

**CITY OF PRIEST RIVER**

September 30, 2010

***Bernhart & Buck, Inc.***  
*Certified Public Accountants*  
*P.O. Box 699*  
*Hayden, Idaho 83835*

# CITY OF PRIEST RIVER

September 30, 2010

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**CITY OF PRIEST RIVER**

September 30, 2010

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# *Bernhart & Buck, Inc.*

## *Certified Public Accountants*

### **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members of the City Council  
Priest River, Idaho

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Priest River, Idaho, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Priest River, Idaho's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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.

The financial statements of Priest River Urban Renewal Agency have not been audited, and we were not engaged to audit the Priest River Urban Renewal Agency financial statements as part of our audit of the City's basic financial statements. Priest River Urban Renewal Agency's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 100 percent, 100 percent, and 100 percent of the assets, net assets, and revenues, respectively, of the City's aggregate discretely presented component units.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had Priest River Urban Renewal Agency's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for City of Priest River, Idaho, as of September 30, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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 for City of Priest River, Idaho, as of September 30, 2010, 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011, on our consideration of the City of Priest River, 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 should be considered in conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 29 - 30, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Priest River has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statement.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Priest River, Idaho's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bernhart & Buck, Inc.*

Hayden, Idaho  
January 28, 2011

FINANCIAL SECTION

**BASIC FINANCIAL STATEMENTS**

**CITY OF PRIEST RIVER**  
**STATEMENT OF NET ASSETS**  
September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Priest River Urban Renewal
<b>ASSETS</b>				
Cash and cash equivalents	\$ 246,593	\$ 568,860	\$ 815,453	\$ 0
Receivable:				
Taxes delinquent	84,124	0	84,124	0
Accounts receivable	52,766	79,887	132,653	0
Special assessments and other	18,901	13,906	32,807	0
Prepaid expenses	20,947	9,548	30,495	0
Due from Priest River Urban Renewal	23,351	0	0	0
Deposit	1,312	0	1,312	0
Temporarily restricted cash	0	92,233	92,233	0
Capital assets, not being depreciated	36,275	1,385,085	1,421,360	0
Capital assets, net of depreciation	3,436,197	3,901,812	7,338,009	0
Total assets	<u>3,920,466</u>	<u>6,051,331</u>	<u>9,971,797</u>	<u>0</u>
<b>LIABILITIES</b>				
Accounts payable	29,945	327,389	357,334	1,500
Accrued payroll liabilities	8,818	33,157	41,975	0
Accrued interest payable	3,928	12,520	16,448	0
Deposits	103,047	0	103,047	0
Due to City of Priest River	0	0	0	23,351
Long-term liabilities:				
Due within one year	67,052	51,855	118,907	0
Due in more than one year	75,570	1,528,924	1,604,494	0
Total liabilities	<u>288,360</u>	<u>1,953,845</u>	<u>2,242,205</u>	<u>24,851</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,352,020	3,757,973	7,109,993	0
Restricted for:				
Debt service	(21,036)	87,472	66,436	0
Customer deposits	0	4,761	4,761	0
Grant purposes	43,352	0	43,352	0
Unrestricted	257,770	247,280	505,050	(24,851)
Total net assets	<u>\$ 3,632,106</u>	<u>\$ 4,097,486</u>	<u>\$ 7,729,592</u>	<u>\$ (24,851)</u>

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

**CITY OF PRIEST RIVER**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 235,045	\$ 30,617	\$ 0	\$ 0
Public safety	432,651	0	0	0
Highways and street	265,725	25,796	0	0
Culture and recreation	35,731	0	0	0
Interest on long-term debt	7,975	0	0	0
Total governmental activities	<u>977,127</u>	<u>56,413</u>	<u>0</u>	<u>0</u>
Business-type activities:				
Garbage	39,276	29,988	0	0
Wastewater	419,331	336,654	0	0
Water	389,065	478,675	0	187,096
Capital	0	0	0	0
Total business-type activities	<u>847,672</u>	<u>845,317</u>	<u>0</u>	<u>187,096</u>
Total primary government	<u>\$ 1,824,799</u>	<u>\$ 901,730</u>	<u>\$ 0</u>	<u>\$ 187,096</u>

General revenue:  
Property taxes, levied for general purposes  
Intergovernmental  
Interest and investment earnings  
Donations  
Miscellaneous  
Total general revenues  
Change in net assets  
Net assets - beginning balance  
Net assets - ending

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



Net (Expense) Revenue  
and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Priest River Urban Renewal
\$ (204,428)	\$ 0	\$ (204,428)	\$ (22,264)
(432,651)	0	(432,651)	0
(239,929)	0	(239,929)	0
(35,731)	0	(35,731)	0
(7,975)	0	(7,975)	0
<u>(920,714)</u>	<u>0</u>	<u>(920,714)</u>	<u>(22,264)</u>
0	(9,288)	(9,288)	0
0	(82,677)	(82,677)	0
0	276,706	276,706	0
0	0	0	0
<u>0</u>	<u>184,741</u>	<u>184,741</u>	<u>0</u>
<u>\$ (920,714)</u>	<u>\$ 184,741</u>	<u>\$ (735,973)</u>	<u>\$ (22,264)</u>
\$ 544,183	\$ 0	\$ 544,183	\$ 24,778
288,672	0	288,672	0
5,363	892	6,255	0
30	0	30	0
28,263	0	28,263	0
<u>866,511</u>	<u>892</u>	<u>867,403</u>	<u>24,778</u>
(54,203)	185,633	131,430	2,514
3,686,309	3,911,853	7,598,162	(27,365)
<u>\$ 3,632,106</u>	<u>\$ 4,097,486</u>	<u>\$ 7,729,592</u>	<u>\$ (24,851)</u>

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

**CITY OF PRIEST RIVER**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2010

<b>ASSETS</b>	<u>General</u>	<u>Street Fund</u>	<u>LID 98</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 103,190	\$ 100,051	\$ 0	\$ 43,352	\$ 246,593
Receivables:					
Property taxes	63,934	20,190	0	0	84,124
Assessments	0	0	18,901	0	18,901
Other	0	0	0	0	0
Due from Priest River Urban:					
Renewal	23,351	0	0	0	23,351
Due from other funds	22,348	0	0	0	22,348
Due from other governments	26,705	26,061	0	0	52,766
Deposit	0	0	1,312	0	1,312
Prepaid expenses	17,926	3,021	0	0	20,947
Total assets	<u>\$ 257,454</u>	<u>\$ 149,323</u>	<u>\$ 20,213</u>	<u>\$ 43,352</u>	<u>\$ 470,342</u>
 <b>LIABILITIES AND FUND BALANCE</b>					
Accounts payable	\$ 24,653	\$ 5,292	\$ 0	\$ 0	\$ 29,945
Accrued payroll liabilities	8,818	0	0	0	8,818
Performance bond	103,047	0	0	0	103,047
Due to other funds	0	0	22,348	0	22,348
Deferred revenue	58,875	18,568	18,901	0	96,344
Total liabilities	<u>195,393</u>	<u>23,860</u>	<u>41,249</u>	<u>0</u>	<u>260,502</u>
Fund balance:					
Reserved for:					
Grant purposes	0	0	0	43,352	43,352
Debt service	0	0	(21,036)	0	(21,036)
Unreserved:					
Designated	0	0	0	0	0
Undesignated	62,061	125,463	0	0	187,524
Total fund balances	<u>62,061</u>	<u>125,463</u>	<u>(21,036)</u>	<u>43,352</u>	<u>209,840</u>
Total liabilities and fund balances	<u>\$ 257,454</u>	<u>\$ 149,323</u>	<u>\$ 20,213</u>	<u>\$ 43,352</u>	<u>\$ 470,342</u>

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

**CITY OF PRIEST RIVER**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
September 30, 2010

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Total fund balances at September 30, 2010 - Governmental Funds		\$	209,840
Cost of capital assets at September 30, 2010	\$	6,640,071	
Less: Accumulated depreciation as of September 30, 2010		<u>(3,167,599)</u>	3,472,472
Elimination of deferred revenue			96,344
Long-term liabilities at September 30, 2010			(142,622)
Accrued interest at September 30, 2010			<u>(3,928)</u>
Net assets at September 30, 2010		\$	<u><u>3,632,106</u></u>

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

**CITY OF PRIEST RIVER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the year ended September 30, 2010

	<u>General</u>	<u>Street</u>	<u>LID 98</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>REVENUES</b>					
Taxes	\$ 388,365	\$ 121,323	\$ 0	\$ 0	\$ 509,688
Intergovernmental revenues	145,071	143,601	0	0	288,672
Charges for services	22,157	0	0	0	22,157
Special assessments	0	0	25,170	0	25,170
Interest	266	1,944	3,144	0	5,354
Licenses and permits	8,460	0	0	0	8,460
Donations	30	0	0	0	30
Fines and forfeitures	25,796	0	0	0	25,796
Grant proceeds	0	0	0	0	0
Miscellaneous revenues	27,147	801	315	0	28,263
Total revenues	<u>617,292</u>	<u>267,669</u>	<u>28,629</u>	<u>0</u>	<u>913,590</u>
<b>EXPENDITURES</b>					
General government	146,192	0	538	0	146,730
Public safety	414,199	0	0	0	414,199
Highways and streets	0	255,679	0	0	255,679
Culture and recreation	31,662	0	0	0	31,662
Capital outlay	23,663	0	0	0	23,663
Debt service:					
Principal	18,335	2,795	42,000	0	63,130
Interest	1,395	217	8,241	0	9,853
Total expenditures	<u>635,446</u>	<u>258,691</u>	<u>50,779</u>	<u>0</u>	<u>944,916</u>
(Deficiency) excess of revenues over expenditures	<u>(18,154)</u>	<u>8,978</u>	<u>(22,150)</u>	<u>0</u>	<u>(31,326)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	17,788	0	0	0	17,788
Transfers out	0	0	0	(17,788)	(17,788)
Proceeds from debt	0	0	0	0	0
Total other financing sources and (uses)	<u>17,788</u>	<u>0</u>	<u>0</u>	<u>(17,788)</u>	<u>0</u>
Net change in fund balances	(366)	8,978	(22,150)	(17,788)	(31,326)
Fund balance - beginning	62,427	116,485	1,114	61,140	241,166
Fund balance - ending	<u>\$ 62,061</u>	<u>\$ 125,463</u>	<u>\$ (21,036)</u>	<u>\$ 43,352</u>	<u>\$ 209,840</u>

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

**CITY OF PRIEST RIVER**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2010

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Total net changes in fund balances for year ended September 30, 2010	\$ (31,326)
Add: Capital outlay which is considered expenditures	23,663
Less: Depreciation expense for the year ended September 30, 2010	(117,271)
Add: Debt payments considered as an expenditure	63,130
Less: Increase in compensated absences	(3,611)
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	34,495
Less: Difference between revenue earned on special assessments on modified accrual basis versus revenue on special assessments on accrual basis	(25,170)
Add: Interest expense due to a difference in accrued interest	<u>1,887</u>
Change in net assets for year ended September 30, 2010	<u>\$ (54,203)</u>

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

**CITY OF PRIEST RIVER**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2010

	Business-type Activities - Enterprise Funds				
	Garbage Fund	Wastewater Fund	Water Fund	Capital Fund	Total Current Year
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 27,525	\$ 0	\$ 394,962	\$ 146,373	\$ 568,860
Accounts receivable (net of allowance for uncollectible accounts of \$1,000)	0	32,583	47,304	0	79,887
Due from other funds	0	0	87,437	0	87,437
Prepays	0	3,174	6,374	0	9,548
Due from other governments	0	0	13,906	0	13,906
Total current assets	<u>27,525</u>	<u>35,757</u>	<u>549,983</u>	<u>146,373</u>	<u>759,638</u>
Noncurrent assets:					
Restricted cash:					
Bond reserve funds	0	17,452	70,020	0	87,472
Utility deposits	0	0	4,761	0	4,761
Capital assets, net of accumulated depreciation	0	2,159,069	3,127,828	0	5,286,897
Total noncurrent assets	<u>0</u>	<u>2,176,521</u>	<u>3,202,609</u>	<u>0</u>	<u>5,379,130</u>
Total assets	<u>27,525</u>	<u>2,212,278</u>	<u>3,752,592</u>	<u>146,373</u>	<u>6,138,768</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	0	83,476	243,913	0	327,389
Accrued compensated absences	0	16,565	16,592	0	33,157
Accrued interest payable	0	6,312	6,208	0	12,520
Due to other funds	0	87,437	0	0	87,437
Current portion long-term debt	0	38,448	13,407	0	51,855
Total current liabilities	<u>0</u>	<u>232,238</u>	<u>280,120</u>	<u>0</u>	<u>512,358</u>
Non-current liabilities:					
USDA note payable	0	814,108	76,472	0	890,580
Interim financing	0	0	638,344	0	638,344
Capital lease	0	0	0	0	0
Total non-current liabilities	<u>0</u>	<u>814,108</u>	<u>714,816</u>	<u>0</u>	<u>1,528,924</u>
Total liabilities	<u>0</u>	<u>1,046,346</u>	<u>994,936</u>	<u>0</u>	<u>2,041,282</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	0	1,344,961	2,413,012	0	3,757,973
Restricted for debt service (expendable)	0	17,452	70,020	0	87,472
Restricted for customer deposits (nonexpendable)	0	0	4,761	0	4,761
Unrestricted	27,525	(196,481)	269,863	146,373	247,280
Total net assets	<u>\$ 27,525</u>	<u>\$ 1,165,932</u>	<u>\$ 2,757,656</u>	<u>\$ 146,373</u>	<u>\$ 4,097,486</u>

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

**CITY OF PRIEST RIVER**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**

For the year ended September 30, 2010

	Business-type Activities - Enterprise Funds				Total
	Garbage Fund	Wastewater Fund	Water Fund	Capital Fund	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 29,988	\$ 336,654	\$ 478,675	\$ 0	\$ 845,317
Hook up	0	0	0	0	0
Miscellaneous	0	0	0	0	0
Total operating revenues	<u>29,988</u>	<u>336,654</u>	<u>478,675</u>	<u>0</u>	<u>845,317</u>
<b>OPERATING EXPENSES</b>					
Salaries and benefits	0	149,284	151,414	0	300,698
Depreciation	0	60,779	58,021	0	118,800
Subcontractor	37,799	0	0	0	37,799
Utilities	0	41,688	49,209	0	90,897
Administration	1,477	42,855	46,238	0	90,570
Maintenance and repairs	0	85,074	73,570	0	158,644
Total operating expenses	<u>39,276</u>	<u>379,680</u>	<u>378,452</u>	<u>0</u>	<u>797,408</u>
Operating income	<u>(9,288)</u>	<u>(43,026)</u>	<u>100,223</u>	<u>0</u>	<u>47,909</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Capital grants	0	0	187,096	0	187,096
Interest income	0	303	589	0	892
Interest expense	0	(39,651)	(10,613)	0	(50,264)
Total nonoperating (expense) revenue	<u>0</u>	<u>(39,348)</u>	<u>177,072</u>	<u>0</u>	<u>137,724</u>
Change in net assets	(9,288)	(82,374)	277,295	0	185,633
Total net assets - beginning	36,813	1,248,306	2,480,361	146,373	3,911,853
Total net assets - ending	<u>\$ 27,525</u>	<u>\$ 1,165,932</u>	<u>\$ 2,757,656</u>	<u>\$ 146,373</u>	<u>\$ 4,097,486</u>

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

**CITY OF PRIEST RIVER**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2010

	Business-type Activities - Enterprise Funds				Total
	Garbage Fund	Wastewater Fund	Water Fund	Capital Fund	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Payments from customers	\$ 42,080	\$ 337,069	\$ 474,281	\$ 0	\$ 853,430
Payments to suppliers	(39,384)	(96,921)	(238,766)	0	(375,071)
Payments to employees	0	(148,991)	(151,094)	0	(300,085)
Net cash provided (used) by operating activities	<u>2,696</u>	<u>91,157</u>	<u>84,421</u>	<u>0</u>	<u>178,274</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Payments for capital acquisitions	0	(100,647)	(180,039)	0	(280,686)
Capital grants	0	0	299,976	0	299,976
Principal repayments on bonds	0	(36,787)	(12,830)	0	(49,617)
Interest paid on bonds	0	(39,930)	(4,622)	0	(44,552)
Net cash (used) by capital and related financing activities	<u>0</u>	<u>(177,364)</u>	<u>102,485</u>	<u>0</u>	<u>(74,879)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Interest income	0	303	589	0	892
Net cash (used) provided from investing activities	<u>0</u>	<u>303</u>	<u>589</u>	<u>0</u>	<u>892</u>
Net increase (decrease) in cash balances	<u>2,696</u>	<u>(85,904)</u>	<u>187,495</u>	<u>0</u>	<u>104,287</u>
Cash - beginning of year	<u>24,829</u>	<u>15,919</u>	<u>369,685</u>	<u>146,373</u>	<u>556,806</u>
Cash - end of year	<u>\$ 27,525</u>	<u>\$ (69,985)</u>	<u>\$ 557,180</u>	<u>\$ 146,373</u>	<u>\$ 661,093</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating income	\$ (9,288)	\$ (43,026)	\$ 100,223	\$ 0	\$ 47,909
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:					
Depreciation	0	60,779	58,021	0	118,800
(Increase) in accounts receivable	12,092	415	(4,394)	0	8,113
(Increase) in prepaids		(3,174)	(6,374)		(9,548)
(Decrease) in accounts payable	(108)	75,870	(63,375)	0	12,387
Increase (decrease) in accrued payroll liabilities	0	293	320	0	613
Net cash provided (used) by operating activities	<u>\$ 2,696</u>	<u>\$ 91,157</u>	<u>\$ 84,421</u>	<u>\$ 0</u>	<u>\$ 178,274</u>
Cash and cash equivalents	\$ 27,525	\$ 0	\$ 394,962	\$ 146,373	\$ 568,860
Due from other funds			87,437		87,437
Due to other funds		(87,437)			(87,437)
Restricted cash:					
Bond reserve funds	0	17,452	70,020	0	87,472
Utility deposits	0	0	4,761	0	4,761
Total cash - ending	<u>\$ 27,525</u>	<u>\$ (69,985)</u>	<u>\$ 557,180</u>	<u>\$ 146,373</u>	<u>\$ 661,093</u>

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital assets of \$518,138 were acquired through debt proceeds in the Water Fund.

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



## **NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

The City of Priest River, Idaho (the "City") operates under a mayor-council form of government and provides the following services as authorized by its charter: public safety, fire protection, street maintenance, culture and recreation, municipal water, garbage, sewer, and general administrative services.

The accompanying financial statements include all aspects controlled by the City Council of the City of Priest River. Criteria for inclusion is determined by Governmental Accounting Standards Board Statement No. 14 (GASB No. 14) which states, in general, that legally separate organizations for which the elected officials of the city are financially accountable must be included in the city's financial statements as a component unit.

Under Idaho Code in 2008, the City of Priest River City Council passed an ordinance which created the Priest River Urban Renewal Agency (the Agency), a legally separate entity from the City. The Agency was established to promote urban development and improvement in blighted areas in and around the City. A board of three directors, which are appointed by the City Council, governs the Agency. The City Council has the ability to appoint, hire, reassign, or dismiss those personas having responsibility for the day-to-day operations of the Agency. These powers of the City meet the Criteria set forth in GASB No. 14 for having financial accountability for the Agency. Based on the above, the Agency has been discreetly presented in the accompanying financial statements of the City as a component unit.

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

The financial statements of the City of Priest River have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Government-wide and Fund Financial Statements ( Continued)**

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

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

The government reports the following major governmental funds:

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

The Street Fund is used to record the receipt of monies restricted to the building and maintenance of the streets, and all related expenses.

The LID 98 Fund is a debt service fund that is used to report collection of the LID's and the payment of the related debt.

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The government reports the following major proprietary funds:

The Garbage, Sewer, Water and Capital Projects Funds account for the provision of garbage, sewer, and water services to individuals and commercial users. All activities necessary to provide such services are accounted for in these funds, including (but not limited to) administration, operations, maintenance, financing, and related debt service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

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

**D. Cash Equivalents and Short-Term Investments**

The City pools all individual fund cash balances in bank accounts and the State Investment Pool. For purposes of reporting cash flows, cash and cash equivalents include: cash on hand, amount due from banks, and investments with maturities of less than 90 days.

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Receivables and Payables**

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

Property taxes are levied by the Board of Commissioners on the first Monday in September and become payable on December 20. Taxpayers may pay one-half on December 20 and the remaining half the following June 20. Property taxes are computed from levies and collections verified by inspection of records of Bonner County Auditor's Office. Bonner County collects all property tax revenue for the City.

**F. Prepaid Items**

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

**G. Restricted Assets**

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond operations and maintenance" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next 12 months.

**H. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Capital Assets, Continued**

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

<u>Assets</u>	<u>Years</u>
Buildings & improvements	20-35
Equipment	5-15
Furniture and fixtures	3-7
Licensed vehicles	3-7
Electric, water and sewer systems	20-50

**I. Compensated Absences**

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

**J. Accrued Liabilities and Long-Term Obligations**

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

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

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

**K. Fund Balance Reserves**

The City has the ability to reserve those portions of fund equity that are legally segregated for a specific future use or that do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund equity that is available for appropriation in future periods. Restricted resources are used first to fund appropriations as necessary.

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Net Assets**

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

**M. Estimates**

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

**N. Budgetary Data**

Annual operating budgets are adopted each fiscal year for each governmental and proprietary fund through passage of an annual budget ordinance. The budget is prepared on a basis consistent with the basis of accounting utilized for each respective fund type (i.e. the modified accrual basis for the governmental funds and accrual basis for the proprietary funds) with the exception that in the proprietary funds, capitalization fees are budgeted as a revenue source and bond principal payments are budgeted as expenses.

Obligations under capital leases are budgeted in each of the respective funds on a fiscal year basis. Each capital lease agreement has a nonappropriation clause, which generally states that each fiscal year's lease payments are subject to City Council approval. The lease payment appropriations are included in the operating budget.

Reported budgeted amounts are as originally adopted or as amended by Council resolution. Presented budgetary information in these financial statements includes amendments. The level of budgetary control for the City is at the total fund level per Idaho statute.

The appropriated budget is prepared by function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the fund level. Any changes in the total budget of each fund must be approved by a majority vote of the City Council. The original and amended budgets, if applicable, were properly approved by ordinance during the fiscal year. Encumbrance accounting is not employed as an extension of formal budgetary integration. All outstanding encumbrances lapse and are closed to fund balance at the end of each fiscal year and any remaining unencumbered appropriations lapse at fiscal year end.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2010

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**NOTE 2- CASH AND INVESTMENTS**

Idaho State Code 50-1013 allows the City to invest idle funds in saving accounts, prime commercial paper, general obligations of the State of Idaho, United States Treasury, or any other taxing district, notes, bonds, and obligations of Government Sponsored Enterprises (FNMA, FHLMC, FFCB, FHLB), A-rated corporate bonds, and money market and mutual funds whose portfolio consists of the aforementioned underlying instruments. The City does not have an investment policy other than following Idaho Code. No violations of those categories have occurred during the year.

Custodial credit risk - deposits - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk as it deposits funds in financial institutions that are members of the U. S. Federal Deposit Insurance Corporation (FDIC) and has never experienced such a loss. The carrying amount of the City's deposits and investments with financial institutions on September 30, 2010, was \$907,684 and the bank balances were \$1,028,533. The bank balances and investments are categorized as follows:

Amounts insured by the FDIC, or collateralized with securities held by the City in its name	\$ 183,865
Uninsured	0
Idaho Investment Pool	844,668
	\$ 1,028,533

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have an investment policy that addresses this risk, however the City does not invest in any investments that would be subject to this risk other than the State of Idaho Investment Pool.

External investment pool - Included in cash and cash equivalents is the City's investment in an external investment pool, as follows:

Investment	2010 Weighted Average Maturity (Days)	Carrying Amount
State of Idaho Local Government Investment Pool (LGIP)	107	\$ 844,668

Investments in LGIP are presented at cost which is not materially different from fair market value as reported to management by LGIP administrators.

Idaho State Code authorizes public agencies/municipalities to voluntarily invest in the LGIP. The LGIP is managed by the State Treasurer's Office for the State of Idaho, is not SEC registered, and is not rated by nationally recognized statistical rating organizations. The main objectives of the fund are preservation of capital, liquidity, and maximum yield. The list of investments the LGIP may make is governed by Idaho State Code and includes securities issued by the U. S. government or its agencies; securities issued by the State of Idaho or other government entities in the state; time deposits in state depositories, state or federal savings and loan associations, and state and federal credit unions; prime bankers acceptances and prime commercial paper; and bonds, debentures, or notes of any corporation organized, controlled, and operating in the United States with an A rating or higher. The City has no internal investment policy that would further limit the maturity or credit rating of its investments.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 3- CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2010 was as follows:

PRIMARY GOVERNMENT	Balance 9/30/09	Additions	Retirements	Reclass & Adjustments	Balance 9/30/10
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 12,612	\$ 0	\$ 0	\$ 0	\$ 12,612
Construction in progress	0	23,663	0	0	23,663
Total capital assets, not being depreciated	<u>12,612</u>	<u>23,663</u>	<u>0</u>	<u>0</u>	<u>36,275</u>
Capital assets, being depreciated:					
Buildings	891,712	0	0	0	891,712
Machinery and equipment	798,819	0	0	0	798,819
Infrastructure	4,913,265	0	0	0	4,913,265
Total capital assets being depreciated	<u>6,603,796</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,603,796</u>
Less accumulated depreciation for:					
Buildings	537,622	12,636	0	0	550,258
Machinery and equipment	591,260	39,125	0	0	630,385
Infrastructure	1,921,446	65,510	0	0	1,986,956
Total accumulated depreciation	<u>3,050,328</u>	<u>117,271</u>	<u>0</u>	<u>0</u>	<u>3,167,599</u>
Total capital assets, being depreciated, net	<u>3,553,468</u>	<u>(117,271)</u>	<u>0</u>	<u>0</u>	<u>3,436,197</u>
Governmental activities capital assets, net	<u>\$ 3,566,080</u>	<u>\$ (93,608)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,472,472</u>

**Business-type activities:**

Capital assets, not being depreciated:					
Land	\$ 123,481	\$ 0	\$ 0	\$ 0	\$ 123,481
Construction in progress	268,478	993,126	0	0	1,261,604
Total capital assets, not being depreciated	<u>391,959</u>	<u>993,126</u>	<u>0</u>	<u>0</u>	<u>1,385,085</u>
Capital assets, being depreciated:					
Buildings and improvements	3,802,845	0	0	0	3,802,845
Systems	1,642,376	23,043	0	0	1,665,419
Machinery & equipment	137,724	0	0	0	137,724
Total capital assets, being depreciated	<u>5,582,945</u>	<u>23,043</u>	<u>0</u>	<u>0</u>	<u>5,605,988</u>
Less accumulated depreciation:					
Buildings and improvements	980,345	77,375	0	0	1,057,720
Systems	544,123	14,870	0	0	558,993
Machinery and equipment	60,908	26,555	0	0	87,463
Total accumulated depreciation	<u>1,585,376</u>	<u>118,800</u>	<u>0</u>	<u>0</u>	<u>1,704,176</u>
Total capital assets being depreciated, net	<u>3,997,569</u>	<u>(95,757)</u>	<u>0</u>	<u>0</u>	<u>3,901,812</u>
Business-type activities capital assets, net	<u>\$ 4,389,528</u>	<u>\$ 897,369</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,286,897</u>



**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 3- CAPITAL ASSETS (CONTINUED)**

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

Governmental activities:

General government	\$ 84,704
Public works	10,046
Culture and recreations	4,069
Public safety	18,452
Total depreciation expense – governmental activities	\$ 117,271

Business-type activities:

Water	\$ 58,021
Sewer	60,779
Total depreciation expense – business-type activities	\$ 118,800

**NOTE 4- CHANGES IN LONG-TERM DEBT**

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Balance 10/1/09	Additions	Reductions	Balance 9/30/10	Due within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 22,170	\$ 3,611	\$ 0	\$ 25,781	\$ 0
LID A-98	134,000	0	42,000	92,000	45,000
Lease purchase	45,971	0	21,130	24,841	22,052
Total governmental activities	\$ 202,141	\$ 3,611	\$ 63,130	\$ 142,622	\$ 67,052
<b>Business-type activities:</b>					
Sewer revenue bond of 2001	\$ 876,618	\$ 0	\$ 30,567	\$ 846,051	\$ 31,943
Interim financing	120,206	518,138	0	638,344	0
Water revenue bond of 1996	102,709	0	12,830	89,879	13,407
Lease purchase	12,725	0	6,220	6,505	6,505
Total business-type activities	\$ 1,112,258	\$ 518,138	\$ 49,617	\$ 1,580,779	\$ 51,855

Total interest incurred for the year ended September 30, 2010, was \$60,130. \$6,025 of this amount was capitalized. For governmental activities, compensated absences are liquidated by the General and Street Funds.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 5- BONDS AND LEASES PAYABLE**

Bonds payable at September 30, 2010, are comprised of the following individual revenue bond issues:

Revenue bonds payable from the Water Fund at September 30, 2010, consist of the following issues:

\$227,000 Water Revenue Bonds of 1996 due as follows:

Bond #1, dated September 19, 1996, payable in yearly installments of \$17,452, including interest at 4.5%. \$ 89,879

Years Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 13,407	\$ 4,045	\$ 17,452
2012	14,011	3,441	17,452
2013	14,641	2,811	17,452
2014	15,300	2,152	17,452
2015	15,989	1,463	17,452
2016	16,531	921	17,452
	<u>\$ 89,879</u>	<u>\$ 14,833</u>	<u>\$ 104,712</u>

Revenue bonds payable from the Wastewater Fund at September 30, 2010, is composed of the following issue:

\$ 1,140,300 Sewer Revenue Bonds of 2001 due as follows:

Bond #1, dated August 1, 2001, payable in annual installments of \$70,015, including interest at 4.5%. \$ 846,051

Water revenue bond debt service requirements to maturity are as follows:

Years Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 31,943	\$ 38,072	\$ 70,015
2012	33,380	36,635	70,015
2013	34,882	35,133	70,015
2014	36,462	33,563	70,025
2015	38,092	31,923	70,015
2016-2020	217,770	132,305	350,075
2021-2025	271,380	78,695	350,075
2026-2028	182,142	16,129	198,271
	<u>\$ 846,051</u>	<u>\$ 402,455</u>	<u>\$ 1,248,506</u>

Special assessment bonds payable at September 30, 2010, from benefited property owners and, in the event of default, from the LID A-98 is composed of the following issue:

Years Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 45,000	\$ 5,658	\$ 50,658
2012	47,000	2,891	49,891
	<u>\$ 92,000</u>	<u>\$ 8,549</u>	<u>\$ 100,549</u>

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 5- BONDS AND LEASES PAYABLE (CONTINUED)**

On May 27, 2008, the issuance of water revenue bonds not to exceed \$3,680,000 was approved by special election. Interim financing was secured with US Bank on September 21, 2009, for up to \$3,496,000 at a variable rate of 73% of prime which was 3.39% at September 30, 2009. The interim loan matures on September 12, 2012. At September 30, 2010, the City had drawn \$638,344.

Capital Lease Purchase Obligations

The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all terms of the lease agreements are met.

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments as of 9/30/10</u>
Governmental fund activities:		
Security system, vehicles and equipment	2.3% - 4.56%	\$ 24,841
Business-type activities:		
Vactor	4.56%	<u>6,505</u>
Total capital lease obligations		<u>\$ 31,346</u>

Equipment and related accumulated amortization under capital lease are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Equipment	\$ 105,024	\$ 47,610
Less: accumulated amortization	<u>(28,023)</u>	<u>(15,870)</u>
Net value	<u>\$ 77,001</u>	<u>\$ 31,740</u>

As of September 30, 2010, capital lease annual amortization is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>Year ending September 30:</u>		
2011	\$ 23,060	\$ 6,802
2012	2,001	0
2013	834	0
Total requirements	<u>25,895</u>	<u>6,802</u>
Less interest	<u>(1,054)</u>	<u>(297)</u>
Present value of remaining payments	<u>\$ 24,841</u>	<u>\$ 6,505</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

**NOTE 6- DEFINED BENEFIT PENSION PLAN**

The Public Employee Retirement System of Idaho – The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

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 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

The contribution requirements of the City of Priest River and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2010, the required contribution rates of covered payroll were 6.23% for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The City of Priest River contributions required and paid were \$65,794, \$57,285, and \$54,981 for the three years ended September 30, 2010, 2009, and 2008, respectively.

**NOTE 7- RISK OF LOSS**

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

**NOTE 8- CONTINGENCIES**

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

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2010

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**NOTE 9- WATER SYSTEM IMPROVEMENT**

The City has undertaken a water system improvement project. On May 27, 2008, a special election was held for the issuance of water revenue bonds not to exceed \$3,680,000 to pay for part of the costs of acquiring, installing and constructing certain improvements to its water system. The issuance of the bonds was approved by the majority of voters. The project is expected to cost \$5,896,743 and is expected to be funded as follows:

USDA RD Loan	\$ 3,680,000
USDA RD Grant	1,577,000
ICDBG Grant	500,000
City Funds	139,743
	<u>\$ 5,896,743</u>

**Note 10- EXPENDITURES OVER APPROPRIATIONS**

The following funds had an excess of functional expenditures over appropriations for the year ended September 30, 2010.

	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>Excess of</u> <u>Actual Over</u> <u>Budgeted</u> <u>Expenditures</u>
General Fund	<u>\$ 617,973</u>	<u>\$ 635,446</u>	<u>\$ (17,473)</u>

FINANCIAL SECTION

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PRIEST RIVER**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For the year ended September 30, 2010

	Original and Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>			
Taxes	\$ 401,031	\$ 388,365	\$ (12,666)
Intergovernmental revenues	135,952	145,071	9,119
Charges for services	55,000	22,157	(32,843)
Interest	1,600	266	(1,334)
Licenses and permits	7,050	8,460	1,410
Donations	140	30	(110)
Fines and forfeitures	11,300	25,796	14,496
Miscellaneous revenues	5,900	27,147	21,247
Total revenues	<u>617,973</u>	<u>617,292</u>	<u>(681)</u>
<b>EXPENDITURES</b>			
General government	133,685	146,192	(12,507)
Public safety	411,642	414,199	(2,557)
Culture and recreation	25,555	31,662	(6,107)
Capital outlay	21,812	23,663	(1,851)
Debt service:			
Principal	23,039	18,335	4,704
Interest	2,240	1,395	845
Total expenditures	<u>617,973</u>	<u>635,446</u>	<u>(17,473)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>0</u>	<u>17,788</u>	<u>17,788</u>
(Deficiency) excess of revenues (under) over expenditures	<u>0</u>	<u>(366)</u>	<u>(366)</u>
Net change in fund balances	0	(366)	(366)
Fund balance - beginning	<u>62,427</u>	<u>62,427</u>	<u>0</u>
Fund balance - ending	<u>\$ 62,427</u>	<u>\$ 62,061</u>	<u>\$ (366)</u>

**CITY OF PRIEST RIVER**  
**STREET FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For the year ended September 30, 2010

	Original and Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>			
Taxes	\$ 125,852	\$ 121,323	\$ (4,529)
Intergovernmental revenues	141,960	143,601	1,641
Interest	9,750	1,944	(7,806)
Miscellaneous revenues	1,000	801	(199)
Total revenues	<u>278,562</u>	<u>267,669</u>	<u>(10,893)</u>
<b>EXPENDITURES</b>			
Highways and streets	275,792	255,679	20,113
Capital outlay	0	0	0
Principal	2,420	2,795	(375)
Interest	350	217	133
Total expenditures	<u>278,562</u>	<u>258,691</u>	<u>19,871</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from debt	<u>0</u>	<u>0</u>	<u>0</u>
(Deficiency) excess of revenues (under) over expenditures	<u>0</u>	<u>8,978</u>	<u>8,978</u>
Net change in fund balances	0	8,978	8,978
Fund balance - beginning	<u>116,485</u>	<u>116,485</u>	<u>0</u>
Fund balance - ending	<u>\$ 116,485</u>	<u>\$ 125,463</u>	<u>\$ 8,978</u>



FINANCIAL SECTION

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF PRIEST RIVER**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2010

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	<u>Park Reserve</u>	<u>HUD</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 0	\$ 43,352	\$ 43,352
Total assets	<u>\$ 0</u>	<u>\$ 43,352</u>	<u>\$ 43,352</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
Fund balance:			
Reserved for:			
Grant purposes	\$ 0	\$ 43,352	\$ 43,352
Unreserved, designated	<u>0</u>	<u>0</u>	<u>0</u>
Total fund balance	<u>0</u>	<u>43,352</u>	<u>43,352</u>
Total liabilities and fund balance	<u>\$ 0</u>	<u>\$ 43,352</u>	<u>\$ 43,352</u>

**CITY OF PRIEST RIVER**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the year ended September 30, 2010

	Special Revenue Funds		
	Park Reserve	HUD	Total
<b>REVENUES</b>			
Interest income	\$ 0	\$ 0	\$ 0
Grant proceeds	0	0	0
Sale of HUD homes	0	0	0
Total revenue	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENDITURES</b>			
Grant expense	0	0	0
Repairs and maintenance expense	0	0	0
Public safety	0	0	0
Miscellaneous expense	0	0	0
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures	<u>0</u>	<u>0</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of fixed assets	0	0	0
Transfer in	0	0	0
Transfer out	(17,788)	0	(17,788)
Total other financing sources (uses)	<u>(17,788)</u>	<u>0</u>	<u>(17,788)</u>
Net change in fund balances	(17,788)	0	(17,788)
Fund balance - beginning	<u>17,788</u>	<u>43,352</u>	<u>61,140</u>
Fund balance - ending	<u>\$ 0</u>	<u>\$ 43,352</u>	<u>\$ 43,352</u>

**PRIEST RIVER URBAN RENEWAL**  
**BALANCE SHEET**  
September 30, 2010

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	<u>2010</u>
<b>ASSETS</b>	
Cash	\$ <u>0</u>
Total assets	\$ <u><u>0</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>	
Accounts payable	\$ 1,500
Due to City of Priest River	<u>23,351</u>
Total liabilities	<u>24,851</u>
 Fund balance:	
Unreserved, designated	<u>(24,851)</u>
Total fund balance	<u>(24,851)</u>
 Total liabilities and fund balance	\$ <u><u>0</u></u>

**PRIEST RIVER URBAN RENEWAL**  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

For the year ended September 30, 2010

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	<u>2010</u>
<b>REVENUES</b>	
Taxes	\$ 24,778
Total revenue	<u>24,778</u>
<b>EXPENDITURES</b>	
Revenue disbursements	21,898
Legal notices and publications	366
Total expenditures	<u>22,264</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,514</u>
Net change in fund balances	2,514
Fund balance - beginning	<u>(27,365)</u>
Fund balance - ending	<u>\$ (24,851)</u>

SINGLE AUDIT SECTION

**CITY OF PRIEST RIVER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Pass-through programs from State of Idaho:			
<b>US Department of Commerce</b>			
Community Development Block Grants	14.228	B09DY160001	\$ <u>187,096</u>
Subtotals US DOC			<u>187,096</u>
<b>US Department of Transportation</b>			
State and Community Highway Safety	20.600	Various	<u>3,680</u>
Subtotals US DOT			<u>3,680</u>
<b>US Department of Agriculture</b>			
Water and Waste Water Disposal Systems for Rural Communities - AARA	10.781		518,138
Subtotals US DOA			<u>518,138</u>
 Total all programs			 \$ <u><u>708,914</u></u>

**CITY OF PRIEST RIVER**  
SCHEDULE OF FEDERAL AWARDS  
For the year ended September 30, 2010  
(Continued)

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Note A - Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Priest River under programs of the federal government for the year ended September 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Priest River, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Priest River.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.



# *Bernhart & Buck, Inc.*

## *Certified Public Accountants*

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

Honorable Mayor and City Council  
City of Priest River  
Priest River, Idaho 83805

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Priest River, Idaho, as of and for the year ended September 30, 2010, which collectively comprise the City of Priest River, Idaho's basic financial statements and have issued our report thereon dated January 28, 2011. 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**

In planning and performing our audit, we considered City of Priest River, Idaho'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 of Priest River, Idaho's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Priest River, Idaho'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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatements of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 the 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.

**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 (CONTINUED)**

**Compliance and Other Matters**

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

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

*Bernhart & Buck, Inc.*

Hayden, Idaho  
January 28, 2011

# *Bernhart & Buck, Inc.*

## *Certified Public Accountants*

### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of Priest River  
Priest River, Idaho

#### Compliance

We have audited City of Priest River, Idaho's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Priest River, Idaho's major federal programs for the year ended September 30, 2010. City of Priest River, Idaho's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Priest River, Idaho's management. Our responsibility is to express an opinion on City of Priest River, Idaho's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Priest River, Idaho's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Priest River, Idaho's compliance with those requirements.

In our opinion, City of Priest River, Idaho, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

#### Internal Control Over Compliance

The management of City of Priest River, Idaho, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Priest River, Idaho's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Priest River, Idaho's internal control over compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

*A deficiency in internal control over compliance* 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 or correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, 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.

*Bernhart & Buck, Inc.*

Hayden, Idaho  
January 28, 2011

**CITY OF PRIEST RIVER**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended September 30, 2010

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**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Priest River, Idaho.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of City of Priest River, Idaho were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for City of Priest River, Idaho expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:  

**Water and Wastewater Disposal Systems for Rural Communities - AARA**      10.781
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Priest River, Idaho was not determined to be a low-risk auditee.