

City of Priest River

FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

(WITH INDEPENDENT AUDITOR'S REPORT)

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Williams & Parsons, PC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the general fund of the City, as of September 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis preceding this report 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.

The body that determines generally accepted accounting principles has determined that Management's Discussion and Analysis (MD&A) is necessary to supplement the basic financial statements. The City of Priest River has elected not to present MD&A.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2014, on our consideration of the City of Priest River's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Priest River's internal control over financial reporting and compliance.



Williams & Parsons, PC
Certified Public Accountants
December 4, 2014

**City of Priest River
Idaho**

Statements of net position

September 30, 2014

	<u>Governmental activities</u>	<u>Business type activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 580,581	\$ 303,158	\$ 883,739
Restricted cash	-	318,486	318,486
Taxes receivable	61,824	-	61,824
Accounts receivable	65,315	83,173	148,488
Prepaid items	25,061	10,586	35,647
Grant receivable	-	22,076	22,076
Property and equipment, net of depreciation	3,824,105	9,355,557	13,179,662
Total assets	<u>4,556,886</u>	<u>10,093,036</u>	<u>14,649,922</u>
LIABILITIES			
Current liabilities			
Accounts payable	126,098	105,104	231,202
Accrued payroll and burden	24,111	15,133	39,244
Accrued interest payable	-	47,155	47,155
Bond deposit payable	103,044	-	103,044
Deferred revenue	-	-	-
Current portion of long term debt	5,341	145,780	151,121
Non-current liabilities			
Long term debt	6,651	4,124,798	4,131,449
Compensated absences	30,145	10,611	40,756
Total liabilities	<u>295,390</u>	<u>4,448,581</u>	<u>4,743,971</u>
NET POSITION			
Invested in capital assets, net of related debt	3,812,113	5,084,979	8,897,092
Restricted spendable	-	318,486	318,486
Restricted nonexpendable	25,061	22,076	47,137
Unrestricted	424,321	218,914	643,235
Total net position	<u>\$ 4,261,495</u>	<u>\$ 5,644,455</u>	<u>\$ 9,905,950</u>

See accountants' report and accompanying notes

**City of Priest River
Idaho**

Statement of activities

Year ended September 30, 2014

	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for service</u>	<u>Operating Grants</u>
Functions/programs			
<i>Governmental activities:</i>			
General government	\$ 245,006	\$ 72,290	\$ -
Streets	355,137	1,304	-
Public safety	408,998	11,256	-
Parks and recreation	35,703	-	-
Total government activity	<u>1,044,844</u>	<u>84,850</u>	<u>-</u>
<i>Business type activities:</i>			
Wastewater	413,003	434,421	
Water	610,050	517,758	
	<u>1,023,053</u>	<u>952,179</u>	

General revenues

Property taxes
 Transfers from state government
 Investment earnings
 Total general revenues
 Transfers
 Total general revenues and transfers
 Change in net position
 Net position beginning of period
 Prior period adjustment
 Net position end of period

Capital Grants	Net		Total
	Governmental activities	Business activities	
\$ -	\$ (172,716)		\$ (172,716)
100,000	(253,833)		(253,833)
292	(397,450)		(397,450)
-	(35,703)		(35,703)
<u>100,292</u>	<u>(859,702)</u>		
7,303		28,721	28,721
44,230		(48,062)	(48,062)
<u>51,533</u>		<u>(19,341)</u>	<u>(879,043)</u>
	707,257		707,257
	274,958		274,958
	414	538	952
	<u>982,629</u>	<u>538</u>	<u>983,167</u>
	-	-	-
	<u>982,629</u>	<u>538</u>	<u>983,167</u>
	122,927	(18,803)	104,124
	<u>4,138,568</u>	<u>5,663,258</u>	<u>9,801,826</u>
	-	-	-
	<u>\$ 4,261,495</u>	<u>\$ 5,644,455</u>	<u>\$ 9,905,950</u>

**City of Priest River
Idaho**

Balance sheet-governmental funds

September 30, 2014

	<u>General fund</u>	<u>Street fund</u>	<u>Nonmajor LID 98</u>	<u>Total</u>
ASSETS				
Cash	\$ 344,904	\$ 235,677	\$ -	\$ 580,581
Taxes receivable	46,986	14,838	-	61,824
Accounts receivable	41,612	23,703	-	65,315
Prepaid items	21,637	3,424	-	25,061
	<u>\$ 455,139</u>	<u>\$ 277,642</u>	<u>\$ -</u>	<u>\$ 732,781</u>
LIABILITIES				
Accounts payable	\$ 9,674	\$ 116,456	\$ -	126,130
Accrued payroll and burden	22,086	2,009	-	24,095
Bond	103,044	-	-	103,044
Total liabilities	<u>134,804</u>	<u>118,465</u>	<u>-</u>	<u>253,269</u>
DEFERRED INFLOW OF RESOURCES				
Deferred revenue	<u>38,736</u>	<u>13,083</u>	<u>-</u>	<u>51,819</u>
FUND BALANCES				
Nonspendable	21,637	3,424	-	25,061
Unreserved	259,962	142,670	-	402,632
Total fund balances	<u>281,599</u>	<u>146,094</u>	<u>-</u>	<u>427,693</u>
	<u>\$ 455,139</u>	<u>\$ 277,642</u>	<u>\$ -</u>	<u>\$ 732,781</u>

See accountants' report and accompanying notes

**City of Priest River
Idaho**

***Statement of revenues, expenditures
and changes in fund balance
Governmental Funds***

Year ended September 30, 2014

	<u>General fund</u>	<u>Street fund</u>	<u>LID 98</u>	<u>Total</u>
REVENUE				
Property taxes	\$ 517,771	\$ 192,429	\$ -	\$ 710,200
Transfers from state government	174,350	100,608	-	274,958
User fees and charges	42,660	-	-	42,660
Capital grant	292	100,000	-	100,292
Fines	11,256	853	-	12,109
Franchise fees	26,895	-	-	26,895
Other	2,735	451	-	3,186
Investment earnings	357	57	-	414
Total revenue	<u>776,316</u>	<u>394,398</u>	<u>-</u>	<u>1,170,714</u>
EXPENDITURES				
General government	130,562	-	-	130,562
Police	383,253	-	-	383,253
Highways and streets	-	225,854	-	225,854
Recreation	29,112	-	-	29,112
Code enforcement	35,939	-	-	35,939
Building and zoning	45,448	-	-	45,448
Capital outlay	7,887	136,433	-	144,320
Debt service:				
Principal	13,086	6,361	-	19,447
Interest	453	835	-	1,288
Total expenditures	<u>645,740</u>	<u>369,483</u>	<u>-</u>	<u>1,015,223</u>
Excess (deficiency) of revenues over expenditures	<u>130,576</u>	<u>24,915</u>	<u>-</u>	<u>155,491</u>
OTHER FINANCING SOURCE				
Residual equity transfer	<u>-</u>	35,301	(35,301)	-
Net other financing sources and uses	<u>-</u>	<u>35,301</u>	<u>(35,301)</u>	<u>-</u>
Net change in fund balance	130,576	60,216	(35,301)	155,491
Fund balance, beginning	151,023	85,878	35,301	272,202
Fund balance, ending	<u>\$ 281,599</u>	<u>\$ 146,094</u>	<u>\$ -</u>	<u>\$ 427,693</u>

**City of Priest River
Idaho**

***Statement of revenues and expenditures
budget and actual
Governmental Funds***

Year ended September 30, 2014

General Fund

	<u>Actual</u>	<u>Original budget</u>	<u>Revised budget</u>	<u>Variance</u>
EXPENDITURES:				
Total expenditures	645,740	687,296	687,296	41,556

Street fund

EXPENDITURES:				
Total expenditures	369,483	382,903	382,903	13,420

The budget amounts presented above are the original and final budget amounts. The budget was not revised during the year.

**City of Priest River
Idaho**

***Reconciliation of fund balance (governmental funds)
to net assets (governmental funds)***

Total fund balance--governmental funds	\$ 427,693
<i>Amounts reported for governmental activities in the statements of net assets are different because:</i>	
Capital assets are not financial resources (cash) and accordingly can not be used as financial resources to meet current obligations and are therefore not reported in the funds	3,824,105
The amount of the tax and special assessment receivable that is not available to pay current period expenditures these amounts are deferred in the funds	51,819
Compensated absences that are not due in the current period and not reported in the fund basis accounting	(30,145)
Liabilities are not due and payable in the current period and accordingly are not reported in the funds	(11,992)
Other change	16
Net position of governmental activities	<u>\$ 4,261,496</u>

Reconciliation of statement revenues expenditure and changes in fund balance to the statement of activities

Amounts reported for governmental activities in the statements of net assets are different because:

Total changes in fund balances for the year ended	155,491
Capital outlay	144,320
Depreciation expense	(189,997)
Debt principal payments	19,447
Change in compensated absence	(3,390)
Difference between property tax and special assessment revenue on modified accrual (governmental) basis versus tax revenue on a full accrual basis	(1,889)
Collection of LID principal	-
Other	(1,054)
Change in net position of governmental activities	<u>\$ 122,928</u>

**City of Priest River
Idaho**

***Combining statements of net position
All proprietary funds***

September 30, 2014

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 74,390	\$ 228,768	\$ 303,158
Restricted cash	114,030	204,456	318,486
Accounts receivable	39,428	43,745	83,173
Capital grant receivable	7,316	14,760	22,076
Prepaid expense	3,179	7,407	10,586
Total current assets	<u>238,343</u>	<u>499,136</u>	<u>737,479</u>
Noncurrent assets			
Due from wastewater fund		229,027	229,027
Property and equipment, net of depreciation	2,894,837	6,460,720	9,355,557
Total noncurrent assets	<u>2,894,837</u>	<u>6,689,747</u>	<u>9,584,584</u>
	<u>\$ 3,133,180</u>	<u>\$ 7,188,883</u>	<u>\$ 10,322,063</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 61,928	\$ 43,176	\$ 105,104
Accrued payroll and benefits	3,271	11,862	15,133
Accrued interest payable	5,248	41,907	47,155
Current portion of long term debt	38,092	107,688	145,780
Total current liabilities	<u>108,539</u>	<u>204,633</u>	<u>313,172</u>
Non-current liabilities			
Long term debt	671,301	3,453,497	4,124,798
Due to wastewater fund	229,027	-	229,027
Compensated absences	5,774	4,837	10,611
Total non-current liabilities	<u>906,102</u>	<u>3,458,334</u>	<u>4,364,436</u>
Total liabilities	<u>1,014,641</u>	<u>3,662,967</u>	<u>4,677,608</u>
NET POSITION			
Invested in capital assets, net of related debt	2,185,444	2,899,535	5,084,979
Restricted	114,030	204,456	318,486
Unrestricted	(180,935)	421,925	240,990
Total net position	<u>2,118,539</u>	<u>3,525,916</u>	<u>5,644,455</u>
	<u>\$ 3,133,180</u>	<u>\$ 7,188,883</u>	<u>\$ 10,322,063</u>

**City of Priest River
Idaho**

***Combining statement of proprietary fund
revenues, expenses and changes in net
position, proprietary funds***

Year ended September 30, 2014

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Capital Total</u>
OPERATING REVENUE			
Charges for services	\$ 434,421	\$ 517,758	\$ 952,179
Total revenue	<u>434,421</u>	<u>517,758</u>	<u>952,179</u>
OPERATING EXPENSE			
Wages and burden	148,384	154,764	303,148
Depreciation	94,673	125,524	220,197
Utilities	36,256	57,885	94,141
Other	63,505	85,537	149,042
Maintenance	36,664	86,681	123,345
Total expense	<u>379,482</u>	<u>510,391</u>	<u>889,873</u>
Income from operations	<u>54,939</u>	<u>7,367</u>	<u>62,306</u>
NON OPERATING REVENUE (EXPENSE)			
Interest income	-	538	538
Capital grant revenue	7,303	44,230	51,533
Interest expense	(33,521)	(99,659)	(133,180)
Total non-operating revenue (expense)	<u>(26,218)</u>	<u>(54,891)</u>	<u>(81,109)</u>
Change in net assets	<u>28,721</u>	<u>(47,524)</u>	<u>(18,803)</u>
NET POSITION BEGINNING	2,089,818	3,573,440	5,663,258
NET POSITION ENDING	<u>\$ 2,118,539</u>	<u>\$ 3,525,916</u>	<u>\$ 5,644,455</u>

**City of Priest River
Idaho**

**Statements of cash flows,
All proprietary funds**

Year ended September 30, 2014

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 429,994	\$ 533,254	\$ 963,248
Payments to suppliers	(85,551)	(339,702)	(425,253)
Payments to employees and related costs	(148,653)	(155,770)	(304,423)
Net cash provided (used)	<u>195,790</u>	<u>37,782</u>	<u>233,572</u>
CASH FLOW USED BY NONCAPITAL FINANCING ACTIVITY			
Repayment to other fund	<u>(41,928)</u>	<u>41,928</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from construction financing	-	-	-
Repayment of loan principal	(36,452)	(105,739)	(142,191)
Cash paid for interest	(33,790)	(100,665)	(134,455)
Capital grant proceeds	-	152,150	152,150
Acquisition and construction of capital assets	(112,673)	(67,753)	(180,426)
Net cash provided (used)	<u>(182,915)</u>	<u>(122,007)</u>	<u>(304,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	-	538	538
Net cash provided (used)	<u>-</u>	<u>538</u>	<u>538</u>
Net increase in cash	(29,053)	(41,759)	(70,812)
Cash at beginning of year	217,473	474,983	692,456
Cash at end of year	<u>\$ 188,420</u>	<u>\$ 433,224</u>	<u>\$ 621,644</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net income (loss) from operations	54,939	7,367	62,306
Adjustments to reconcile net income to cash provided by operations:			-
Depreciation	94,673	125,524	220,197
Changes in operating assets and liabilities:			-
Accounts receivable	(4,427)	15,496	11,069
Prepaid expense	1,040	518	1,558
Accounts payable	49,834	(110,117)	(60,283)
Accrued interest payable	(269)	(1,006)	(1,275)
Net cash provided (used) by operations	<u>\$ 195,790</u>	<u>\$ 37,782</u>	<u>\$ 233,572</u>
Other cash flow information			
Cash paid for interest	\$ 34,059	\$ 101,671	\$ 135,730

See accountants' report and accompanying notes

**CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Priest River (the City) operates under a Mayor/Council form of government. The City's major operations include general government, street maintenance, a sewer system and a municipal water system, and general administrative services.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Priest River. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Priest River.

The financial statements of the City potentially include those of a separately administered organization that is controlled by or is dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, fund and appointment of the respective governing body.

Component Unit

The accompanying financial statements include financial statements for related organizations as required by Generally Accepted Accounting Principles. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

Component units can be treated as:

Blended component units, although legally separate entities, are in substance, part of the City's operations. Blended component units provide services exclusively or almost exclusively for the City.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize their legal separateness from the City.

City 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

**CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.

development and improvement in blighted areas in and around the City. The Agency is governed by a board of directors, which is comprised of the same individuals who are on the City Council. Agency revenues consist entirely of tax revenue collected by Bonner County, but passing through the City. The relationship between the City and the Urban Renewal Agency are such that the Agency is required to be presented as a blended component unit and is accounted for within the general fund in the accompanying financial statements of the City.

Accounting principles

The City complies with Generally Accepted Accounting Principles (GAAP). The City's governmental funds apply all Governmental Accounting Standards Board (GASB) pronouncements except as noted in the auditor's report. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before September 30, 1989, unless those pronouncements conflict with GASB, in which case, GASB pronouncements are utilized.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues (the General and Street funds), are reported separately from business-type activities (the Water and Waste Water funds), which rely to a significant extent on user fees and charges for support.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of inter-fund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statements of Net Position and the Statements of Activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. 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 business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary and fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized 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 with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, expenditures related to debt service, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund

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

Street Fund (a special revenue fund)

This accounts for the revenues and expenditures as they relate to the maintenance and operation of the streets of the City.

**CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.

Proprietary Funds

The Sewer and Water Funds account for the provision of 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering of goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services; the primary expenses are payroll, repair and maintenance, depreciation and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Deposits and Investments

The City has a formal policy regarding allowable depository institutions. The City has not adopted a formal policy regarding allowable investments or other investment risks.

The City's cash in bank checking and saving accounts is covered by FDIC insurance on deposits up to \$250,000 per account that is held with a bank. One bank account exceeded the FDIC insurance limits at various points during 2014. The cash amounts invested with the State investment Pool are fully collateralized by investments held in the Pool's name.

For purposes of the statements of cash flows, the enterprise fund considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

Property Tax Receivables

Prior to September 1 each year, the District prepares a proposed operating budget and holds public hearings to obtain taxpayers' comments. Once the budget is adopted, it is filed with the Bonner County Treasurer's office. The District's ad valorem property tax is levied by Bonner County each November 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.

Taxes are due in two equal installments on or before December 20 and on or before June 20. Taxes are collected by Bonner County and remitted to the District monthly. Property taxes are distributed to the various funds on the ratio of the levies of the funds. These ratios are changed to the current year in December when the tax money for the new year is received.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks, street lights, 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 City as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation. The costs of normal maintenance and repairs that do not add to the value or capacity of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest costs incurred during the construction phase of assets accounted for in business type activities is capitalized as a cost of the asset being constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation on capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	25-35 years
Improvements	20-30 years
Water and Sewer systems	20-100 years
Machinery & Equipment	3-15 years
Vehicles	3-7 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.

Long Term Obligations

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

Compensated Absences

All employees are eligible for vacation and sick leave. Full time employees accrue up to 240 hours of vacation per year and part time employees can accrue up to 120 hours of vacation. Any in excess will be forfeited. Upon termination, an employee will be paid for unused vacation.

The City's sick leave policy allows employees to accrue 8 hours of sick pay per month with no maximum. Employees are not paid for unused sick pay on termination with the exception of employees hired before June 1, 2001. These employees would be paid for unused sick leave upon termination to a maximum of 600 hours.

The City has a "sick leave bank". Employees may "donate" accrued, unused sick leave hours to the bank. Employees who contribute hours to the bank are then eligible to request sick bank hours after using all their vacation and sick time. The City has recorded an estimate of the liability for compensated absences (unused vacation, sick leave and the sick leave pool) in the accompanying Statements of Net Assets.

Fund Equity

Government-wide statements

Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Consists of the net assets with constraints placed on the use either by (1) external groups such as creditors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Restricted net assets are further subdivided between those that are "spendable"—cash and those that are "not spendable"—other than cash.
- Unrestricted net position - All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.

Fund Statements

Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund type classifications are as follows:

- **Nonspendable:** The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.
- **Restricted:** The portion of fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.
- **Committed:** The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of a majority vote by City Council.
- **Assigned:** The portion of fund balance that is constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make statements and assumptions that affect various reported amounts and disclosures. Accordingly, actual results will differ from those estimates.

Legal Compliance – Budgets

Annual operating budgets (expenditures only) are adopted each fiscal year for all funds on the cash basis of accounting, through passage of an annual budget ordinance. Modification in the adopted budget can be made upon request of and approval by the City Council. All annual appropriations lapse at fiscal year end. The City's budgets are adopted on a basis substantially in compliance with Generally Accepted Accounting Principles, consistent with the modified accrual basis of accounting applicable to governmental funds.

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.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS

Cash

The City's cash is on deposit with banks and the State of Idaho Local Government Investment Pool. The carrying amount of the City's deposits and investments with financial institutions on September 30, 2014 was \$1,202,224 and the bank and state pool balances totaled \$1,206,091. The differences between the book carrying amounts and the bank balances are checks and deposits not yet clearing the banks as of September 30, 2014.

As of September 30, 2014 the City's bank accounts exceeded the amount covered by FDIC insurance by approximately \$42,000. The balances in the LGIP are uninsured, and are collateralized by securities held by the LGIP, but the collateral is not held in the name of the City.

Receivables and Deferred Revenue

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes collected by Bonner County and taxes collected by the State of Idaho.

Business-type activities report water and sewer billings as their major receivables.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to pay liabilities of the current period. Under the modified accrual basis of accounting, only revenue which is measurable and available is recognized in financial statements of governmental funds. Because property taxes levied in a year may not be paid by the taxpayer for up to three years, the taxes are not available as a spendable resource until received. Property taxes levied but not recorded by the City within 60 days after September 30 are reflected on the accompanying financial statements as deferred revenue.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Capital Assets

Capital asset activity for governmental activities

	Balance at Sept 30, 2013	Additions	Disposals	Transfers	Balance at Sept 30, 2014
Land-nondepreciable	\$134,048		\$ -	\$ -	\$134,048
Buildings	928,394	\$ 119,983			1,048,377
Machinery and Equipment	853,949	22,647	10,958		865,638
Infrastructure	5,448,010	14,729			5,462,739
Total	7,364,401	157,359	10,958		7,510,802
Accumulated depreciation	(3,506,862)	(189,997)	(10,162)		(3,686,697)
Governmental activities-- Capital assets, net	\$ 3,857,539				\$ 3,824,105

Capital asset activity for business-type activities

	Balance at Sept 30, 2013	Additions	Disposals	Transfers	Balance at Sept 30, 2014
Land-nondepreciable	\$ 123,481	\$ -	\$ -	\$ -	\$ 123,481
Buildings	6,823,885	70,843			6,894,728
Machinery and Equipment	191,419	74,684			266,103
Systems	4,416,051	23,295			4,439,346
Total	11,554,836	168,822			11,723,658
Accumulated depreciation	(2,147,905)	(220,197)			(2,368,102)
Business type activities-- Capital assets, net	\$ 9,406,931				\$ 9,355,556

Land is not being depreciated.

**CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Long-term debt

Changes in long-term debt

	Balance at Sept 30, 2013	Additions	Payment	Balance at Sept 30, 2014
<i>Governmental Activities:</i>				
PNC lease purchase	\$ 13,086		(13,086)	\$ -
John Deere lease-50% street	18,353		(6,361)	11,992
Total governmental activities	\$ 31,439	-	(19,447)	\$ 11,992
<i>Business-type activities:</i>				
Sewer revenue bond of 2001	\$ 745,845		(36,450)	\$ 709,395
USDA-Water revenue bond	3,599,444		(82,772)	3,516,672
Water revenue bond of 1996	47,819		(15,300)	32,519
John Deere Financial-50% water	18,353		(6,361)	11,992
Total business-type activities	\$ 4,411,461	-	(140,883)	\$ 4,270,578

Governmental fund compensated absences were \$30,145 as September 30, 2014.

Governmental & Enterprise Fund Debt

There is only one obligations payable at September 30, 2014:

- John Deere Financial lease-the asset and lease obligation is split 50% street; 50% water, \$11,992; payable in annual installments, including interest at 4.55%.

Enterprise Fund Debt

Bonds payable at September 30, 2014, are comprised of the following issues:

- Sewer Revenue Bonds of 2001 \$709,395, payable in annual installments of \$70,015, including interest of 4.5%.
- Water Revenue Bond of 1996, \$32,519, payable in annual installments of \$17,452, including interest of 4.5%.
- USDA-water revenue bond for water system improvements, \$3,516,672. The term of the agreement is 30 years; interest accrues on the obligation at 2.75%. The note is payable in annual installments of \$181,756, which started in April 2013.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

The City has entered into annually cancelable capital lease agreements (the balances are included in the above table of changes in long-term debt) under which the related equipment will become the property of the City when all payments required under the lease agreements are met. The equipment acquired under lease is treated as owned by the City and the cost is included in the property and equipment balances in the accompanying statements of net assets, and depreciation is computed with other assets.

Governmental fund debt service requirements to maturity are as follows:

Years Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2015	\$6,651	\$546	\$5,341
2016	5,341	243	-

Enterprise fund debt service requirements to maturity are as follows:

Years Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2015	\$145,780	\$130,640	\$4,124,798
2016	149,063	125,566	3,975,735
2017	131,387	120,414	3,844,348
2018	135,729	116,043	3,708,619
2019	140,222	111,549	3,568,397
2020	144,873	106,898	3,423,524
2021-25	800,078	458,779	2,623,446
2026-30	787,649	319,400	1,835,797
2031-35	693,464	215,315	1,142,333
2036-40	794,205	113,299	349,435
2041-42	349,435	14,411	-

Interfund Balances

The City's Water Fund loaned \$229,027 to the Wastewater Fund. The loan was used to pay for repairs to the wastewater treatment plant. The City expects the Wastewater Fund to repay the Water Fund over three years. The City raised sewer rates to partially cover the cost of repayment.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Fund Closure

The City closed the LID 98 fund and transferred its residual equity (\$35,301) to the Street Fund.

Contingencies

In the normal course of operations, the City receives grant funds from various state and federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. In the opinion of the City, any liability for reimbursement, which may arise as a result of these audits, is not believed to be material.

Fair Value of Financial Instruments

The City's financial instruments are cash, cash equivalents, receivables, accounts payable, debt and other obligations. The recorded values of these assets and liabilities approximate fair value.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member in the Idaho Counties Risk Management Program (ICRMP). ICRMP was created to provide risk management and insurance services to public entities in Idaho. ICRMP itself is a public entity. The City pays an annual premium for all risks of physical loss or damage to real and personal property, general liability, City Council legal liability and employee dishonesty. The effective coverage period is October 1 to September 30. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Pension Plan

The City participates in the Public Employees Retirement System of Idaho (PERSI). The Idaho State Legislature created PERSI, a cost sharing multiple-employer public retirement system. It is a defined benefit plan requiring that both the employee 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. Designed as a mandatory system for eligible state and school City 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. Copies of plan summaries and financial information can be obtained by contacting PERSI directly at PERSI, PO Box 83720, Boise, ID 83720.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% for police) of the average monthly salary for the highest consecutive 42 months.

The required contribution rate for employees was 11.32% and 6.79% of covered payroll for the City and its employees, respectively (11.66 and 8.36 for police). The City makes periodic contributions on behalf of those employees who qualify for participation in PERSI. Essentially all full time permanent employees of the City are covered. The City's contributions required and paid were \$67,300, 62,692 and 54,227 for the years ended September 30, 2014, 2013 and 2012, respectively.

Commitment

The City had maintained a landfill in the past, that landfill was closed in the 1970s. In a prior year the City transferred the landfill site to a separate Non-Profit organization. The City and that nonprofit obtained an Idaho Department of Environmental Quality grant to fund remediation on the landfill site. That remediation has been completed.

During 2014 the City committed to pay any ongoing maintenance costs associated with the former landfill site. The amount paid during the year ended September 30, 2014 was \$751.50. The City cannot reasonably estimate the cost of future year maintenance.

Subsequent Events

Our Auditors have evaluated subsequent events through December 4, 2014.



Williams & Parsons, PC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND NONCOMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the City of Priest River, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control Over Financial Reporting

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Williams & Parsons, PC
Certified Public Accountants
December 4, 2014

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

Section I – Summary of audit results

The independent auditor's report expressed an unqualified opinion on the basic financial statements of the City.

The audit did not disclose any compliance findings that we consider to be material to the financial statements of the City.

The audit of the financial statements did not disclose any significant deficiencies in internal control.

There are no significant deficiencies that are considered material weaknesses.

Section II – Compliance finding

This section identifies the compliance deficiencies that are required to be reported under Government Auditing Standards.

There are no compliance deficiency findings.

Section III – Internal control findings

This section identifies the internal control deficiencies that are required to be reported under Government Auditing Standards.

There are no internal control deficiency findings.