)	(34,453)	(72,114)	150,972
Increase (decrease) in customer deposits .....	...	(3,112)	(8,967)	(16,904)	(28,983)	...
Net cash provided (used) by noncapital financing activities	<u>(4,458)</u>	<u>(4,683)</u>	<u>(40,599)</u>	<u>(51,357)</u>	<u>(101,097)</u>	<u>150,972</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>						
Capital contributions .....	...	...	46,973	578,685	625,658	...
Prior-period adjustment	303	...	...	...	303	...
Principal payments on long-term debt .....	...	...	(172,533)	(350,000)	(522,533)	...
Interest payments on long-term debt .....	...	...	(173,865)	(330,935)	(504,800)	...
Other revenue .....	...	...	2,649	...	2,649	...
Purchase of property and equipment	(1,937)	...	(160,540)	(445,332)	(607,809)	...
Net cash provided (used) by capital and related financing activities	<u>(1,634)</u>	<u>...</u>	<u>(457,316)</u>	<u>(547,582)</u>	<u>(1,006,532)</u>	<u>...</u>
<u>Cash Flows from Investing Activities:</u>						
Interest and dividends	54	606	7,068	2,310	10,038	...
Net cash provided (used) by investing activities	<u>54</u>	<u>606</u>	<u>7,068</u>	<u>2,310</u>	<u>10,038</u>	<u>...</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>(13,128)</u>	<u>7,846</u>	<u>611,084</u>	<u>(42,228)</u>	<u>563,574</u>	<u>(19,091)</u>
<u>Cash and Cash Equivalents October 1, 2011</u>	<u>5,923</u>	<u>140,060</u>	<u>1,843,280</u>	<u>964,095</u>	<u>2,953,358</u>	<u>27,051</u>
<u>Cash and Cash Equivalents September 30, 2012</u>	<u>\$ (7,205)</u>	<u>\$ 147,906</u>	<u>\$ 2,454,364</u>	<u>\$ 921,867</u>	<u>\$ 3,516,932</u>	<u>\$ 7,960</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash</u> <u>Provided (Used) By Operating Activities:</u>						
Operating income (loss)	\$ 3,961	\$ 10,687	\$ 880,737	\$ 95,917	\$ 991,302	\$ (150,972)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	4,431	...	214,131	684,058	902,620	...
(Increase) decrease in accounts receivable	(11,873)	(511)	26,874	17,919	32,409	...
(Increase) decrease in inventories .....	...	...	(4,690)	...	(4,690)	...
Increase (decrease) in accounts payable	(443)	1,919	(2,925)	(226,093)	(227,542)	(19,091)
Increase (decrease) in accrued liabilities	(3,166)	(172)	(12,196)	(17,400)	(32,934)	...
Net cash provided (used) by operating activities	<u>\$ (7,090)</u>	<u>\$ 11,923</u>	<u>\$ 1,101,931</u>	<u>\$ 554,401</u>	<u>\$ 1,661,165</u>	<u>\$ (170,063)</u>
 <u>Reconciliation of Cash and Cash Equivalents at September 30, 2012:</u>						
Pooled cash and cash equivalents in current assets					\$ 254,574	\$ 7,960
Non-pooled cash and cash equivalents in current assets					350	...
Pooled cash and cash equivalents in restricted assets					1,907,268	...
Non-pooled cash and cash equivalents in restricted assets					<u>1,354,740</u>	<u>...</u>
					<u>\$ 3,516,932</u>	<u>\$ 7,960</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest by all proprietary funds was \$504,800.

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2012

	MVERT <u>Agency</u>
<u>ASSETS:</u>	
Non-pooled cash and cash equivalents	\$ 9,543
Receivables:	
Assessments receivable .....	...
Total assets	<u>\$ 9,543</u>
 <u>LIABILITIES AND FUND EQUITY</u>	
<u>LIABILITIES:</u>	
Due to other entities	\$ 9,543
Fees payable .....	...
Total liabilities	<u>9,543</u>
 <u>FUND EQUITY</u>	
Fund balance .....	...
Total liabilities and fund equity	<u>\$ 9,543</u>

The accompanying notes are an integral part of the financial statements

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Note 1 - Summary of Significant Accounting Policies

The City of Jerome is located in Jerome County in southern Idaho. The City provides various services and facilities including police and fire protection, building inspection; library; street and park maintenance; irrigation, sanitation and water supply; and sewage treatment/disposal. Operations of the City are the responsibility of a mayor and four council members.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

A) Reporting Entity

The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the City is financially accountable. The City is not a participant in any joint venture and has not identified any entities which would be component units of the City.

B) Government-Wide Financial Statements

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transaction reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

CITY OF JEROME, IDAHO
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YEAR ENDED SEPTEMBER 30, 2012

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

C) Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications. In addition, the City has presented certain funds as major funds because the City believes the financial position and activities of these funds are significant to the City as a whole. The City reports the following major governmental funds:

- a. General Fund - the principal operating fund of the City. It is used to account for and report all financial resources not accounted for and reported in another fund.
- b. Streets Fund - a special revenue fund used to account for and report the receipt of street maintenance assessments and state gas tax distributions restricted or committed to expenditure for striping, signing, and other traffic safety functions, as well as street cleaning, snow and ice control, and other street maintenance functions.
- c. Library Fund - a special revenue fund used to account for and report property tax revenues restricted or committed for the operation and maintenance of the City's library system.
- d. Park Fund - a special revenue fund used to account for and report property tax revenues restricted or committed for the operation and maintenance of the City's parks.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

(generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, option tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related liability is incurred.

D) Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide financial statements. The City reports the following major proprietary funds:

- a. Irrigation Fund - enterprise fund used to account for and report the receipt of irrigation assessments to expenditure for the operation and maintenance of the City's irrigation system.
- b. Sanitation Fund - enterprise fund used to account for and report the receipt of sanitation assessments to expenditure for the contract of sanitation services.
- c. Water Fund - enterprise fund used to account for and report the financial activity related to operating the City's water supply, treatment, and distribution system. Revenues consist primarily of charges for services.
- d. Sewer Fund - enterprise fund used to account for and report the financial activity related to operating the City's wastewater collection and treatment system. Revenues consist primarily of charges for services.
- e. Internal Service Funds - Engineering, Human Resources, and Information Technology funds are used to account for the operations of the respective department to provide services to other departments of the City on a cost-reimbursement basis.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

E) Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's Fiduciary funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or "economic resources" measurement focus and the accrual basis of accounting as are the proprietary funds explained above. The City reports the following fiduciary funds:

- a. Magic Valley Emergency Response Team Fund - used to account for and report the receipt of grant funding to expenditure for the operation of the MVERT team to mitigate and respond to hazardous waste incidents.

F) Use of Restricted Funds

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.

G) Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

H) Receivables

All receivables are reported net of estimated uncollectible amounts. The allowance for uncollectible accounts is based on .5% of the outstanding balances of the accounts receivable in the sanitation, water and sewer funds.

I) Inventories

Inventories are carried at cost using the first-in first-out method.

J) Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements and the proprietary fund statements. Assets are capitalized when they have a useful life in excess of one year and have a cost of \$5,000 or more. Purchase or constructed capital assets are valued at cost or estimated historical cost if actual cost is unavailable. Donated assets are reported at fair value at the time received.

As a Phase 3 government under GASB No. 34, the City is allowed to and has elected not to report major general infrastructure assets retroactively.

Exhaustible capital assets are depreciated on the straight-line method over the asset's estimated useful life. Depreciation expense is recorded in the government-wide financial statements and proprietary fund statements. There is no depreciation recorded for land, construction in process, or other capital assets defined as inexhaustible.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

K) Long-term Debt Obligations

In the government-wide financial statements and proprietary fund statements long-term debt is reported as a liability. Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest rate method. Bond premiums/discounts are presented as an addition to/reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and other financing uses, respectively.

L) Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

M) Property Tax Calendar and Revenues

The City is responsible for levying property taxes but the taxes are collected by the County. Taxes are levied in September with the first half of real property taxes, along with all personal property and mobile home taxes, due on December 20th. Taxes not paid on or before December 20th are considered to be delinquent. The second half of the real property taxes are due June 20th of the following year and are considered to be delinquent on June 21st. An initial late penalty of 2% of tax plus 1% per month interest charge is assessed on all delinquent taxes. A tax lien is filed for properties whose taxes become three years delinquent. Taxes collected by the County are remitted to the City on a monthly basis.

N) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the general fund, special revenue funds and proprietary funds. This is in conformance with Idaho State Statute which requires that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation.

O) Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

P) Use of Estimates

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

Q) Government-wide and Proprietary Fund Net Assets:

Government-wide and proprietary fund net assets are divided into three components:

- a. Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted net assets - consist of net assets that are restricted by the City's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the City).
- c. Unrestricted - all other net assets are reported in this category.

Note 2 - Cash and Investments

Nearly all of the cash balances of the City's funds are pooled for investment purposes. The individual funds' portions of the pool's cash and investments are reported as pooled cash and cash equivalents. Investments are stated at fair value (quoted market price or the best available estimate).

The City has a written investment policy that allows the Treasurer to invest money only in those investment instruments allowed by Idaho 50-1013. Through its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by investing primarily in shorter-term securities. To minimize credit risk, the City's general investment policy is to apply the prudent person standard which states that investments shall be made with judgment and care, under the circumstances prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The City has a deposit policy for custodial credit risk. As of September 30, 2012, the carrying amount of the City's deposits with financial institutions (after considering outstanding and other reconciling items) was \$666,336 and the bank balances were \$739,780, of which \$472,086 was uninsured and uncollateralized.

Of the City's total investments of \$4,538,324, \$4,137,932 is invested with the Idaho Local Government Investment Pool, of which all of the underlying securities are held by the Pool, not in the name of the Agency. The Idaho Local Government Investment Pool is reported at fair value which is determined by the pool's share price. The City has no regulatory oversight for the pool, which is governed by the State of Idaho and is administered by the State Treasurer.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Reconciliation of carrying amount to cash numbers on balance sheets:

Sources of cash:

Deposits with financial institutions	\$ 666,444
Federal Home Loan Banks	299,928
Federal Home Loan Mortgage Corp	100,464
State of Idaho Local Government Investment Pool	4,137,932
Petty cash	925
	<u>\$ 5,205,693</u>

Cash on balance sheets:

Governmental funds:

Pooled cash, unrestricted	\$ 1,553,377
Non-pooled cash, unrestricted	575
Pooled cash, restricted	117,306

Proprietary funds:

Pooled cash, unrestricted	254,574
Non-pooled cash, unrestricted	350
Pooled cash, restricted	1,907,268
Non-pooled cash, restricted	1,354,740

Internal Service funds:

Pooled cash, unrestricted	7,960
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Fiduciary net assets:

Pooled cash, unrestricted	9,543
	<u>\$ 5,205,693</u>

The City of Jerome receives a large portion of revenues during the months of January and July. During the past year a significant portion of the additional funds could have been uninsured and uncollateralized.

Of the carrying amount of cash and investments, the following are restricted for a particular purpose:

General Fund:

Released Evidence Non-Drug Related	\$ 2,728
Released Evidence Drug Related	918
Animal Shelter	10,934
Fire Safehouse	1,200
	<u>15,780</u>

Street Fund:

ITD Main/Tiger	<u>100,000</u>
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Park Fund:

Tennis Courts	1,000
Modern Woodmen	526
	<u>1,526</u>

Sanitation Fund:

Customer deposits	<u>5,793</u>
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Water Fund:

Customer deposits	16,443
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CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Capital reserve fund	567,572
Debt reserve fund	568,863
Operating reserve fund	263,384
Water System Improvement Construction	968,112
	2,384,374
 Sewer:	
Customer deposits	26,892
Capital reserve fund	233,311
Reserve capacity	225,010
Debt service reserve fund	386,628
	871,841
Total restricted funds	\$ 3,379,314

Interest earned on pooled cash and investments is allocated to participating funds based upon their combined cash and investment balances.

Note 3 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2012, was as follows:

	Balance October <u>1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2012</u>
<u>Governmental activities:</u>				
Land	\$ 745,329	\$ 87,957	\$...	\$ 833,286
Buildings	3,770,750	23,440	...	3,794,190
Machinery and equipment	4,984,652	106,776	27,500	5,063,928
Infrastructure	4,824,488	516,481	...	5,340,969
Construction in progress	224,817	730,838	224,817	730,838
	14,550,036	1,465,492	252,317	15,763,211
 Less accumulated depreciation for:				
Buildings	1,157,234	112,069	...	1,269,303
Machinery and equipment	3,199,702	234,920	27,500	3,407,122
Infrastructure	395,558	182,343	...	577,901
	4,752,494	529,332	27,500	5,254,326
Net capital assets	\$ 9,797,542	\$ 936,160	\$ 224,817	\$10,508,885

	Balance October <u>1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2012</u>
<u>Business-type activities:</u>				
Land	\$ 522,942	\$ 66,426	\$...	\$ 589,368
Infrastructure	18,269,198	4,493,532	...	22,762,730
Buildings	13,110,823	...	...	13,110,823
Machinery and equipment	1,813,197	45,894	50,000	1,809,091
Construction in progress	4,000,923	313,143	4,000,923	313,143
	37,717,083	4,918,995	4,050,923	38,585,155

Less accumulated depreciation
for:

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Infrastructure	1,262,559	528,775	...	1,791,334
Buildings	7,892,980	211,610	...	8,104,590
Machinery and equipment	881,062	162,235	50,000	993,297
	<u>10,036,601</u>	<u>902,620</u>	...	<u>10,889,221</u>
Net capital assets	<u>\$27,680,482</u>	<u>\$ 4,016,375</u>	<u>\$ 4,000,923</u>	<u>\$27,695,934</u>

Depreciation expense was charged to governmental functions as follows:

General Fund:

Administration	\$ 31,983
Building	1,586
Animal Control	2,736
Fire	120,888
Law Enforcement	<u>40,141</u>
	197,334
Streets	282,136
Library	44,373
Parks	<u>5,489</u>
	<u>\$ 529,332</u>

Note 4 - Changes in Long-Term Liabilities (Governmental Activities)

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011		Additions	Reductions	Balance September 30, 2012	Amounts Due Within One Year
Notes payable:						
Farmers Natl - Fire	\$ 257,315	\$...		\$ 34,236	\$ 223,079	\$ 35,861
Bonds payable:						
General Obligation Bonds (including amortized premium)	718,837	...		30,373	688,464	30,000
Other liabilities:						
Compensated absences	<u>332,107</u>		<u>330,371</u>	<u>332,107</u>	<u>330,371</u>	<u>...</u>
	<u>\$1,308,259</u>		<u>\$ 330,371</u>	<u>\$396,716</u>	<u>\$1,241,914</u>	<u>\$ 65,861</u>

Farmers National Bank lease/purchase for fire pumper - The contract interest rate is 4.75% with annual payments of \$46,434 and a maturity date of February 15, 2018 with a final additional balloon payment of \$27,842.96. The agreement is cancelable if funds for the payment are not appropriated in any fiscal year. The principal balance as of September 30, 2012, is \$223,079.

Bonds Payable - Series 2008

General obligation bonds for the construction of a new Senior Citizen Center were issued on April 1, 2008, for \$800,000. The bonds are redeemable in annual installments and interest is payable semi-annually at various rates from 4.00% to 5.00%. The bonds have a maturity date of September 15, 2028. The total of the bonds at September 30, 2012, is \$680,000.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Compensated absences - In accordance with Statement Number 16 of the Governmental Accounting Standards Board, a liability has been accrued for employee rights to receive compensation for future absences in the amount of \$330,371.

As of September 30, 2012, debt service requirements to maturity for principal and interest, for the notes payable, are as follows:

Year Ended <u>Sept. 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	65,861	42,294	108,155
2014	67,396	39,265	106,661
2015	74,301	36,083	110,384
2016	76,168	32,816	108,984
2017	78,115	29,370	107,485
2018-2022	226,236	113,550	339,786
2023-2027	255,000	54,500	309,500
2028	<u>60,000</u>	<u>3,000</u>	<u>63,000</u>
	903,077	<u>350,878</u>	<u>\$1,253,955</u>
Premium on bonds less accumulated amortization	8,466		
Compensated Absences	<u>330,371</u>		
	<u>\$1,241,914</u>		

Note 5 - Changes in Long-Term Liabilities (Business-Type Activities)

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Balance October <u>1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2012</u>	Amounts Due Within One <u>Year</u>
Bonds and Notes payable:					
Irrigation:					
Compensated absences	\$ 9,631	\$ 6,061	\$ 9,631	\$ 6,061	\$...
Sanitation:					
Compensated absences	6,354	5,775	6,354	5,775	...
Customer deposits	<u>8,905</u>	...	<u>3,112</u>	<u>5,793</u>	...
	<u>15,259</u>	<u>5,775</u>	<u>9,466</u>	<u>11,568</u>	...
Water:					
Revenue Bonds (including amortized premium)	3,851,584	...	172,533	3,679,051	175,000
Compensated absences	81,641	65,148	81,641	65,148	...
Customer deposits	<u>25,410</u>	...	<u>8,967</u>	<u>16,443</u>	...
	<u>3,958,635</u>	<u>65,148</u>	<u>263,141</u>	<u>3,760,642</u>	<u>175,000</u>
Sewer:					
Revenue Bonds	7,330,000	...	350,000	6,980,000	365,000

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Compensated absences	82,716	82,716	105,167	82,716	...
Customer deposits	43,795	...	16,904	26,891	...
	<u>7,478,962</u>	<u>82,716</u>	<u>472,071</u>	<u>7,089,607</u>	<u>365,000</u>
	<u>\$11,462,487</u>	<u>\$ 159,700</u>	<u>\$ 754,309</u>	<u>\$10,867,878</u>	<u>\$540,000</u>

As of September 30, 2012, debt service requirements to maturity for principal and interest, for the notes payable, are as follows:

<u>Year Ended</u> <u>Sept. 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	540,000	484,438	1,024,438
2014	565,000	458,538	1,023,538
2015	595,000	430,887	1,025,887
2016	625,000	403,038	1,028,038
2017	655,000	373,188	1,028,188
2018-2022	3,705,000	1,430,486	5,135,486
2023-2027	<u>3,920,000</u>	<u>528,180</u>	<u>4,448,180</u>
	10,605,000	<u>\$4,108,755</u>	<u>\$14,713,755</u>
Premium on bonds less accumulated amortization	54,051		
Compensated absences	159,700		
Customer deposits	49,127		
			<u>\$10,867,878</u>

Water Bonds Payable - Series 2008

Revenue refunding bonds for refunding the USDA Rural Development loan and the Idaho Department of Environmental Quality Drinking Water State Revolving Loan Fund loan were issued on April 1, 2008, for \$4,325,000. The bonds are redeemable in annual installments and interest is payable semi-annually at various rates from 4.00% to 5.00%. The bonds have a maturity date of September 15, 2027. The total of the bonds at September 30, 2012, is \$3,625,000.

Sewer Bonds Payable - Series 2006

Revenue bonds for improvements to the Sewer plant were issued on May 11, 2006, for \$9,000,000. The bonds are redeemable in annual installments and interest is payable semi-annually at various rates from 4.00% to 5.00%. The bonds have a maturity date of September 1, 2026. The total of the bonds at September 30, 2012, is \$6,980,000.

Compensated Absences

In accordance with Statement Number 16 of the Governmental Accounting Standards Board, a liability has been accrued for employee rights to receive compensation for future absences in the amount of \$159,700.

Customer Deposits

According to City resolution, customer utility deposits are collected and refunded at a future date according to City policy. The balance of customer deposits at September 30, 2012 is \$49,127.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Note 6 - Community Economic Development Grant

The City received community development block grants administered by the State of Idaho for the Federal government. Jerome Development Co., Inc., administers the funds per an agreement dated March 8, 1983. If the agreement is terminated, the funds would revert to the City.

Note 7 - Rent

The City received rent from outside sources. During the year ended September 30, 2012, the general fund received \$27,904 for rental of property owned by the City.

Note 8 - Public Employee Retirement System of Idaho

The Public Employee Retirement System of Idaho (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 political subdivisions to participate by contractual agreement with PERSI. After five 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% (2.3% police/firefighter) 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 at www.persi.idaho.gov. The actuarially determined contribution requirements are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2012, the required contribution rate as a percentage of covered payroll for members was 6.23% for general members and 7.69% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members, 10.73% for police members, and 27.97% for firefighter members. The City of Jerome, Idaho, contributions required and paid were \$535,853, \$536,526, and \$515,085 for the three years ended September 30, 2012, 2011 and 2010.

Note 9- Other Employee Benefits

The City of Jerome has instituted a "401(k)" profit-sharing retirement plan to supplement employees' income upon retirement. A cafeteria plan, by which employees can elect to reduce their gross income and choose from a variety of benefits including medical expense reimbursements, group life insurance, and dependent care reimbursements, is also in place.

Note 10 - Individual Fund Deficits

All governmental and proprietary funds showed surplus fund balances and retained earnings, respectively. The Irrigation and Waste Water Treatment Plant funds showed an excess of expenditures over revenues.

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Note 11 - Cost Share Agreement with Jerome County

The City of Jerome annually enters into a cost sharing arrangement with Jerome County. The agreement covers cost of law enforcement facilities, dispatching and the prosecutor's office. During the year ended September 30, 2012, the City of Jerome contributed \$112,071 to this agreement.

Note 12 - Risk

The City of Jerome has risk from employee dishonesty, employee injury, property damage and general liability. Commercial insurance is purchased to cover these risks.

Note 13 - Pledging of Net Revenues

The City has pledged future revenues derived from the operation of the City's Water Plant, net of operating and maintenance expenses, to repay \$4,325,000 in water revenue bonds. The general purpose of the bonds is to pay for a previous interim financing note and water system improvements. The bonds are payable solely from the net earnings of the Water System and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$5,145,867, with net revenue equal to not less than 1.25 times the average annual debt service on bond which the City did meet. Principal and interest paid for the current year and net system revenues were \$343,750 and \$1,045,473, respectively.

The City has pledged future revenues derived from the operation of the City's Sewer Plant, net of operating and maintenance expenses, to repay \$9,000,000 in sewer revenue bonds. The general purpose of the bonds is to upgrade the sewer plant. The bonds are payable solely from the net earnings of the Sewer System and are payable through 2026. The total principal and interest remaining to be paid on the bonds is \$9,567,888, with net revenue equal to not less than 1.25 times the average annual debt service on bond which the City did not meet. Principal and interest paid for the current year and net system revenues were \$681,000 and \$747,832, respectively.

Note 14 - Special Assessments

The City of Jerome administered the issuance of special assessment bonds on October 17, 2000, to provide funds for the improvement of sidewalks in the downtown area. The bonds were retired during the September 30, 2011 fiscal year. The city was in no way liable for repayment of this debt and is only acting as agent for the property owners in collecting assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if necessary. In 2012 the Local Improvement District was closed after having reimbursed the City \$98,142 in administrative fees for the above services.

Note 15 - Interest Expense

Interest expense in the following amounts is included under direct expenses on the Statement of Activities:

General government	\$ 44,973
Water	173,865
Sewer	330,935

Note 16 - Commitments

At year end, the City had commitments outstanding, in the form of contracts, of

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

approximately \$241,394, primarily for construction projects.

Note 17 - Related Organizations

The Jerome Urban Renewal Agency is defined per GASB Statement 14 as a related organization to the City. These organizations have some or all of their board members appointed by the primary government and are not financially accountable

by the primary government. JURA is a taxing district and undertakes commitments for the improvement and redevelopment of property in designated Agency areas. The board of JURA consists of five members appointed by the City. Financial Statements of JURA will be made available upon request. During the year JURA reimbursed the City \$950,128 for expenses incurred by the City relating to public works projects contracted in the name of the City, and made capital contributions of \$504,466 to the City.

Note 18 - GASBS No. 54

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (Statement)*. The Statement establishes several new presentation and disclosure requirements, including requirements related to stabilization arrangements and clarifies the definitions of the various types of governmental funds. The City of Jerome classifies governmental fund balances as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

As required by GASB 54, the City's establishment, modification, and rescinding of a committed fund balance is decided upon by passage of an annual appropriations ordinance by the Mayor and City Council, acting as the highest level of decision-making authority.

The assigned fund balance is delegated by the Mayor and Council to the discretion of the City Finance Director and City Administrator as outlined in the City's fund balance policy. When expenditures are incurred for which both restricted and unrestricted fund balances are available, the City considers restricted to have been spent first. In the case of an expenditure being incurred for purposes for which amounts in any of the unrestricted fund balances could be used, the City does not have a formal policy, but defaults to the order as follows: first against committed, then assigned and finally unassigned fund

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

balance as considered to have been spent.

The City's policy regarding encumbrances and other significant commitments required to be disclosed by major funds and nonmajor funds in the aggregate per GASB 54 have been disclosed under Notes 1(N) and 16, respectively.

City of Jerome
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending September 30, 2012

	<u>General</u>	<u>Streets</u>	<u>Library</u>	<u>Parks</u>
<u>Non-spendable fund balance</u>				
Prepaid Workers Comp.	91,458	...	...	...
<u>Restricted fund balance</u>				
Released Evidence Non-Drug Related	2,728	...	...	...
Released Evidence Drug Related	918	...	...	...
Animal Shelter	10,934	...	...	...
Fire Safehouse	1,200	...	...	...
ITD Main/Tiger	...	100,000	...	...
Tennis Courts	...	...	...	1,000
Modern Woodmen	...	...	...	526
<u>Committed fund balance</u>				
Sr. Citizen Taxes	16,129	...	...	...
Employee Benefits	81,670	...	...	...
Sale of City Property	4,712	256	...	...
Street Operations	...	704,209	...	...
Aerial Update	...	85,033	...	...
217 East D Curb/Gutter	...	1,250	...	...
Library Operations	...	...	78,343	...
Equipment Replacement	...	...	8,815	...
Park Operations	...	...	...	47,605
<u>Assigned fund balance</u>				

<u>Unassigned fund balance</u>	<u>715,639</u>	<u>...</u>	<u>...</u>	<u>...</u>
<u>Total Fund Balance</u>	<u>\$ 925,388</u>	<u>\$ 890,748</u>	<u>\$ 87,158</u>	<u>\$ 49,131</u>

The City formally adopted a fund balance policy on October 6, 2009. It states that the City will strive to maintain an unrestricted fund balance for each of the City's funds at a minimum of 25% of the total budgeted annual expenditures of each respective fund. This percentage is to be maintained as a precaution to provide financing for unanticipated expenditures and revenue shortfalls. The City Council will be advised annually, during the budget process, of the unrestricted fund balances. The City will strive to budget each year the amount necessary to maintain the unrestricted fund balance at the appropriate amount. Amounts in excess of the aforementioned targeted 25% will be considered for future capital replacement needs. The City Administrator and Finance Director are authorized to assign fund balances for purposes of tracking designated activities within each of the City's funds.

The purpose of the streets, library, and parks funds as special revenue funds are to carry on the operations and programs of those funds as a part of services offered by the City. A major revenue source for the special revenue funds are

CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

property taxes, while the street fund also receives funding through road and bridge taxes as well as gas taxes.

Note 19 - City Health Insurance Deductible Buy-Down Liability

The City purchases a \$2,000 deductible from Blue Cross of Idaho for each employee. Employees are responsible for the first \$500 of that deductible. The City of Jerome then self-insures the remaining deductible between \$500 and \$2,000 with a maximum annual reimbursement of \$1,500 per person or \$2,500 per family. The liability for these reimbursements for the year ranges from \$0 with no claims to \$147,743.

Note 20 - Interfund Transfers

A summary of interfund transfers follows:

	Transfers In	Transfers Out
Major Funds:		
General	\$...	\$ 54,945
Street	11,000	15,579
Library	...	17,110
Parks	...	2,222
Irrigation	...	4,458
Sanitation	...	1,571
Water	...	31,632
Waste Water	...	34,453
Non-major Funds:		
Human Resources	19,508	...
Engineering	21,944	...
Information Technology	109,518	...
	\$ 161,970	\$ 161,970

During the course of normal operations, the City has numerous transactions amongst funds, including expenditures and transfers of resources primarily to provide services and equipment. The Governmental and Proprietary Fund Financial Statements generally reflect such transactions as transfers. Non-routine items occurring during the course of the year include: a transfer of \$5,500 from both the Water and Waste Water Funds to the Street Fund for the Fiscal Year 2012 Aerial Update.

Note 21 - Restatement of Prior-Year Retained Earnings

Beginning retained earnings for the Business-type activities have been restated to correct errors in the prior year.

Errors were made in the prior year in reporting revenues. These corrections resulted in an increase to retained earnings for the following funds:

Irrigation fund	\$	303
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CITY OF JEROME, IDAHO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Note 22 - Restatement of Prior-Year Fund Balance

Beginning fund balance for the Governmental funds have been restated to correct errors in the prior year.

Errors were made in the prior year in reporting amounts due to the Urban Renewal Agency in the general, street, library, and park funds. The net adjustment resulted in the increase to fund balance in the following funds:

General	\$	47,865
Street		13,464
Library		6,400
Park		2,911

Note 23 - Restatement of Prior-Year Net Assets

Beginning net assets for the Governmental activities have been restated to correct errors in the prior year.

Errors were made in the prior year in reporting deferred revenues relating to amounts due to the Jerome Urban Renewal Agency. The correction of this resulted in a decrease to net assets in the following activities:

Governmental	\$	71,140
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Note 24 - Pending or Threatened Litigation, Claims and Assessments

The City of Jerome withdrew from the III-A (Idaho Independent Intergovernmental Authority) on January 31, 2013. Accordingly, the III-A has claimed a penalty for early withdrawal from the Trust. It is anticipated that if negotiations fail, a civil action will commence in Ada County with numerous cities' participating. The likelihood of determining an outcome cannot be properly evaluated, but the potential loss is estimated at \$500,000.

CITY OF JEROME, IDAHO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
<u>REVENUE:</u>				
Property taxes	\$2,605,238	\$2,605,238	\$2,554,732	\$ (50,506)
Penalties and interest	20,000	20,000	33,724	13,724
Business and franchise taxes	171,991	171,991	151,272	(20,719)
Payment in lieu of taxes	6,670	6,670	6,747	77
Licenses and permits	155,274	155,274	119,521	(35,753)
Federal grant	104,072	129,389	149,809	20,420
State shared	515,934	515,934	613,081	97,147
State grant	35,000	35,000	..	(35,000)
Court revenues	90,000	90,000	90,199	199
Parking fines	1,200	1,200	900	(300)
Taxable sales	1,700	1,700	7	(1,693)
Rents	26,000	26,000	27,904	1,904
Interest	614	614	1,087	473
Contributions	4,000	4,000	1,809	(2,191)
Refunds and reimbursements	108,748	114,025	113,561	(464)
Miscellaneous	1,500	1,500	203,562	202,062
	<u>3,847,941</u>	<u>3,878,535</u>	<u>4,067,915</u>	<u>189,380</u>
<u>EXPENDITURES:</u>				
Legislative	49,039	49,039	43,620	(5,419)
Executive	25,769	25,769	21,123	(4,646)
Finance and administration	602,815	615,480	491,427	(124,053)
Law enforcement	1,596,503	1,614,432	1,534,474	(79,958)
Fire control	1,325,883	1,325,883	1,333,267	7,384
Building inspection	136,429	136,429	128,337	(8,092)
Animal control	84,519	84,519	73,038	(11,481)
	<u>3,820,957</u>	<u>3,851,551</u>	<u>3,625,286</u>	<u>(226,265)</u>
<u>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</u>	<u>26,984</u>	<u>26,984</u>	<u>442,629</u>	<u>415,645</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Net change in fair value of investments .....	..	..	404	404
Operating transfer out	(71,580)	(71,580)	(54,945)	16,635
	<u>(71,580)</u>	<u>(71,580)</u>	<u>(54,541)</u>	<u>17,039</u>
<u>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER)</u> <u>EXPENDITURES AND OTHER USES</u>	<u>\$ (44,596)</u>	<u>\$ (44,596)</u>	<u>\$ 388,088</u>	<u>\$ 432,684</u>

CITY OF JEROME, IDAHO
BUDGETARY COMPARISON SCHEDULE - STREET FUND
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
<u>REVENUE:</u>				
Property taxes	\$ 691,068	\$ 691,068	\$ 679,984	\$ (11,084)
Penalties and interest	4,500	4,500	9,076	4,576
Business and franchise taxes	60,000	60,000	56,817	(3,183)
Payment in lieu of taxes	1,877	1,877	1,793	(84)
Federal grant .....	...	...	83,731	83,731
State shared	505,237	505,237	525,988	20,751
Taxable sales .....	...	...	49	49
Interest	2,709	2,709	1,802	(907)
Contributions .....	...	...	199,435	199,435
Refunds and reimbursements	5,177	5,177	915,060	909,883
Miscellaneous	5,300	5,300	2,220	(3,080)
	<u>1,275,868</u>	<u>1,275,868</u>	<u>2,475,955</u>	<u>1,200,087</u>
<u>EXPENDITURES:</u>				
Salaries	433,925	433,925	443,844	9,919
Personnel benefits	168,879	168,879	159,906	(8,973)
Office supplies and postage	1,300	1,300	196	(1,104)
Operating supplies	62,000	62,000	163,359	101,359
Professional services	33,600	33,600	1,586	(32,014)
Advertising	350	350	447	97
Insurance and bonds	30,615	30,615	30,615	...
Dues and subscriptions	400	400	189	(211)
Personnel training	4,000	4,000	2,631	(1,369)
Telephone	6,500	6,500	3,631	(2,869)
Utilities	15,600	15,600	6,560	(9,040)
Gas and oil	45,000	45,000	20,056	(24,944)
Repairs	59,500	59,500	32,395	(27,105)
Street maintenance	235,000	235,000	...	(235,000)
Other purchased services	9,000	9,000	12,226	3,226
Uniforms	1,500	1,500	56	(1,444)
Medical services	750	750	...	(750)
Miscellaneous expense .....	...	...	212	212
Street lighting	60,000	60,000	71,217	11,217
Capital outlay - equipment	68,500	68,500	22,674	(45,826)
Capital outlay - land purchase .....	...	...	87,957	87,957
Construction project	25,000	25,000	1,028,504	1,003,504
	<u>1,261,419</u>	<u>1,261,419</u>	<u>2,088,261</u>	<u>826,842</u>
<u>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</u>	<u>14,449</u>	<u>14,449</u>	<u>387,694</u>	<u>373,245</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Net change in fair value of investments .....	...	...	260	260
Operating transfer out	(14,449)	(14,449)	(4,579)	9,870
	<u>(14,449)</u>	<u>(14,449)</u>	<u>(4,319)</u>	<u>10,130</u>
<u>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER)</u> <u>EXPENDITURES AND OTHER USES</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 383,375</u>	<u>\$ 383,375</u>

CITY OF JEROME, IDAHO
BUDGETARY COMPARISON SCHEDULE - LIBRARY FUND
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
<u>REVENUE:</u>				
Property taxes	\$ 324,120	\$ 324,120	\$ 317,782	\$ (6,338)
Penalties and interest	2,500	2,500	4,241	1,741
Payment in lieu of taxes	886	886	838	(48)
State shared revenue	20,150	20,150	20,648	498
Taxable sales	8,800	8,800	10,390	1,590
Interest	150	150	228	78
Contributions	1,000	1,000	610	(390)
Refunds and reimbursements	723	723	669	(54)
Fines	6,800	6,800	7,534	734
Miscellaneous	1,000	1,000	73	(927)
	<u>366,129</u>	<u>366,129</u>	<u>363,013</u>	<u>(3,116)</u>
<u>EXPENDITURES:</u>				
Salaries	197,770	197,770	193,932	(3,838)
Personnel benefits	75,071	75,071	68,011	(7,060)
Office supplies and postage	2,200	2,200	1,451	(749)
Operating supplies	12,500	12,500	10,749	(1,751)
Insurance .....	...	...	122	122
Dues and subscriptions	370	370	370	...
Personnel training	3,500	3,500	2,942	(558)
Telephone	3,080	3,080	3,430	350
Utilities	8,580	8,580	8,154	(426)
Repairs	7,820	7,820	10,457	2,637
Other purchased services	120	120	132	12
Books and magazines	37,744	37,744	27,494	(10,250)
Miscellaneous .....	...	...	793	793
	<u>348,755</u>	<u>348,755</u>	<u>328,037</u>	<u>(20,718)</u>
<u>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</u>	<u>17,374</u>	<u>17,374</u>	<u>34,976</u>	<u>17,602</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Net change in fair value of investments .....	...	...	34	34
Operating transfer out	(17,240)	(17,240)	(17,110)	130
	<u>(17,240)</u>	<u>(17,240)</u>	<u>(17,076)</u>	<u>164</u>
<u>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER)</u> <u>EXPENDITURES AND OTHER USES</u>	<u>\$ 134</u>	<u>\$ 134</u>	<u>\$ 17,900</u>	<u>\$ 17,766</u>

CITY OF JEROME, IDAHO
BUDGETARY COMPARISON SCHEDULE - PARK FUND
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
<u>REVENUE:</u>				
Property taxes	\$ 150,353	\$ 150,353	\$ 147,520	\$ (2,833)
Penalties and interest	1,300	1,300	1,993	693
Payment in lieu of taxes	411	411	389	(22)
State shared revenue	9,880	9,880	9,567	(313)
Local grant .....	...	...	526	526
Interest	200	200	155	(45)
Miscellaneous	482	482	516	34
	<u>162,626</u>	<u>162,626</u>	<u>160,666</u>	<u>(1,960)</u>
<u>EXPENDITURES:</u>				
Salaries	58,736	58,736	55,077	(3,659)
Personnel benefits	19,549	19,549	20,144	595
Office supplies and postage	50	50	10	(40)
Operating supplies	10,000	10,000	4,240	(5,760)
New equipment - non-capital	2,000	2,000	...	(2,000)
Advertising	100	100	...	(100)
Dues and subscriptions	300	300	175	(125)
Personnel training	800	800	489	(311)
Telephone	450	450	184	(266)
Utilities	47,000	47,000	53,348	6,348
Gas and oil	3,000	3,000	2,130	(870)
Repairs	2,750	2,750	4,060	1,310
Other purchased services	4,000	4,000	6,175	2,175
Tree maintenance	1,500	1,500	...	(1,500)
Habitat project	2,000	2,000	...	(2,000)
Miscellaneous .....	...	...	34	34
Capital outlay - equipment	7,250	7,250	1,937	(5,313)
	<u>159,485</u>	<u>159,485</u>	<u>148,003</u>	<u>(11,482)</u>
<u>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</u>	<u>3,141</u>	<u>3,141</u>	<u>12,663</u>	<u>9,522</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Net change in fair value of investments .....	...	...	29	29
Operating transfer out	(3,141)	(3,141)	(2,222)	919
	<u>(3,141)</u>	<u>(3,141)</u>	<u>(2,193)</u>	<u>948</u>
<u>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER)</u> <u>EXPENDITURES AND OTHER USES</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 10,470</u>	<u>\$ 10,470</u>

CITY OF JEROME, IDAHO
BUDGETARY COMPARISON SCHEDULE - IRRIGATION FUND
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
<u>REVENUE:</u>				
Charges for services	\$121,000	\$121,000	\$123,747	\$ 2,747
Miscellaneous	18,157	18,157	16,423	(1,734)
	<u>139,157</u>	<u>139,157</u>	<u>140,170</u>	<u>1,013</u>
<u>EXPENSES:</u>				
Salaries	46,630	46,630	44,157	(2,473)
Personnel benefits	17,012	17,012	15,263	(1,749)
Office supplies and postage	1,000	1,000	799	(201)
Operating supplies	26,750	26,750	23,116	(3,634)
New equipment - non-capital	625	625	1,026	401
Professional services	27,600	27,600	6,491	(21,109)
Advertising and publishing	200	200	85	(115)
Telephone	3,000	3,000	1,512	(1,488)
Utilities .....	...	...	234	234
Gas and oil	3,000	3,000	438	(2,562)
Repairs	25,500	25,500	26,757	1,257
Other services	2,000	2,000	11,794	9,794
Uniforms	960	960	90	(870)
Medical services	100	100	...	(100)
Miscellaneous .....	...	...	16	16
Allowance for depreciation .....	...	...	4,431	4,431
	<u>154,377</u>	<u>154,377</u>	<u>136,209</u>	<u>(18,168)</u>
<u>OPERATING EARNINGS (LOSS)</u>	<u>(15,220)</u>	<u>(15,220)</u>	<u>3,961</u>	<u>19,181</u>
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Interest revenue	300	300	41	(259)
Net change in fair value of investments .....	...	...	13	13
Sale of city property .....	...	...	...	...
Operating transfer out	(6,444)	(6,444)	(4,458)	1,986
	<u>(6,144)</u>	<u>(6,144)</u>	<u>(4,404)</u>	<u>1,740</u>
<u>EARNINGS (LOSS)</u>	<u>\$ (21,364)</u>	<u>\$ (21,364)</u>	<u>\$ (443)</u>	<u>\$ 20,921</u>

Reconciliation of Earnings to Budget

Earnings	\$ (21,364)	\$ (21,364)	\$ (443)	\$ 20,921
Net change in fair value of investments .....	...	...	(13)	(13)
Allowance for depreciation .....	...	...	4,431	4,431
Capital outlay	(2,250)	(2,250)	(1,937)	313
	<u>\$ (23,614)</u>	<u>\$ (23,614)</u>	<u>\$ 2,038</u>	<u>\$ 25,652</u>

CITY OF JEROME, IDAHO
 BUDGETARY COMPARISON SCHEDULE - SANITATION FUND
 YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUE:				
Charges for services	\$230,406	\$230,406	\$247,168	\$ 16,762
Miscellaneous	2,886	2,886	3,575	689
	<u>233,292</u>	<u>233,292</u>	<u>250,743</u>	<u>17,451</u>
EXPENSES:				
Salaries	59,040	59,040	60,264	1,224
Personnel benefits	21,335	21,335	18,156	(3,179)
Office supplies and postage	6,000	6,000	6,286	286
Operating supplies	2,500	2,500	2,073	(427)
Telephone	100	100	57	(43)
Repairs	150	150	123	(27)
Purchased services	138,500	138,500	152,175	13,675
Loss on uncollectible accounts	1,000	1,000	625	(375)
Miscellaneous	275	275	354	79
	<u>228,900</u>	<u>228,900</u>	<u>240,056</u>	<u>11,156</u>
OPERATING EARNINGS (LOSS)	4,392	4,392	10,687	6,295
NONOPERATING REVENUE (EXPENSES):				
Interest revenue	600	600	653	53
Net change in fair value of investments .....	...	...	(47)	(47)
Operating transfer out	(1,506)	(1,506)	(1,571)	(65)
	<u>(906)</u>	<u>(906)</u>	<u>(965)</u>	<u>(59)</u>
EARNINGS (LOSS)	\$ 3,486	\$ 3,486	\$ 9,722	\$ 6,236

Reconciliation of Earnings to Budget

Earnings	\$ 3,486	\$ 3,486	\$ 9,722	\$ 6,236
Net change in fair value of investments .....	...	...	47	47
Capital outlay .....	...	...	...	...
	<u>\$ 3,486</u>	<u>\$ 3,486</u>	<u>\$ 9,769</u>	<u>\$ 6,283</u>

CITY OF JEROME, IDAHO
BUDGETARY COMPARISON SCHEDULE - WATER FUND
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
<u>OPERATING REVENUE:</u>				
Charges for service	\$ 2,165,472	\$ 2,165,472	\$ 2,433,686	\$ 268,214
Miscellaneous	25,678	25,678	29,728	4,050
	<u>2,191,150</u>	<u>2,191,150</u>	<u>2,463,414</u>	<u>272,264</u>
<u>OPERATING EXPENSES:</u>				
Salaries	660,127	660,127	626,153	(33,974)
Personnel benefits	252,538	252,538	228,940	(23,598)
Office supplies and postage	9,000	9,000	7,258	(1,742)
Operating supplies	100,756	100,756	115,986	15,230
New equipment non-capital	12,000	12,000	...	(12,000)
Public Relations	11,500	11,500	...	(11,500)
Professional services	18,160	18,160	34,957	16,797
Advertising and publishing	1,000	1,000	361	(639)
Insurance and bonds	35,724	35,724	35,724	...
Dues	1,650	1,650	1,017	(633)
Personnel training	10,200	10,200	4,286	(5,914)
Telephone	11,400	11,400	16,942	5,542
Utilities	180,000	180,000	183,661	3,661
Gas and oil	40,000	40,000	39,231	(769)
Repairs	120,000	120,000	38,713	(81,287)
Other purchased services .....	...	...	14,844	14,844
Cost share with Jerome County	5,604	5,604	5,604	...
Uniforms	4,950	4,950	1,520	(3,430)
Medical services	1,000	1,000	...	(1,000)
Allowance for depreciation .....	...	...	214,131	214,131
Miscellaneous .....	...	...	3,268	3,268
Loss on uncollectible accounts	9,500	9,500	10,081	581
	<u>1,485,109</u>	<u>1,485,109</u>	<u>1,582,677</u>	<u>97,568</u>
<u>OPERATING EARNINGS (LOSS)</u>	<u>706,041</u>	<u>706,041</u>	<u>880,737</u>	<u>174,696</u>
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Interest revenue	3,000	3,000	7,521	4,521
Amortization of bond issuance costs .....	...	...	(2,650)	(2,650)
Interest expense	(343,750)	(343,750)	(170,953)	172,797
Net change in fair value of investments .....	...	...	(453)	(453)
Operating transfer out	(39,215)	(39,215)	(31,632)	7,583
Loss on disposition of asset .....	...	...	(24,831)	(24,831)
	<u>(379,965)</u>	<u>(379,965)</u>	<u>(222,998)</u>	<u>156,967</u>
<u>EARNINGS (LOSS)</u>	<u>\$ 326,076</u>	<u>\$ 326,076</u>	<u>\$ 657,739</u>	<u>\$ 331,663</u>

Reconciliation of Earnings to Budget

Earnings	\$ 326,076	\$ 326,076	\$ 657,739	\$ 331,663
Donations .....	...	...	46,973	46,973
Allowance for depreciation .....	...	...	214,131	214,131
Allowance for amortization .....	...	...	2,650	2,650
Principal on bonds payable .....	...	...	(170,000)	(170,000)
Net change in fair value of investments .....	...	...	453	453
Capital outlay	(992,064)	(992,064)	(160,040)	832,024
	<u>\$ (665,988)</u>	<u>\$ (665,988)</u>	<u>\$ 591,906</u>	<u>\$ 1,257,894</u>

CITY OF JEROME, IDAHO
 BUDGETARY COMPARISON SCHEDULE - SEWER FUND
 YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	(Under) Budget
OPERATING REVENUE:				
Charges for service	\$ 3,231,137	\$ 3,231,137	\$ 3,107,616	\$ (123,521)
Miscellaneous	23,305	23,305	121,499	98,194
	<u>3,254,442</u>	<u>3,254,442</u>	<u>3,229,115</u>	<u>(25,327)</u>
OPERATING EXPENSES:				
Salaries	824,130	824,130	794,140	(29,990)
Personnel benefits	311,778	311,778	273,476	(38,302)
Office supplies and postage	9,000	9,000	6,878	(2,122)
Operating supplies	297,996	297,996	356,780	58,784
New equipment - non-capital	1,000	1,000	...	(1,000)
Professional services	15,500	15,500	51,271	35,771
Advertising and publishing .....	...	...	1,313	1,313
Insurance and bonds	41,465	41,465	41,465	...
Personnel training	14,000	14,000	3,103	(10,897)
Dues and subscriptions	1,900	1,900	1,068	(832)
Telephone	11,400	11,400	18,687	7,287
Utilities	366,703	366,703	382,216	15,513
Gas and oil	64,000	64,000	61,900	(2,100)
Repairs	91,000	91,000	93,809	2,809
Other purchase services	315,500	315,500	353,380	37,880
Allowance for depreciation .....	...	...	684,058	684,058
Uniforms	7,245	7,245	1,028	(6,217)
Medical services	1,000	1,000	...	(1,000)
Loss on uncollectible accounts	5,000	5,000	4,330	(670)
Miscellaneous .....	...	...	4,296	4,296
	<u>2,378,617</u>	<u>2,378,617</u>	<u>3,133,198</u>	<u>754,581</u>
OPERATING EARNINGS (LOSS)	<u>875,825</u>	<u>875,825</u>	<u>95,917</u>	<u>(779,908)</u>
NONOPERATING REVENUE (EXPENSES):				
Interest revenue	2,400	2,400	2,395	(5)
Amortization of bond issuance costs .....	...	...	(2,786)	(2,786)
Interest expense	(681,000)	(681,000)	(329,775)	351,225
Net change in fair value of investments .....	...	...	(85)	(85)
Operating transfer out	(42,255)	(42,255)	(34,453)	7,802
	<u>(720,855)</u>	<u>(720,855)</u>	<u>(364,704)</u>	<u>356,151</u>
EARNINGS (LOSS)	<u>\$ 154,970</u>	<u>\$ 154,970</u>	<u>\$ (268,787)</u>	<u>\$ (423,757)</u>

Reconciliation of Earnings to Budget

Earnings	\$ 154,970	\$ 154,970	\$ (268,787)	\$ (423,757)
Federal grants .....	...	...	222,355	222,355
State grants .....	...	65,147	98,272	33,125
Donations .....	...	...	258,058	258,058
Allowance for depreciation .....	...	...	684,058	684,058
Allowance for amortization .....	...	...	2,786	2,786
Net change in fair value of investments .....	...	...	85	85
Capital outlay	(220,750)	(285,897)	(780,926)	(495,029)
Principal on bonds payable .....	...	...	(350,000)	(350,000)
	<u>\$ (65,780)</u>	<u>\$ (65,780)</u>	<u>\$ (134,099)</u>	<u>\$ (68,319)</u>

CITY OF JEROME, IDAHO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2012

NOTE 1 - BUDGETARY INFORMATION

A) Budgetary-GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedules for the General, Street, Library and Parks Funds compare the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on the budgetary basis do not differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP).

The accompanying Budgetary Comparison Schedules for the Irrigation, Sanitation, Water, Sewer and Information Technology Funds compare the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation is presented at the bottom of each schedule.

B) Budgetary Policies

The City of Jerome, Idaho, prepares an annual budget of revenue and expenditures prior to the beginning of the fiscal year. The budget is prepared on the modified accrual basis of accounting for all funds. Budget figures are based on prior levels of revenue and expenditures taking into account specific items which may be planned in advance by the City such as capital outlay expenditures. Any excess of budgeted expenditures over budgeted revenue are temporary situations and are budgeted so as to utilize cash balances in the individual fund.

C) Excess of Expenditures Over Revenue

The Budgetary Comparison Schedules for the General Fund, Irrigation Fund, Water Fund, and Sewer Fund show budgeted expenditures in excess of revenue.

CITY OF JEROME, IDAHO
 COMBINING BALANCE SHEET NONMAJOR INTERNAL SERVICE FUNDS
 YEAR ENDED SEPTEMBER 30, 2012

	<u>Engineering</u>	<u>Human Resources</u>	<u>Information Technology</u>	<u>Total</u>
<u>ASSETS</u>				
Current Assets:				
Pooled cash and cash equivalents	\$ 1,653	\$ 471	\$ 5,836	\$ 7,960
Non-pooled cash and cash equivalents
Patron receivables
Less allowance for uncollectible accounts
Accrued interest
Grant receivable
Inventory of supplies
Total current assets	<u>1,653</u>	<u>471</u>	<u>5,836</u>	<u>7,960</u>
Restricted assets:				
Pooled cash and cash equivalents
Non-pooled cash and cash equivalents
Total restricted assets ..	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Noncurrent Assets:				
Land
Construction in progress
Infrastructure
Buildings
Machinery and equipment
Less accumulated depreciation
Total fixed assets	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Other Assets:				
Deferred charge - Bonds
Less accumulated amortization
Total other assets	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total assets	<u>1,653</u>	<u>471</u>	<u>5,836</u>	<u>7,960</u>
 <u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES:</u>				
Current Liabilities:				
Accounts payable - trade	1,653	471	5,836	7,960
Accrued interest payable
Accrued compensation
Current maturity of long-term liabilities
Total current liabilities	<u>1,653</u>	<u>471</u>	<u>5,836</u>	<u>7,960</u>
Long-Term Liabilities:				
Bonds payable (including amortized premium)
Customer deposits (payable from restricted assets)
Future compensated absences of employees
Total long-term liabilities	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total liabilities	<u>1,653</u>	<u>471</u>	<u>5,836</u>	<u>7,960</u>
 <u>NET ASSETS:</u>				
Invested in capital assets, net of related debt
Restricted for:				
Capital projects
Other
Unrestricted
Total Net Assets	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>

CITY OF JEROME, IDAHO
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS NONMAJOR INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	<u>Engineering</u>	<u>Human Resources</u>	<u>Information Technology</u>	<u>Total</u>
Operating Revenues:				
Charges for services	\$...	\$...	\$...	\$...
Miscellaneous .....	...	...	...	...

Operating Expenses:				
Operating supplies	3,923	5,764	17,266	26,953
Professional services	879	3,433	85,495	89,807
Advertising and publishing ....	...	2,161	...	2,161
Dues	305	4,042	...	4,347
Personnel training	5,344	457	6,758	12,559
Telephone	2,025	602	...	2,627
Purchased services .....	...	675	...	675
Utilities	3,231	...	...	3,231
Gas and oil	1,815	...	...	1,815
Repairs	4,422	...	...	4,422
Medical services .....	...	2,375	...	2,375
	21,944	19,509	109,519	150,972
Operating earnings (loss)	(21,944)	(19,509)	(109,519)	(150,972)
Nonoperating Revenues (Expenses):				
Interest revenue .....	...	...	...	...
Net change in fair value of ... investments .....	...	...	...	...
Interest expense .....	...	...	...	...
Income before other revenues, ... expenses, gains, losses, and ... transfers	(21,944)	(19,509)	(109,519)	(150,972)
Capital Contributions .....	...	...	...	...
Operating transfer in (out)	21,944	19,509	109,519	150,972
Increase (decrease) in net assets .....	...	...	...	...
Net Assets - October 1, 2011 .....	...	...	...	...
Net Assets - September 30, 2012 .	\$...	\$...	\$...	\$...

CITY OF JEROME, IDAHO
 SCHEDULE OF EXPENDITURES BY OBJECT AND FUNCTION
 GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2012

	Legislative	Executive	Finance and Administration	Law Enforcement	Fire Control	Building Inspection	Animal Control	Total
Current:								
Salaries	\$ 24,000	\$ 12,000	\$ 121,191	\$ 891,542	\$751,465	\$ 92,854	\$ 43,030	\$1,936,082
Personnel benefits	18,443	7,852	53,541	305,175	356,662	27,521	13,365	782,559
Office supplies .....	...	...	1,687	1,272	736	9	5	3,709
Supplies .....	...	...	5,429	12,272	35,210	260	3,102	56,273
Ammunition .....	...	...	...	3,757	...	...	...	3,757
New equipment - non-capital .....	...	...	925	4,441	16,001	...	...	21,367
Public relations .....	...	...	14,830	...	141	...	...	14,971
Professional services .....	...	...	124,397	1,670	4,542	...	3,786	134,395
Advertising and publishing .....	...	...	4,304	79	1,593	...	...	5,976
Insurance .....	...	...	35,809	212	...	...	...	36,021
Travel and meetings	1,177	626	...	...	...	...	...	1,803
Dues and subscriptions .....	...	...	6,984	2,187	1,300	135	160	10,766
Personnel training .....	...	...	16,414	15,115	14,194	569	200	46,492
Telephone .....	...	645	9,708	23,636	10,565	1,652	744	46,950
Utilities .....	...	...	9,620	4,576	12,255	...	4,490	30,941
Gas and oil .....	...	...	1,051	44,595	14,693	2,123	1,391	63,853
Repairs .....	...	...	6,405	35,373	19,032	1,299	1,310	63,419
Other purchased services .....	...	...	5,570	703	8,583	1,900	...	16,756
Cost share with Jerome County .....	...	...	...	98,623	7,845	...	...	106,468
Uniforms .....	...	...	...	10,030	3,562	...	222	13,814
Medical services .....	...	...	...	1,000	4,884	...	1,226	7,110
Crime prevention .....	...	...	...	2,735	...	...	...	2,735
Drug dog expense .....	...	...	...	1,351	...	...	...	1,351
Miscellaneous .....	...	...	2,159	595	130	15	7	2,906
Total current	<u>43,620</u>	<u>21,123</u>	<u>420,024</u>	<u>1,460,939</u>	<u>1,263,393</u>	<u>128,337</u>	<u>73,038</u>	<u>3,410,474</u>
Capital outlay .....	...	...	8,628	73,535	23,440	...	...	105,603
Debt service .....	...	...	62,775	...	46,434	...	...	109,209
	<u>\$ 43,620</u>	<u>\$ 21,123</u>	<u>\$ 491,427</u>	<u>\$1,534,474</u>	<u>\$1,333,267</u>	<u>\$ 128,337</u>	<u>\$ 73,038</u>	<u>\$3,625,286</u>

CITY OF JEROME, IDAHO
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u> <u>Ending</u> <u>September 30,</u>	<u>Beginning</u> <u>Balance</u> <u>October 1,</u>	<u>Levy</u> <u>Charge</u>	<u>Additions</u>	<u>Deletions</u>	<u>Collections</u>	<u>Ending Balance</u> <u>September 30,</u>
2012	\$273,179	\$5,130,454	...	\$7,530	\$5,111,309	\$284,794
2011	229,921	4,828,291	...	9,524	4,775,509	273,179
2010	178,472	5,107,660	...	10,596	5,045,615	229,921
2009	138,874	3,316,273	...	5,375	3,271,300	178,472
2008	105,812	2,860,952	...	3,343	2,824,547	138,874
2007	108,762	2,596,250	...	1,248	2,597,952	105,812
2006	122,127	2,359,795	...	899	2,372,261	108,762
2005	121,119	2,222,246	...	1,560	2,219,678	122,127
2004	122,906	2,216,551	...	3,736	2,214,602	121,119
2003	112,643	1,872,106	...	937	1,860,906	122,906

CITY OF JEROME, IDAHO
GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

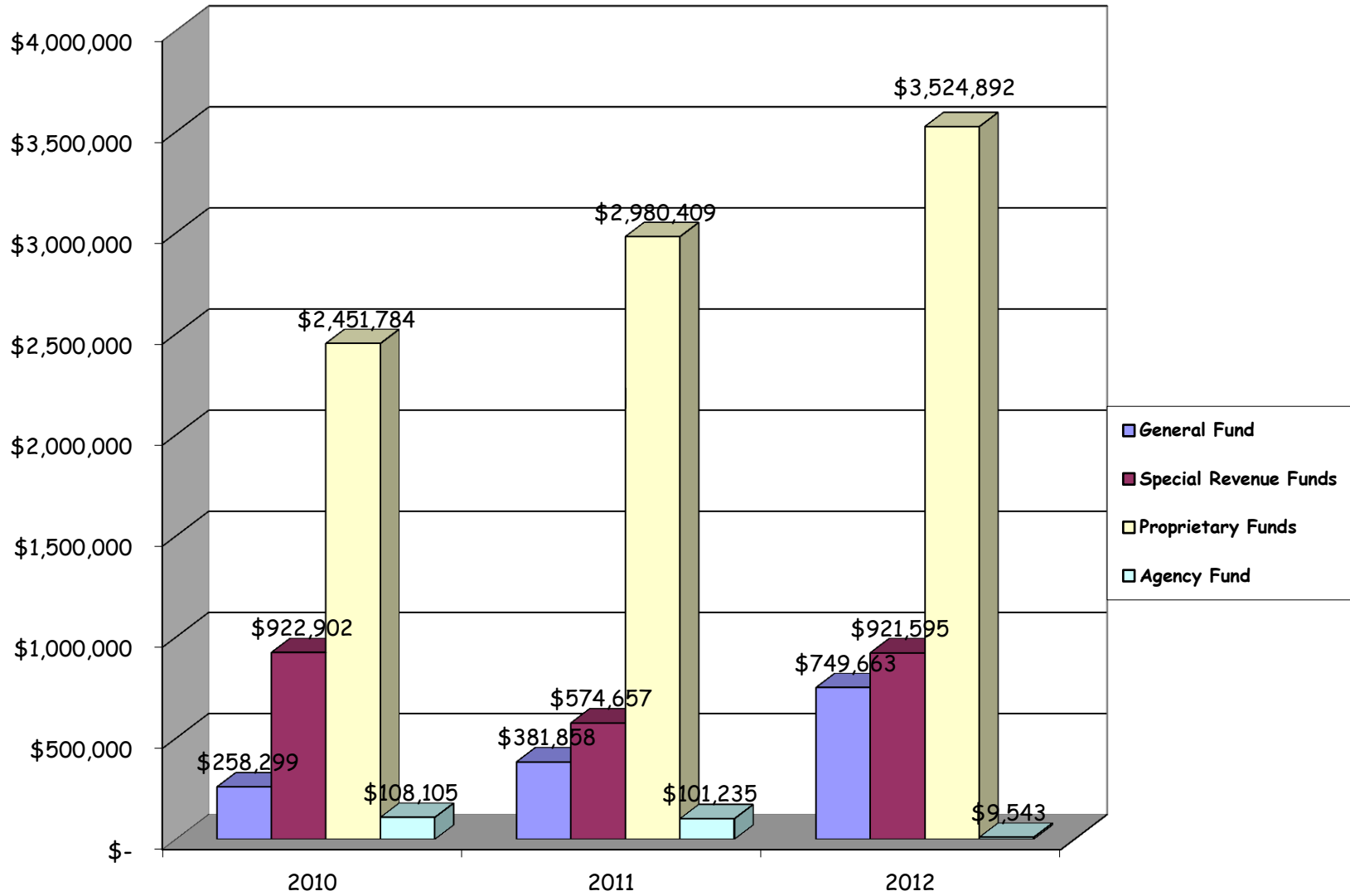
	Year Ended September 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GOVERNMENTAL FUNDS:										
Legislative	\$ 43,620	\$ 47,302	\$ 47,663	\$ 47,663	\$ 45,084	\$ 39,906	\$ 38,910	\$ 37,278	\$ 37,418	\$ 35,702
Executive	21,123	22,887	21,568	20,825	20,169	20,456	17,231	14,055	14,101	13,862
Finance and administration	491,427	751,777	741,821	1,035,458	730,381	436,539	416,715	417,120	338,011	331,838
Law enforcement	1,534,474	1,461,979	1,588,824	1,437,053	1,189,322	1,047,177	1,050,796	966,841	928,714	1,055,529
Fire control	1,333,267	1,235,893	1,210,833	1,280,372	791,393	809,153	678,926	651,221	559,378	680,844
Building inspection	128,337	124,640	180,410	138,157	117,551	109,714	83,936	59,910	54,641	51,675
Animal control	73,038	73,791	71,392	73,949	59,322	54,224	49,357	48,839	45,503	46,793
Street	2,088,261	1,833,217	1,830,694	2,229,547	2,190,327	1,359,216	1,468,969	1,295,785	888,614	869,162
Library	328,037	307,603	322,316	288,919	244,929	232,562	1,106,791	357,041	215,286	202,200
Park	148,003	147,204	179,751	115,593	107,043	122,451	113,475	110,070	82,929	111,530
PROPRIETARY FUNDS:										
Irrigation	136,209	174,658	223,096	113,563	113,395	103,425	106,894	100,768	98,541	105,153
Sanitation	240,056	249,125	256,477	233,020	221,244	200,975	188,517	188,297	242,355	214,303
Water	1,756,280	1,855,539	1,737,893	1,397,332	1,278,054	1,129,144	1,282,056	1,019,160	971,474	1,010,850
Waste water treatment	3,465,759	3,692,062	3,033,032	2,892,092	2,189,962	1,807,185	1,504,554	1,220,595	1,146,466	1,311,317
Engineering	21,944	26,894	23,046	...	...	...	...	...	...	...
Human Resources	19,509	15,299	10,919	...	...	...	...	...	...	...
Information technology	109,519	168,179	176,560	97,274	142,678	123,357	98,890	63,013	95,954	115,444
	<u>\$11,938,863</u>	<u>\$12,188,049</u>	<u>\$11,656,295</u>	<u>\$11,400,817</u>	<u>\$9,440,854</u>	<u>\$7,595,484</u>	<u>\$8,206,017</u>	<u>\$6,549,993</u>	<u>\$5,719,385</u>	<u>\$6,156,202</u>

CITY OF JEROME, IDAHO
GENERAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

	<u>Year Ended September 30,</u>									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GOVERNMENTAL FUNDS:										
Property tax and penalties ...	\$ 3,758,819	\$ 3,600,762	\$ 3,491,460	\$ 2,674,442	\$ 2,258,464	\$ 2,042,103	\$1,831,141	\$1,648,806	\$1,672,013	\$1,550,673
Intergovernmental	1,403,350	1,388,723	1,336,685	1,149,548	1,279,161	3,555,464	1,530,817	1,408,204	1,240,355	1,056,460
Charges for services and taxable sales	10,446	11,653	15,450	6,361	7,193	6,750	6,499	6,702	4,567	4,643
Interest	3,272	5,793	7,339	33,458	113,181	62,693	34,711	21,298	14,962	22,003
Contributions	201,854	319,571	386,374	413,392	740,573	80,633	328,998	110,268	27,916	975,094
Other	1,690,535	710,832	661,616	503,201	1,461,614	919,440	685,333	447,534	233,524	340,245
	<u>7,068,276</u>	<u>6,037,334</u>	<u>5,898,924</u>	<u>4,780,402</u>	<u>5,860,186</u>	<u>6,667,083</u>	<u>4,417,499</u>	<u>3,642,812</u>	<u>3,193,337</u>	<u>3,949,118</u>
PROPRIETARY FUNDS:										
Charges for services	6,181,714	5,634,469	6,302,067	6,034,733	4,649,647	3,822,388	3,199,392	2,964,549	2,996,826	2,821,199
Interest	10,610	9,614	16,058	57,617	225,008	587,613	273,850	80,847	50,789	63,677
Other	(572)	2,585	4,211	21,159	32,556	223,388	232,880	137,065	404,910	77,941
	<u>6,191,752</u>	<u>5,646,668</u>	<u>6,322,336</u>	<u>6,113,509</u>	<u>4,907,211</u>	<u>4,633,389</u>	<u>3,706,122</u>	<u>3,182,461</u>	<u>3,452,525</u>	<u>2,962,817</u>
	<u>\$13,260,028</u>	<u>\$11,684,002</u>	<u>\$12,221,260</u>	<u>\$10,893,911</u>	<u>\$10,767,397</u>	<u>\$11,300,472</u>	<u>\$8,123,621</u>	<u>\$6,825,273</u>	<u>\$6,645,862</u>	<u>\$6,911,935</u>

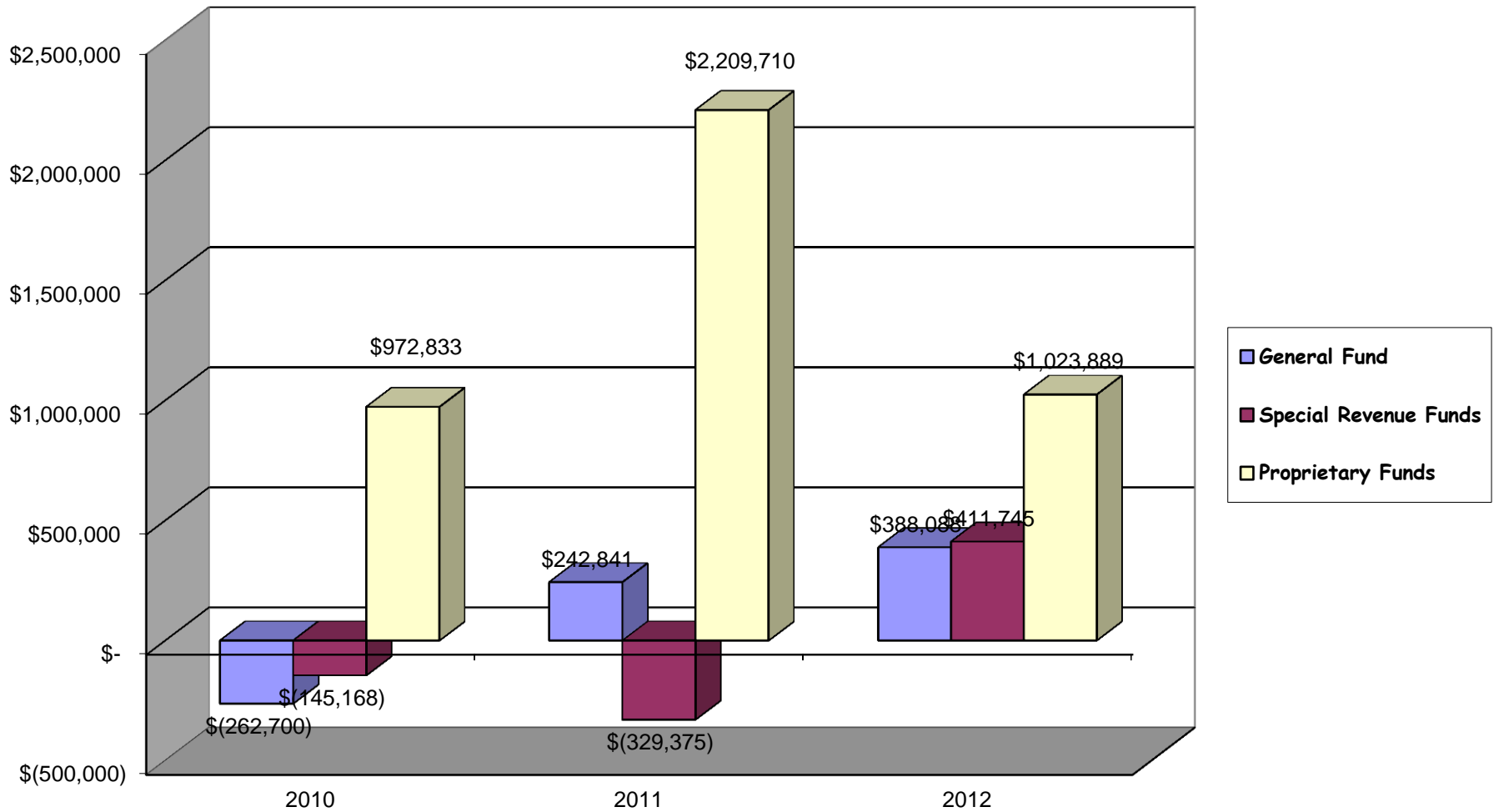
City of Jerome, Idaho

Balances of Cash & Investments at September 30



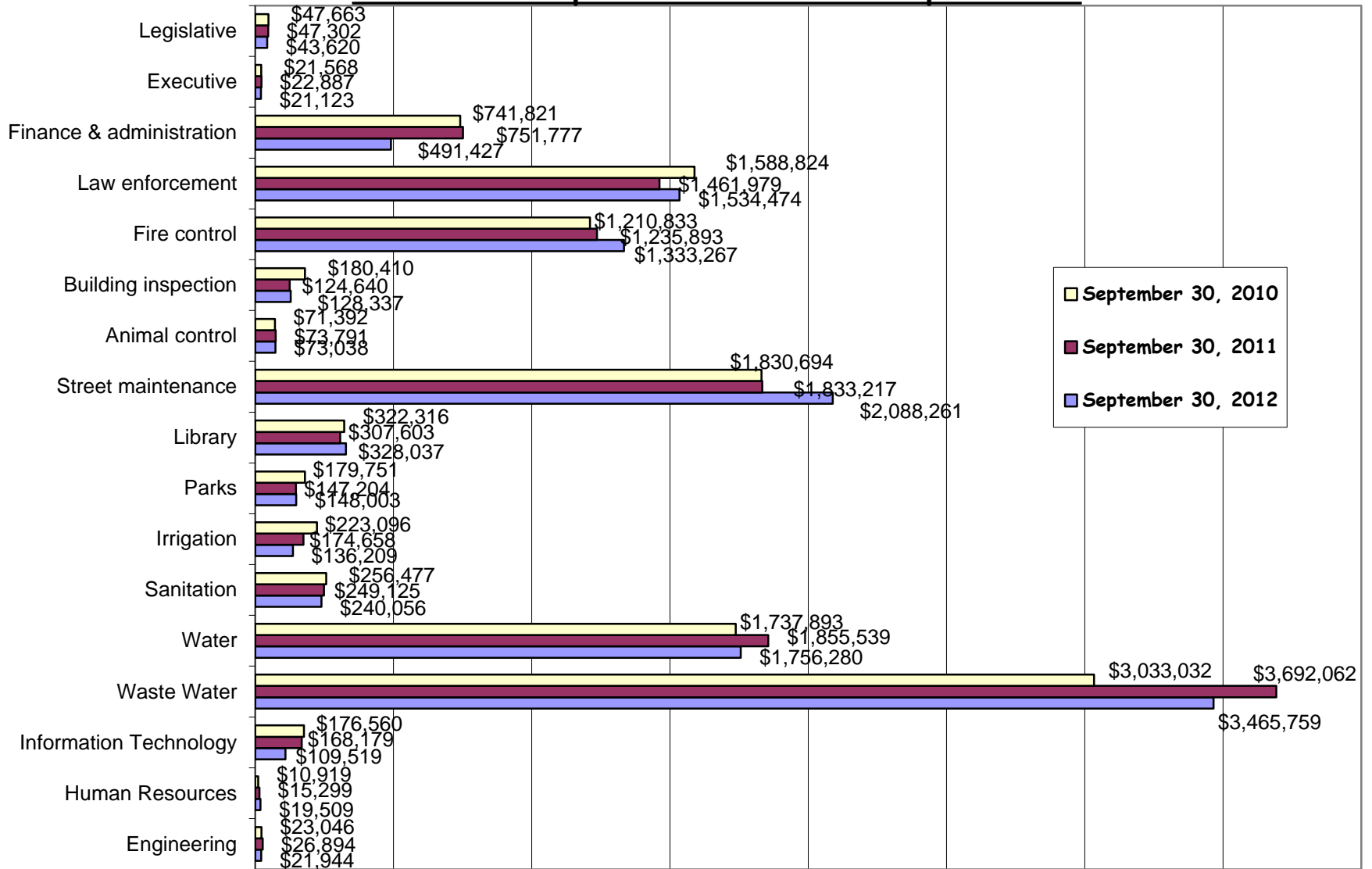
City of Jerome, Idaho

Excess (Deficiency) of Revenue Over Expenditures



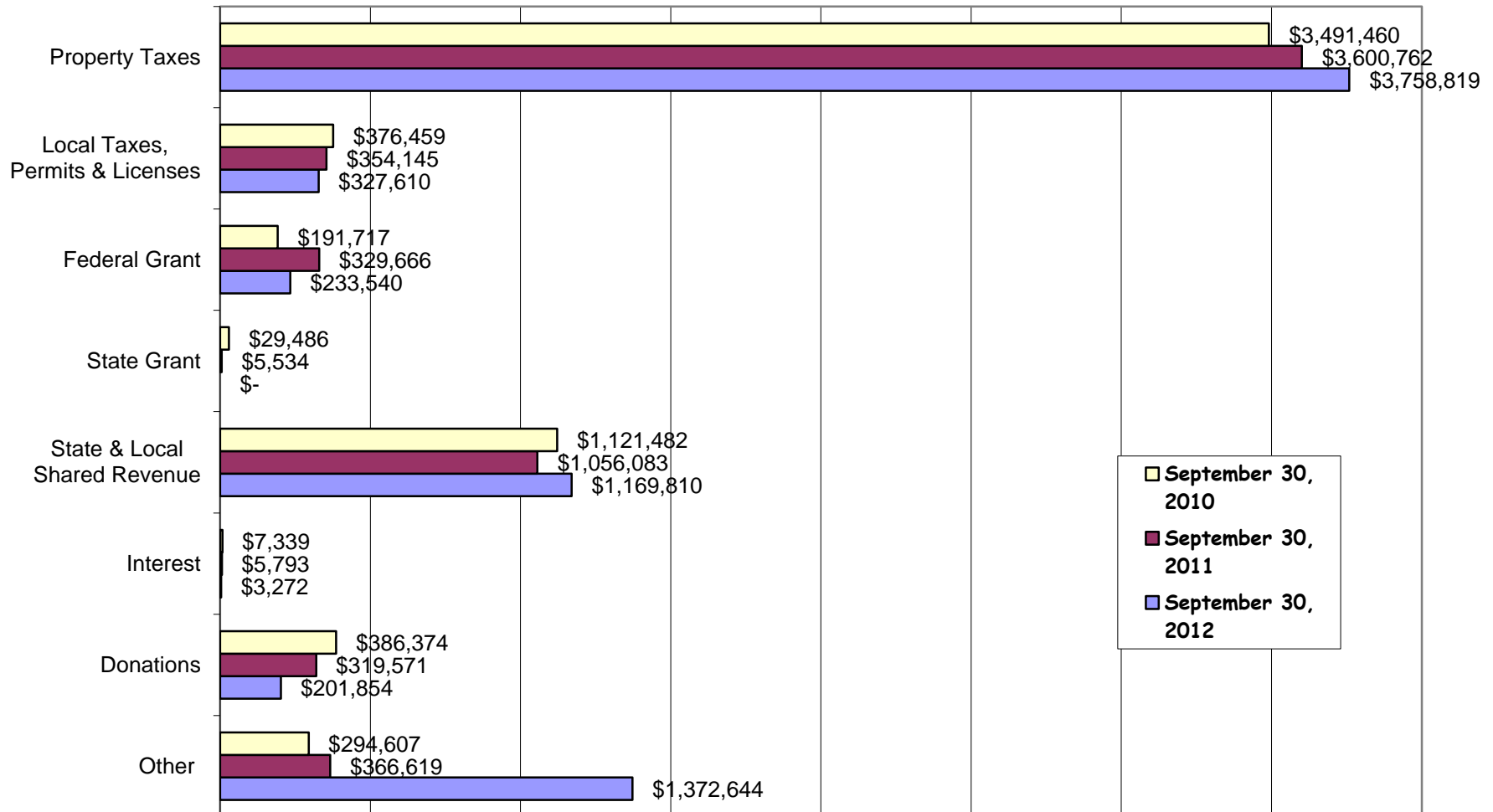
City of Jerome, Idaho

General And Special Revenue Fund Expenditures



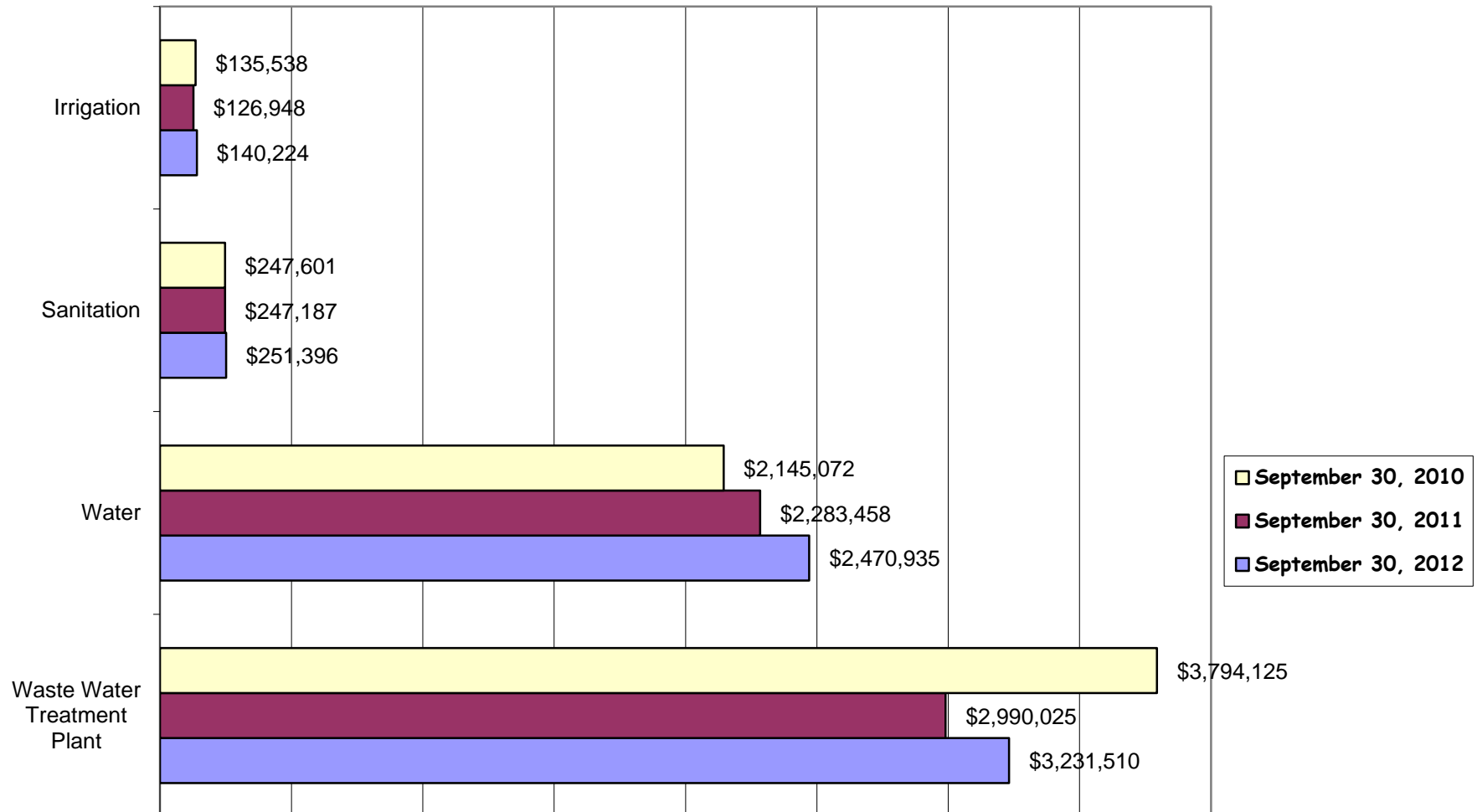
City of Jerome, Idaho

General and Special Revenue Fund Revenues



City of Jerome, Idaho

Proprietary Fund Revenues



Rexroat, Harberd & Assoc., P.A.

Certified Public Accountants

P.O. Box 7 - 125 North Buchanan - Jerome, Idaho 83338
Telephone 208-324-2391 Fax 208-324-8266

February 11, 2013

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

Mayor and Council
City of Jerome
Jerome, Idaho 83338

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jerome, 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 11, 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 of Jerome, Idaho, 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 the City'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*.

This report is intended solely for the information and use of management, others within the entity, 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.

Reynold, Harberd & Assoc., P.A.