

# **City of Priest River**

FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

(WITH INDEPENDENT AUDITOR'S REPORT)

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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, 2016, 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, 2016, 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 required supplementary information as presented on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2016, 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  
Sandpoint, Idaho  
December 23, 2016

**City of Priest River  
Idaho**

**Statements of net position**

September 30, 2016

	<u>Governmental activities</u>	<u>Business type activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash	\$ 368,316	\$ 222,854	\$ 591,170
Restricted cash	-	344,367	344,367
Taxes receivable	45,775	-	45,775
Accounts receivable	70,845	92,761	163,606
Prepaid items	27,587	18,687	46,274
Grant receivable	-	88,205	88,205
Property and equipment, net of depreciation	3,787,883	9,561,694	13,349,577
Total assets	<u>4,300,406</u>	<u>10,328,568</u>	<u>14,628,974</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension obligations	167,407	87,399	254,806
Total deferred outflows of resources	<u>167,407</u>	<u>87,399</u>	<u>254,806</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	43,676	113,523	157,199
Accrued payroll and burden	19,504	10,399	29,903
Accrued interest payable	-	44,481	44,481
Bond deposit payable	-	-	-
Current portion of long term debt	20,164	141,318	161,482
Non-current liabilities			
Long term debt	22,353	3,855,795	3,878,148
Compensated absences	40,326	17,834	58,160
Net pension liability	286,063	149,344	435,407
Total liabilities	<u>432,086</u>	<u>4,332,694</u>	<u>4,764,780</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension obligations	93,559	48,845	142,404
Total deferred inflows of resources	<u>93,559</u>	<u>48,845</u>	<u>142,404</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,745,366	5,564,581	9,309,947
Restricted net position spendable	-	344,367	344,367
Restricted net position nonexpendable	27,587	88,205	115,792
Unrestricted net position	169,214	37,275	206,489
Total net position	<u>\$ 3,942,167</u>	<u>\$ 6,034,428</u>	<u>\$ 9,976,595</u>

See accountants' report and accompanying notes

**City of Priest River     Statement of activities**  
**Idaho**

**Year ended September 30, 2016**

	Program revenues			Net			
	Expenses	Charges for service	Operating Grants	Capital Grants	Governmental activities	Business activities	Total
<b>Functions/programs</b>							
<i>Governmental activities:</i>							
General government	\$ 267,574	\$ 108,368	\$ 2,100	-	\$ (157,106)		\$ (157,106)
Streets	449,818	11,191	-	-	(438,627)		(438,627)
Public safety	450,186	22,028	-	-	(428,158)		(428,158)
Parks and recreation	34,196	-	-	-	(34,196)		(34,196)
Total government activity	<u>1,201,774</u>	<u>141,587</u>	<u>2,100</u>	<u>-</u>	<u>(1,058,087)</u>		
<i>Business type activities:</i>							
Wastewater	470,383	481,256		343,453		354,326	354,326
Water	606,437	549,854		-		(56,583)	(56,583)
	<u>1,076,820</u>	<u>1,031,110</u>		<u>343,453</u>		<u>297,743</u>	<u>(760,344)</u>
<b>General revenues</b>							
Property taxes					767,075		767,075
Property sale						45,061	45,061
Transfers from state government					298,566		298,566
Investment earnings					1,986	1,098	3,084
Total general revenues					<u>1,067,627</u>	<u>46,159</u>	<u>1,113,786</u>
Change in net position					9,540	343,902	353,442
Net position beginning of period					4,012,764	5,690,526	9,703,290
Prior period adjustment - property					(80,137)	-	(80,137)
Net position end of period					<u>\$ 3,942,167</u>	<u>\$ 6,034,428</u>	<u>\$ 9,976,595</u>

See accountants' report and accompanying notes

**City of Priest River  
Idaho**

***Balance sheet-governmental funds***

**September 30, 2016**

	<u>General fund</u>	<u>Street fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 177,422	\$ 190,894	\$ 368,316
Taxes receivable	34,789	10,986	45,775
Accounts receivable	33,755	37,090	70,845
Prepaid items	21,250	6,337	27,587
	<u>\$ 267,216</u>	<u>\$ 245,307</u>	<u>\$ 512,523</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 40,470	\$ 3,206	43,676
Accrued payroll and burden	16,004	3,500	19,504
Total liabilities	<u>56,474</u>	<u>6,706</u>	<u>63,180</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue	<u>33,665</u>	<u>10,836</u>	<u>44,501</u>
<b>FUND BALANCES</b>			
Nonspendable	21,250	6,337	27,587
Unreserved	155,827	221,428	377,255
Total fund balances	<u>177,077</u>	<u>227,765</u>	<u>404,842</u>
	<u>\$ 267,216</u>	<u>\$ 245,307</u>	<u>\$ 512,523</u>

**City of Priest River  
Idaho**

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

**Year ended September 30, 2016**

	<u>General fund</u>	<u>Street fund</u>	<u>Total</u>
<b>REVENUE</b>			
Property taxes	\$ 562,985	\$ 204,090	\$ 767,075
Transfers from state government	168,026	130,540	298,566
User fees and charges	68,218	-	68,218
Operating grant	2,100	-	2,100
Fines	22,028	-	22,028
Franchise fees	5,047	26,050	31,097
Other	9,053	11,191	20,244
Investment earnings	582	1,404	1,986
Total revenue	<u>838,039</u>	<u>373,275</u>	<u>1,211,314</u>
<b>EXPENDITURES</b>			
General government	167,676	-	167,676
Police	424,280	-	424,280
Highways and streets	-	306,555	306,555
Recreation	27,051	-	27,051
Code enforcement	41,945	-	41,945
Building and zoning	32,053	-	32,053
Capital outlay	79,867	114,340	194,207
Debt service:			
Principal	11,715	13,333	25,048
Interest	1,091	601	1,692
Total expenditures	<u>785,678</u>	<u>434,829</u>	<u>1,220,507</u>
Excess (deficiency) of revenues over expenditures	<u>52,361</u>	<u>(61,554)</u>	<u>(9,193)</u>
<b>OTHER FINANCING SOURCE</b>			
Proceeds from debt financing	39,266	21,131	60,397
Net other financing sources and uses	<u>39,266</u>	<u>21,131</u>	<u>60,397</u>
Net change in fund balance	91,627	(40,423)	51,204
<b>Fund balance, beginning</b>	85,450	268,188	353,638
<b>Fund balance, ending</b>	<u>\$ 177,077</u>	<u>\$ 227,765</u>	<u>\$ 404,842</u>



**City of Priest River Idaho**     *Statement of revenues and expenditures  
budget and actual  
Governmental Funds*

Year ended September 30, 2016

<i><b>General Fund</b></i>	<u>Actual</u>	<u>Original budget</u>	<u>Revised budget</u>	<u>Variance</u>
<b>EXPENDITURES:</b>				
Total expenditures	785,678	775,897	775,897	(9,781)
 <i><b>Street fund</b></i>				
<b>EXPENDITURES:</b>				
Total expenditures	434,829	350,079	420,079	(14,750)

The original budget that was adopted in August 2015 was opened in September 2016 to revise the Street fund expenditures.

# City of Priest River Idaho

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

<b>Total fund balance--governmental funds</b>	\$ 404,842
<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	3,787,883
GASB 68 pension liabilities	
Net pension liability	(286,063)
Deferred inflows of resources	(93,559)
Deferred outflows of resources	167,407
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	44,501
Compensated absences that are not due in the current period and not reported in the fund basis accounting	(40,326)
Liabilities are not due and payable in the current period and accordingly are not reported in the funds	(42,517)
<b>Net position of governmental activities</b>	<u>\$ 3,942,167</u>

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

<i>Amounts reported for governmental activities in the statements of net assets are different because:</i>	
<b>Total changes in fund balances for the year ended</b>	51,204
Capital outlay	194,207
Depreciation expense	(204,133)
Debt principal payments	25,048
Change in compensated absence	(2,927)
Difference between property tax and special assessment revenue on modified accrual (governmental) basis versus tax revenue on a full accrual basis	(2,172)
Gain of sale of assets	1,674
Proceeds from debt financing recorded as income in the fund statements	(60,397)
Pension expense relating to net pension liability	5,488
Other	1,548
<b>Change in net position of governmental activities</b>	<u>\$ 9,540</u>

**City of Priest River  
Idaho**

***Combining statements of net position  
All proprietary funds  
September 30, 2016***

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash	\$ (68,075)	\$ 290,929	\$ 222,854
Restricted cash	114,030	230,337	344,367
Accounts receivable	41,865	50,896	92,761
Capital grant receivable	88,205	-	88,205
Prepaid expense	7,729	10,958	18,687
Total current assets	<u>183,754</u>	<u>583,120</u>	<u>766,874</u>
Noncurrent assets			
Due from wastewater fund	-	16,116	16,116
Property and equipment, net of depreciation	3,183,475	6,378,219	9,561,694
Total noncurrent assets	<u>3,183,475</u>	<u>6,394,335</u>	<u>9,577,810</u>
	<u>3,367,229</u>	<u>6,977,455</u>	<u>10,344,684</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension obligations	44,082	43,317	87,399
Total deferred outflows of resources	<u>44,082</u>	<u>43,317</u>	<u>87,399</u>
	<u>\$ 3,411,311</u>	<u>\$ 7,020,772</u>	<u>\$ 10,432,083</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 97,373	\$ 16,150	\$ 113,523
Accrued payroll and benefits	5,115	5,284	10,399
Accrued interest payable	4,671	39,810	44,481
Current portion of long term debt	48,550	92,768	141,318
Total current liabilities	<u>155,709</u>	<u>154,012</u>	<u>309,721</u>
Non-current liabilities			
Long term debt	597,912	3,257,883	3,855,795
Due to wastewater fund	16,116	-	16,116
Compensated absences	8,917	8,917	17,834
Net Pension Liability	75,325	74,019	149,344
Total non-current liabilities	<u>698,270</u>	<u>3,340,819</u>	<u>4,039,089</u>
Total liabilities	<u>853,979</u>	<u>3,494,831</u>	<u>4,348,810</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension obligations	24,636	24,209	48,845
Total deferred inflows of resources	<u>24,636</u>	<u>24,209</u>	<u>48,845</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	2,537,013	3,027,568	5,564,581
Restricted	114,030	230,337	344,367
Unrestricted	(118,347)	243,827	125,480
Total net position	<u>2,532,696</u>	<u>3,501,732</u>	<u>6,034,428</u>
	<u>\$ 3,411,311</u>	<u>\$ 7,020,772</u>	<u>\$ 10,432,083</u>

**City of Priest River  
Idaho**

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

**Year ended September 30, 2016**

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Capital Total</u>
<b>OPERATING REVENUE</b>			
Charges for services	\$ 481,256	\$ 549,854	\$ 1,031,110
Total revenue	<u>481,256</u>	<u>549,854</u>	<u>1,031,110</u>
<b>OPERATING EXPENSE</b>			
Wages and burden	160,970	160,929	321,899
Depreciation	94,666	127,885	222,551
Utilities	39,253	42,188	81,441
Other	72,976	72,810	145,786
Maintenance	71,957	107,195	179,152
Total expense	<u>439,822</u>	<u>511,007</u>	<u>950,829</u>
<b>Income from operations</b>	<u>41,434</u>	<u>38,847</u>	<u>80,281</u>
<b>NON OPERATING REVENUE (EXPENSE)</b>			
Interest income	-	1,098	1,098
Sale of property	45,061	-	45,061
Capital grant revenue	343,453	-	343,453
Interest expense	(30,561)	(95,430)	(125,991)
Total non-operating revenue (expense)	<u>357,953</u>	<u>(94,332)</u>	<u>263,621</u>
Change in net assets	<u>399,387</u>	<u>(55,485)</u>	<u>343,902</u>
<b>NET POSITION BEGINNING</b>	2,133,309	3,557,217	5,690,526
<b>NET POSITION ENDING</b>	<u>\$ 2,532,696</u>	<u>\$ 3,501,732</u>	<u>\$ 6,034,428</u>

**City of Priest River  
Idaho**

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

**Year ended September 30, 2016**

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 481,079	\$ 547,061	\$ 1,028,140
Payments to suppliers	(103,667)	(225,590)	(329,257)
Payments to employees and related costs	(155,387)	(160,295)	(315,682)
Net cash provided (used)	<u>222,025</u>	<u>161,176</u>	<u>383,201</u>
<b>CASH FLOW USED BY NONCAPITAL FINANCING ACTIVITY</b>			
Repayment to other fund	<u>(106,509)</u>	106,509	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from sale of property	45,061	-	45,061
Repayment of loan principal	(24,840)	(86,314)	(111,154)
Cash paid for interest	(30,854)	(96,470)	(127,324)
Capital grant proceeds	256,954	-	256,954
Acquisition and construction of capital assets	(398,149)	(15,858)	(414,007)
Net cash provided (used)	<u>(151,828)</u>	<u>(198,642)</u>	<u>(350,470)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	-	1,098	1,098
Net cash provided (used)	<u>-</u>	<u>1,098</u>	<u>1,098</u>
Net increase (decrease) in cash	(36,312)	70,141	33,829
<b>Cash at beginning of year</b>	82,267	451,125	533,392
<b>Cash at end of year</b>	<u>\$ 45,955</u>	<u>\$ 521,266</u>	<u>\$ 567,221</u>
<b>RECONCILIATION OF OPERATING INCOME</b>			
<b>(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Net income (loss) from operations	41,434	38,847	80,281
Adjustments to reconcile net income to cash provided by operations:			
Depreciation	94,666	127,885	222,551
GASB 68 pension expense	3,528	5,752	9,280
Changes in operating assets and liabilities:			
Accounts receivable	(177)	(2,793)	(2,970)
Prepaid expense	(3,746)	(3,848)	(7,594)
Accounts payable	86,320	(4,667)	81,653
Net cash provided (used) by operations	<u>\$ 222,025</u>	<u>\$ 161,176</u>	<u>\$ 383,201</u>
<b>Other cash flow information</b>			
Cash paid for interest	\$ 30,854	\$ 96,470	\$ 127,324

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

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**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.

The 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**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

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 Wastewater 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**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

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**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

**Proprietary Funds**

The Wastewater 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 2016. The cash amounts invested with the State Investment Pool are fully collateralized by investments held in the Pool's name. The City has overnight availability to those funds.

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 City 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 City'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 property located in the City.

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

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

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 City 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 Position. 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**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

**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 Position.

**Fund Equity**

Government-wide statements

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

- Net investment in capital assets - 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**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

*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 non-appropriation 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**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

*Pensions*

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2 – DETAILED NOTES ON ALL FUNDS**

**Cash**

The City's cash is on deposit with FDIC insured 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, 2016 was \$935,537 and the bank and state pool balances totaled \$977,896. The differences between the book carrying amounts and the bank balances are checks and deposits not yet clearing the banks as of September 30, 2016.

**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, 2015	Additions	Disposals	Transfers	Balance at Sept 30, 2016
Land-nondepreciable	\$134,048	\$ 13,000	\$ -	\$ -	\$147,048
Buildings	1,064,787	24,471	-	-	1,089,258
Machinery and Equipment	875,936	61,642	26,225	-	911,353
Infrastructure	5,701,615	108,094	94,063	-	5,715,646
Total	7,776,386	207,207	120,288	-	7,863,304
Accumulated depreciation	(3,897,511)	(204,134)	26,225	-	(4,075,421)
Governmental activities- Capital assets, net	\$ 3,878,874				\$3,787,883

**Capital asset activity for business-type activities**

	Balance at Sept 30, 2015	Additions	Disposals	Transfers	Balance at Sept 30, 2016
Land-nondepreciable	\$ 123,481	\$ -	\$ -	\$ -	\$ 123,481
Buildings	6,951,316	226,750	-	-	7,178,066
Machinery and Equipment	281,279	30,187	-	-	311,466
Systems	4,610,030	157,068	-	-	4,737,098
Total	11,966,106	414,005	-	-	12,380,111
Accumulated depreciation	(2,595,866)	(222,551)	-	-	(2,818,417)
Business type activities- Capital assets, net	\$ 9,370,240				\$ 9,561,694

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

**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

**Long-term debt**

**Changes in long-term debt**

	<u>Balance at Sept 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at Sept 30, 2016</u>
<b><i>Governmental Activities:</i></b>				
John Deere lease-50% street	\$ 5,342	-	(5,342)	\$ -
PNC lease-43.4% general	-	39,267	(11,715)	27,551
PNC lease-23.3% street	-	21,131	(6,165)	14,967
Total governmental activities	<u>\$ 5,342</u>	<u>60,398</u>	<u>(23,222)</u>	<u>\$ 42,517</u>
<b><i>Business-type activities:</i></b>				
Sewer revenue bond of 2001	\$ 671,303		(39,806)	\$ 631,496
USDA-Water revenue bond	3,431,624		(87,386)	3,344,236
John Deere Financial-50% water	5,342		(5,342)	-
PNC lease-10% water	-	9,056	(2,642)	6,414
PNC lease-23.3% wastewater	-	21,131	(6,165)	14,967
Total business-type activities	<u>\$ 4,108,269</u>	<u>30,188</u>	<u>(141,340)</u>	<u>\$ 3,997,113</u>

Governmental fund compensated absences were \$40,326 as September 30, 2016.

**Governmental & Enterprise Fund Debt**

There are two obligations payable at September 30, 2016:

- PNC lease-the assets (skid steer and police car) and the lease obligation was split; 43.4% general; 23.3% street; 10% water; 23.3% wastewater, payable in three annual installments, including interest at 3.47%, starting November 2015.
- John Deere Financial lease-the asset and lease obligation was split 50% street; 50% water, payable in annual installments, including interest at 4.55% was paid for in complete during the year ending September 30, 2016.

**Enterprise Fund Debt**

Bonds payable at September 30, 2016, are comprised of the following issues:

- Sewer Revenue Bonds of 2001 \$631,496, payable in annual installments of \$70,015, including interest of 4.5%.
- USDA-water revenue bond for water system improvements - \$3,344,236. 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.

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.

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

Governmental fund debt service requirements to maturity are as follows:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2017	20,164	1,137	22,353
2018	20,761	444	1,592
2019	1,592	5	-

Enterprise fund debt service requirements to maturity are as follows:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2017	141,317	121,082	3,844,348
2018	146,106	116,265	3,708,619
2019	141,100	111,554	3,568,397
2020	144,873	106,898	3,423,524
2021	149,687	102,083	3,273,837
2022-26	826,829	432,029	2,447,008
2027-31	742,483	294,551	1,704,525
2032-36	712,534	196,245	991,991
2037-41	816,046	92,765	175,945
2042	175,945	4,765	-

**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. The balance as of September 30, 2016 was \$16,116.

**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.



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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

**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.

**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 2015 the City committed to pay any ongoing maintenance costs associated with the former landfill site. The amount paid during the year ended September 30, 2016 was \$787. The City cannot reasonably estimate the cost of future year maintenance.

**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 that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. 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. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

In June 2012, the Governmental Accounting Standards Board (GASB) issued new public pension accounting rules (GASB Statement No. 68) that take effect for fiscal years beginning after June 15, 2014. GASB 68 significantly changes how Cities measure and report the long-term obligations and annual costs associated with pension benefits they provide. The new requirements do not change the actual pension liability or funding and contribution amounts; they only change where and how pension costs are accounted for in financial statements. Based on the new rules, the City will report a Net Pension Liability of \$435,407 for the year ended September 30, 2016. Net Pension Liability is allocated to both governmental and propriety funds as follows: General \$235,120; Street \$50,943; Water \$74,019; Wastewater \$75,325.

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

*Plan Description*

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

*Pension Benefits*

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

*Member and Employer Contributions*

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2016 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% general employees and 11.66% for police and firefighters. The City's contributions were \$71,111 for the year ended June 30, 2016.

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

*Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At September 30, 2016 the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the City's proportion was 0.02014788 percent.

For the year ended September 30, 2016 the City recognized pension expense (revenue) of \$76,440. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	211,922	43,384
Changes in assumptions or other inputs	9,679	-
Net difference between projected and actual earnings on pension plan investments	-	99,020
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	15,728	-
District contributions subsequent to the measurement date	<u>17,477</u>	-
<b>Total</b>	<b><u>\$254,806</u></b>	<b><u>\$142,404</u></b>

\$17,477 reported as deferred outflow of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2017.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2015 the beginning of the measurement period ended June 30, 2016 is 4.9 years and 5.5 years for the measurement period June 30, 2015.

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended September 30:	
2017	(136)
2018	(136)
2019	49,540
2020	27,888
2021	-

*Actuarial Assumptions*

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25 – 10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System’s asset allocation. The assumptions and the System’s formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System’s assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

**Capital Market Assumptions**

<b>Asset Class</b>	<b>Expected Return</b>	<b>Expected Risk</b>	<b>Strategic Normal</b>	<b>Strategic Ranges</b>
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	0.90%	0%	0% - 5%
<b>Total Fund</b>	<b>Expected Return</b>	<b>Expected Inflation</b>	<b>Expected Real Return</b>	<b>Expected Risk</b>
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

\* Expected arithmetic return net of fees and expenses

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

Actuarial Assumptions

Assumed Inflation - Standard Deviation	3.25%
Portfolio Arithmetic Mean Return	2.00%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	<u>0.40%</u>
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.10%

*Discount Rate*

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

*Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate*

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	\$854,116	\$435,407	\$86,347

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

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

*Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

*Payables to the pension plan*

At September 30, 2016 the City reported payables to the defined benefit pension plan of \$0 for legally required employer contributions and \$0 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

*City contributions to pension plan*

During the years ended September 30, 2016, September 30, 2015, and September 30, 2014 the City made contributions of \$73,084, \$66,468, and \$65,504 to the plan respectively.

**Prior Period Adjustment**

During the course of the current audit, we noted that general fund land in the amount of \$80,137 was double counted as both land and a depreciable asset. This error has been corrected by reducing both Property and equipment, net of depreciation and Net position by \$81,037.

**Subsequent Events**

Voters have approved a \$2.65 million bond to partially fund an upgrade to the wastewater treatment plant that has a total cost of \$3.27million. The different between the bond and the expected costs are to be made up with grants. The project is expected to be started in the spring of 2017 and finished in the fall of 2017.

On November 7, 2016 the City committed cash funds of \$148,037 and in-kind contributions of \$41,179 in relation to a \$500,000 Idaho Community Development Block Grant. If the grant is awarded, the commitment to expend the cash and in-kind contributions will be binding.

On December 15, 2016 the City purchased land for \$20,000 to be used as a parking lot.

Subsequent events have been evaluated through December 23, 2016.



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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, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 23, 2016.

**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  
Sandpoint, Idaho  
December 23, 2016

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.

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.

**CITY OF PRIEST RIVER  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Employer's Share of Net Pension Liability  
PERSI – Base Plan  
Last 10 – Fiscal Years \***

	2016	2015
Employer's portion of net the pension liability	0.0214788%	0.0205160%
Employer's proportionate share of the net pension liability	\$435,408	\$254,220
Employer's covered-employee payroll	\$641,885	\$589,637
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	67.83%	43.11%
Plan fiduciary net position as a percentage of the total pension	87.26%	91.38%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of June 30, 2016

**Schedule of Employer Contributions  
PERSI – Base Plan Last 10 – Fiscal Years \***

	2016	2015
Statutorily required contribution	\$73,467	\$68,026
Contributions in relation to the statutorily required contribution	(73,084)	(66,468)
Contribution (deficiency) excess	383	1,558
Employer's covered-employee payroll	641,855	594,199
Contributions as a percentage of covered-employee payroll	11.39%	11.19%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of September 30, 2016.