

City of Priest River

FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(WITH INDEPENDENT AUDITORS' REPORT)

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INDEPENDENT AUDITORS' 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, 2018, 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 audits 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof 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 36, 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.

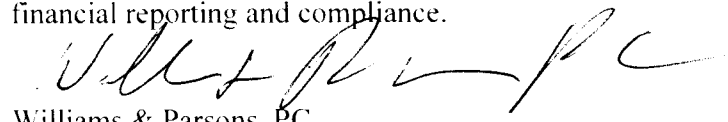
Management has omitted Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Priest River's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing

standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 2019, 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
May 28, 2019

**City of Priest River
Idaho**

Statements of net position

September 30, 2018

	Governmental activities	Business type activities	Total
ASSETS			
Current assets			
Cash	\$ 632,822	\$ 48,150	\$ 680,972
Restricted cash	-	312,146	312,146
Taxes receivable	52,707	-	52,707
Accounts receivable	168,468	162,984	331,452
Prepaid items	28,566	19,067	47,633
Grant receivable	179,762	-	179,762
Property and equipment, net of depreciation	4,263,023	12,448,944	16,711,967
Total assets	<u>5,325,348</u>	<u>12,991,291</u>	<u>18,316,639</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension obligations	43,534	23,276	66,810
Total deferred outflows of resources	<u>43,534</u>	<u>23,276</u>	<u>66,810</u>
	<u>\$ 5,368,882</u>	<u>\$ 13,014,567</u>	<u>\$ 18,383,449</u>
LIABILITIES			
Current liabilities			
Accounts payable	216,732	84,358	301,090
Accrued payroll and burden	25,752	11,256	37,008
Accrued interest payable	-	76,594	76,594
Current portion of long term debt	24,267	141,389	165,656
Non-current liabilities			
Long term debt	227,221	6,205,331	6,432,552
Compensated absences	60,204	23,773	83,977
Net pension liability	211,937	113,311	325,248
Total liabilities	<u>766,113</u>	<u>6,656,012</u>	<u>7,422,125</u>
DEFERRED INFLOWS OF RESOURCES			
Pension obligations	39,554	21,147	60,701
Total deferred inflows of resources	<u>39,554</u>	<u>21,147</u>	<u>60,701</u>
NET POSITION			
Net investment in capital assets	4,011,535	6,102,224	10,113,759
Restricted net position spendable	-	312,146	312,146
Restricted net position non-expendable	28,566	-	28,566
Unassigned net position	523,114	(76,962)	446,152
Total net position	<u>4,563,215</u>	<u>6,337,408</u>	<u>10,900,623</u>
	<u>\$ 5,368,882</u>	<u>\$ 13,014,567</u>	<u>\$ 18,383,449</u>

City of Priest River *Statement of activities*
Idaho

Year ended September 30, 2018

			Program revenues		Net		Total
	Expenses	Charges for service	Operating grants	Capital grants	Governmental activities	Business activities	
Functions/programs							
<i>Governmental activities:</i>							
General government	\$ 298,892	\$ 122,404	\$ -	\$ -	\$ (176,488)		\$ (176,488)
Streets	411,354	38,305	-	342,706	(30,343)		(30,343)
Public safety	485,752	10,999	-	68,329	(406,424)		(406,424)
Parks and recreation	31,076	-	-	-	(31,076)		(31,076)
Total governmental activity	<u>1,227,074</u>	<u>171,708</u>	<u>-</u>	<u>411,035</u>	<u>(644,341)</u>		
<i>Business type activities:</i>							
Wastewater	484,020	515,814		140,145		171,939	171,939
Water	608,795	600,912		-		(7,883)	(7,883)
	<u>1,092,815</u>	<u>1,116,726</u>		<u>140,145</u>		<u>164,056</u>	<u>(480,276)</u>
General revenues							
					840,698		840,698
					320,634		320,634
					6,959	2,305	9,264
					<u>1,168,291</u>	<u>2,305</u>	<u>1,170,596</u>
					523,950	166,361	690,311
					<u>4,039,265</u>	<u>6,171,047</u>	<u>10,210,312</u>
					<u>\$ 4,563,215</u>	<u>\$ 6,337,408</u>	<u>\$ 10,900,623</u>

**City of Priest River
Idaho**

Balance sheet-governmental funds

September 30, 2018

	General fund	Street fund	Total
ASSETS			
Cash	\$ 473,707	\$ 159,115	\$ 632,822
Taxes receivable	36,895	15,812	52,707
Accounts receivable	41,369	127,099	168,468
Prepaid items	21,704	6,862	28,566
Grant receivable	-	179,762	179,762
Assessment receivable	-	-	-
Total assets	<u>\$ 573,675</u>	<u>\$ 488,650</u>	<u>\$ 1,062,325</u>
LIABILITIES			
Accounts payable	\$ 20,276	\$ 196,456	216,732
Accrued payroll and burden	20,635	5,117	25,752
Bond	-	-	-
Total liabilities	<u>40,911</u>	<u>201,573</u>	<u>242,484</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	<u>34,364</u>	<u>15,113</u>	<u>49,477</u>
FUND BALANCES			
Non-spendable	21,704	6,862	28,566
Unreserved	<u>476,696</u>	<u>265,102</u>	<u>741,798</u>
Total fund balances	<u>498,400</u>	<u>271,964</u>	<u>770,364</u>
	<u>\$ 573,675</u>	<u>\$ 488,650</u>	<u>\$ 1,062,325</u>

**City of Priest River
Idaho**

***Statement of revenues, expenditures
and changes in fund balance-
governmental funds***

Year ended September 30, 2018

	General fund	Street fund	Total
REVENUE			
Property taxes	\$ 573,041	\$ 267,657	\$ 840,698
Transfers from state government	181,319	139,315	320,634
User fees and charges	74,048	450	74,498
Capital grant	68,329	342,706	411,035
Fines	10,999	-	10,999
Franchise fees	6,604	27,296	33,900
Other	14,006	38,305	52,311
Investment earnings	2,628	4,331	6,959
Total revenue	<u>930,974</u>	<u>820,060</u>	<u>1,751,034</u>
EXPENDITURES			
General government	146,481	-	146,481
Police	463,396	-	463,396
Highways and streets	-	264,399	264,399
Recreation	23,717	-	23,717
Code enforcement	45,332	-	45,332
Building and zoning	69,110	-	69,110
Capital outlay	122,014	460,999	583,013
Debt service:			
Principal	13,678	7,197	20,875
Interest	298	157	455
Total expenditures	<u>884,026</u>	<u>732,752</u>	<u>1,616,778</u>
Excess (deficiency) of revenues over expenditures	<u>46,948</u>	<u>87,308</u>	<u>134,256</u>
OTHER FINANCING SOURCE			
Proceeds from debt financing	250,000	-	250,000
Net other financing sources and uses	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Net change in fund balance	296,948	87,308	384,256
Fund balance, beginning	201,452	184,656	386,108
Fund balance, ending	<u>\$ 498,400</u>	<u>\$ 271,964</u>	<u>\$ 770,364</u>

**City of Priest River
Idaho**

***Statement of revenues and expenditures,
budget and actual-
governmental funds***

Year ended September 30, 2018

General fund

EXPENDITURES:

	<u>Actual</u>	<u>Original and final budget</u>	<u>Variance</u>
Total expenditures	884,026	1,335,482	-451,456

Street fund

EXPENDITURES:

Total expenditures	732,752	1,736,845	1,004,093
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Total governmental fund expenditures

1,616,778	3,072,327	1,455,549
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The original budget that was adopted in August 2017 was not revised during the year.

**City of Priest River
Idaho**

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

Total fund balance-governmental funds	\$ 770,364
<i>Amounts reported for governmental activities in the statements of net position 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	4,263,023
GASB 68 pension liabilities	
Net pension liability	(211,937)
Deferred inflows of resources	(39,554)
Deferred outflows of resources	43,534
Amount of tax and special assessment receivable that is not available to pay current period expenditures: these amounts are deferred in the funds	49,477
Compensated absences that are not due in the current period and not reported in the fund basis accounting	(60,204)
Liabilities are not due and payable in the current period and accordingly are not reported in the funds	(251,488)
Net position of governmental activities	<u>\$ 4,563,215</u>

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

<i>Amounts reported for governmental activities in the statements of net position are different because:</i>	
Total changes in fund balances for the year ended	384,256
Capital outlay	583,013
Depreciation expense	(210,267)
Debt principal payments	20,875
Change in compensated absence	(10,121)
Difference between property tax and special assessment revenue on modified accrual (governmental) basis versus tax revenue on a full accrual basis	13,685
Proceeds from debt financing recorded as income in the fund statements	(250,000)
Pension expense relating to net pension liability	(7,482)
Change in net position of governmental activities	<u>\$ 523,950</u>

**City of Priest River
Idaho**

***Combining statements of net position-
all proprietary funds***

September 30, 2018

	Wastewater fund	Water fund	Total
ASSETS			
Current assets			
Cash	\$ (8,129)	\$ 56,279	\$ 48,150
Restricted cash - deposits & loan reserves	114,030	198,116	312,146
Accounts receivable	96,723	66,261	162,984
Prepaid expense	7,701	11,366	19,067
Total current assets	<u>210,325</u>	<u>332,022</u>	<u>542,347</u>
Noncurrent assets			
Property and equipment, net of depreciation	5,977,137	6,471,807	12,448,944
Total non-current assets	<u>5,977,137</u>	<u>6,471,807</u>	<u>12,448,944</u>
	<u>6,187,462</u>	<u>6,803,829</u>	<u>12,991,291</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension obligations	10,467	12,809	23,276
Total deferred outflows of resources	<u>10,467</u>	<u>12,809</u>	<u>23,276</u>
	<u>\$ 6,197,929</u>	<u>\$ 6,816,638</u>	<u>\$ 13,014,567</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 58,951	\$ 25,407	\$ 84,358
Accrued payroll and benefits	5,010	6,246	11,256
Accrued interest payable	38,948	37,646	76,594
Current portion of long term debt	46,243	95,146	141,389
Total current liabilities	<u>149,152</u>	<u>164,445</u>	<u>313,597</u>
Non-current liabilities			
Long term debt	3,137,936	3,067,395	6,205,331
Compensated absences	10,945	12,828	23,773
Net pension liability	50,953	62,358	113,311
Total non-current liabilities	<u>3,199,834</u>	<u>3,142,581</u>	<u>6,342,415</u>
Total liabilities	<u>3,348,986</u>	<u>3,307,026</u>	<u>6,656,012</u>
DEFERRED INFLOWS OF RESOURCES			
Pension obligations	9,510	11,637	21,147
Total deferred inflows of resources	<u>9,510</u>	<u>11,637</u>	<u>21,147</u>
NET POSITION			
Invested in capital assets, net of related debt	2,792,958	3,309,266	6,102,224
Restricted	114,030	198,116	312,146
Unrestricted	(67,555)	(9,407)	(76,962)
Total net position	<u>2,839,433</u>	<u>3,497,975</u>	<u>6,337,408</u>
	<u>\$ 6,197,929</u>	<u>\$ 6,816,638</u>	<u>\$ 13,014,567</u>

**City of Priest River
Idaho**

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

Year ended September 30, 2018

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Capital Total</u>
OPERATING REVENUE			
Charges for services	\$ 515,814	\$ 600,912	\$ 1,116,726
Total revenue	<u>515,814</u>	<u>600,912</u>	<u>1,116,726</u>
OPERATING EXPENSE			
Wages and burden	154,348	195,525	349,873
Depreciation	95,422	134,021	229,443
Utilities	48,885	64,153	113,038
Other	52,216	66,194	118,410
Maintenance	107,157	60,435	167,592
Total expense	<u>458,028</u>	<u>520,328</u>	<u>978,356</u>
Income from operations	<u>57,786</u>	<u>80,584</u>	<u>138,370</u>
NON-OPERATING REVENUE (EXPENSE)			
Interest income	-	2,305	2,305
Interest expense	(25,992)	(88,467)	(114,459)
Total non-operating revenue (expense)	<u>(25,992)</u>	<u>(86,162)</u>	<u>(112,154)</u>
CAPITAL GRANT REVENUE			
	140,145	-	140,145
Change in net assets	<u>171,939</u>	<u>(5,578)</u>	<u>166,361</u>
NET POSITION BEGINNING	2,667,494	3,503,553	6,171,047
NET POSITION ENDING	<u>\$ 2,839,433</u>	<u>\$ 3,497,975</u>	<u>\$ 6,337,408</u>

**City of Priest River
Idaho**

***Statements of cash flows-
all proprietary funds***

Year ended September 30, 2018

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 472,682	\$ 592,997	\$ 1,065,679
Payments to suppliers	(627,891)	(191,116)	(819,007)
Payments to employees and related costs	(160,564)	(193,203)	(353,767)
Net cash provided (used)	<u>(315,773)</u>	<u>208,678</u>	<u>(107,095)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Increase (decrease) of loan principal	2,494,595	(95,345)	2,399,250
Cash paid for interest	(25,992)	(89,562)	(115,554)
Capital grant proceeds	140,145	-	140,145
Acquisition and construction of capital assets	(2,251,489)	(35,182)	(2,286,671)
Net cash provided (used)	<u>357,259</u>	<u>(220,089)</u>	<u>137,170</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	-	2,305	2,305
Net cash provided (used)	<u>-</u>	<u>2,305</u>	<u>2,305</u>
Net increase (decrease) in cash	41,486	(9,106)	32,380
Cash at beginning of year	64,415	263,501	327,916
Cash at end of year	<u>\$ 105,901</u>	<u>\$ 254,395</u>	<u>\$ 360,296</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net income (loss) from operations	57,786	80,584	138,370
Adjustments to reconcile net income to cash provided by operations:			
Depreciation	95,422	134,021	229,443
GASB 68 pension expense	(6,145)	754	(5,391)
Changes in operating assets and liabilities:			
Accounts receivable	(43,132)	(7,915)	(51,047)
Prepaid expense	511	27	538
Accounts payable	(420,215)	1,207	(419,008)
Net cash provided (used) by operations	<u>\$ (315,773)</u>	<u>\$ 208,678</u>	<u>\$ (107,095)</u>
Other cash flow information			
Cash paid for interest	\$ 25,992	\$ 89,562	\$ 115,554

**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.

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**

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 interfund 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-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

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 2018. 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

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**

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.
- Unassigned 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-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:

- **Non-spendable:** 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

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, 2018 was \$993,118 and the bank and state pool balances totaled \$1,039,958. The differences between the book carrying amounts and the bank balances are checks and deposits not yet clearing the banks as of September 30, 2018.

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, 2017	Additions	Disposals	Transfers	Balance at Sept 30, 2018
Land-nondepreciable	\$167,048	\$ -	\$ -	\$ -	\$167,048
Buildings	1,089,258	-	-	-	1,089,258
Machinery and equipment	941,353	27,582	-	-	968,935
Infrastructure	5,988,857	555,430	-	-	6,544,287
Total	8,186,516	583,012	-	-	8,769,528
Accumulated depreciation	(4,296,238)	(210,267)	-	-	(4,506,505)
Governmental activities- Capital assets, net	<u>\$3,890,278</u>				<u>\$4,263,023</u>

Depreciation expense in government activities was \$210,267 for the year ended September 30, 2018.

Capital asset activity for business-type activities

	Balance at Sept 30, 2017	Additions	Disposals	Transfers	Balance at Sept 30, 2018
Land-nondepreciable	\$ 123,481	\$ -	\$ -	\$ -	\$ 123,481
Buildings	6,874,484	-	-	-	6,874,484
Machinery and equipment	316,835	5,269	-	-	322,104
Systems	6,083,781	2,315,554	-	-	8,399,294
Total	13,398,540	2,320,823	-	-	15,719,363
Accumulated depreciation	(3,041,062)	(229,443)	-	-	(3,270,419)
Business type activities- Capital assets, net	<u>\$ 10,357,478</u>				<u>\$ 12,448,944</u>

Depreciation expense in business-type activities was \$229,443 for the year ended September 30, 2018.

**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</u>			<u>Balance at</u>
<i>Governmental Activities:</i>	<u>Sept 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Sept 30, 2018</u>
Umpqua Loan	\$ -	\$ 250,000	-	\$ 250,000
PNC lease-43.4% general	14,339	-	(13,678)	661
PNC lease-23.3% street	8,014	-	(7,187)	827
Total governmental activities	\$ 22,353	\$ 250,000	(20,865)	\$ 251,488
<i>Business-type Activities:</i>				
Sewer Revenue Bond of 2001	\$ 589,898	-	(43,470)	\$ 546,428
USDA-Water revenue bond	3,254,447	-	(92,259)	3,162,188
INB interim financing #1	91,672	2,540,443	-	2,632,115
INB interim financing #2	-	4,820	-	4,820
PNC lease-10% water	3,435	-	(3,085)	350
PNC lease-23.3% wastewater	8,014	-	(7,195)	819
Total business-type activities	\$ 3,947,469	2,545,263	(146,009)	\$ 6,346,720

Governmental fund compensated absences were \$60,204 as of September 30, 2018.

Governmental Fund Debt

There is one existing debt obligation payable at September 30, 2018:

- 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. The final will be made in the year ending September 30, 2019.

There is one new debt obligation payable at September 30, 2018:

- During the year ended September 30, 2018 the City's general fund (via the Urban Renewal Agency) borrowed \$250,000 to help with a new downtown revitalization project. The loan with Umpqua Bank is to be paid over ten years at an interest rate of 4.43%.

Enterprise Fund Debt

Bonds payable at September 30, 2018, are comprised of the following issues:

- Sewer Revenue Bond of 2001 – original debt of \$1,140,300 payable in 30 annual installments of \$70,015, including interest of 4.5%.
- USDA-water revenue bond for water system improvements – original debt of \$3,680,000 payable in 30 annual installments of \$181,756, including interest of 2.75% started in April 2013.
- Interim financing with INB Bank (now First Interstate Bank) was established during the year ended September 30, 2016 to cover the wastewater treatment plant expansion until a voter-approved bond is fulfilled in December 2018. The maximum amount allowed is \$2,650,000 at an interest rate of 2.16%.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

- Additional interim financing with INB Bank (now First Interstate Bank) was established during the year ended September 30, 2018 to cover the wastewater treatment plant expansion until a voter-approved bond is fulfilled in December 2018. The maximum amount allowed is \$550,000 and is to be repaid in 2019 at an interest rate of 3.45%.

The City has entered into annually cancelable capital lease agreements (the balances are included in the above table of changes) 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>
2019	24,267	9,586	227,211
2020	22,551	9,818	204,660
2021	23,562	8,808	181,098
2022	24,617	7,753	156,481
2023	25,720	6,650	130,761
2024-28	130,761	14,906	-

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>
2019	141,389	170,888	6,205,331
2020	186,213	166,229	6,019,125
2021	191,958	160,485	5,827,167
2022	197,893	154,549	5,629,167
2023	204,026	148,416	5,425,247
2024-28	1,105,271	642,657	4,319,977
2029-33	920,993	491,143	3,398,983
2034-38	1,047,500	364,636	2,351,483
2039-43	1,003,931	220,637	1,347,553
2044-48	368,811	134,545	978,742
2049-53	412,212	91,144	566,530
2054-58	460,720	42,636	105,809
2059	105,809	2,215	-

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

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Interfund Balances

There were no interfund balances during the year ended September 30, 2018.

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 of 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 non-profit 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. There were no expenditures paid during the year ended September 30, 2018. 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

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

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

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 \$325,248 for the year ended September 30, 2018. Net Pension Liability is allocated to both governmental and propriety funds as follows: General \$168,284; Street \$43,653; Water \$62,359; Wastewater \$50,953.

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.

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.

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

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

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, 2018 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 \$80,310 for the year ended June 30, 2018.

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

At September 30, 2018 the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.0220506 percent.

For the year ended September 30, 2018 the City recognized pension expense (revenue) of \$83,123. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	24,564
Changes in assumptions or other inputs	21,164	-
Net difference between projected and actual earnings on pension plan investments	35,703	36,137
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	(8,646)	-
District contributions subsequent to the measurement date	<u>18,589</u>	-
Total	<u>\$66,810</u>	<u>\$60,701</u>

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

\$18,589 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, 2018.

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, 2017 the beginning of the measurement period ended June 30, 2018 is 4.9 years and 5.5 years for the measurement period June 30, 2018.

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:

2019	34,780
2020	11,457
2021	(18,311)
2022	1,995
2023	-

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, 2017 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

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

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

- 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, 2018 is based on the results of an actuarial valuation date of July 1, 2018.

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, 2017.

Capital Market Assumptions

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
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%
Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
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**

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Actuarial Assumptions

Assumed Inflation – Mean	3.25%
Assumed Inflation – Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
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)	\$814,175	\$325,250	\$(79,599)

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

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.

Payables to the pension plan

At September 30, 2018 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, 2018, September 30, 2017, September 30, 2016, and September 30, 2015 the City made contributions of \$81,032, \$78,071, \$73,084, and \$66,468 to the plan respectively.

Subsequent Events

Voters have approved a \$3.2 million bond to partially fund an upgrade to the wastewater treatment plant that has a total cost of \$6.2 million. The majority of the difference between the bond and the expected costs are to be made up with grants. The project began in 2017 and is expected to be completed in 2019. Interim financing is being provided by a bank with permanent financing coming from a USDA bond.

In 2019 the City is expected to complete a \$1,974,000 downtown revitalization project. The project will be funded by grants in the expected amount of \$1,587,000, with remaining funds being committed by the City and the Priest River Urban Renewal Agency (see Note 1).

The City has entered into an agreement with an engineer to assess solutions for a possibly failing one-million-gallon water storage tank. This potential issue is under preliminary investigation and no material financial commitments will be made until a full engineer's report is analyzed.

In 2019 the City is expected to complete a large sidewalk project along Highway 57 to the High School as well as a street realignment project. Total costs for these projects is anticipated to be approximately \$1,817,000 million. Remaining costs on the projects to be expended as of September 30, 2018 is approximately \$1,438,000. These projects are largely funded with federal grant funds passing through the Idaho Department of Transportation.

Subsequent events have been evaluated through May 28, 2019.



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

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, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated May 28, 2019.

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
May 28, 2019

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 findings

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.

See also the INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE that follows. That report does disclose a material weakness in internal control over compliance with federal regulations.

**CITY OF PRIEST RIVER
REQUIRED SUPPLEMENTARY INFORMATION**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's portion of the net pension liability	0.0220506%	0.0227466%	0.0214788%	0.0205160%
Employer's proportionate share of the net pension liability	\$325,250	\$357,537	\$435,408	\$254,220
Employer's covered-employee payroll	\$716,265	\$689,299	\$641,885	\$589,637
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	45.41%	51.87%	67.83%	43.11%
Plan fiduciary net position as a percentage of the total pension	91.69%	90.68%	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, 2018.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$81,032	\$78,071	\$73,467	\$68,026
Contributions in relation to the statutorily required contribution	(81,032)	(78,071)	(73,084)	(66,468)
Contribution (deficiency) excess	-	-	383	1,558
Employer's covered-employee payroll	716,265	689,299	641,855	594,199
Contributions as a percentage of covered-employee payroll	11.31%	11.33%	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, 2018.

City of Priest River
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended September 30, 2018

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass through Number</u>	<u>Federal Expenditures</u>
<u>Federal Highway Administration</u>			
Highway 57 sidewalk project. passing through from Idaho Department of Transportation	20.205		\$ 322,140
Wisconsin Street project. passing through from State of Idaho Local Highway Technical Assistance Council	20.205		20,566
<u>Department of Housing and Urban Development</u>			
Wastewater Project grant passing through from Idaho Community Block Grant Program	14.228		93,742
<u>United States Department of Agriculture--Rural Development</u>			
Wastewater project--Funds Drawn on Interim Loan	10.760		2,180,561
<u>Environmental Protection Agency</u>			
Drinking Water Planning Grant. Passing through from Idaho Department of Environmental Quality	66-468		11,538
Total Federal Expenditures			<u>\$ 2,628,547</u>

CITY OF PRIEST RIVER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Priest River (the Government's) under programs of the federal government for the year ended September 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Government.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

The Government has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through entity identifying numbers are presented where available.

NOTE 3: MATCHING REQUIREMENTS

Certain Federal programs require the Government to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Government has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Priest River's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Priest River's major federal programs for the year ended September 30, 2018. City of Priest River's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Priest River's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Priest River's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Priest River's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Priest River, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items

Report on Internal Control over Compliance

Management of the City of Priest River is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Priest River's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Priest River's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-1, which we consider to be a material weakness.

City of Priest River's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Priest River's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Williams & Parsons, PC". The signature is fluid and cursive, with a long horizontal stroke at the end.

Williams & Parsons, PC
Certified Public Accountants
Sandpoint, Idaho
May 28, 2019

CITY OF PRIEST RIVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified _____ yes x none reported
- Significant deficiency(ies) identified _____ yes x none reported

Noncompliance material to financial statements noted _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified x yes _____ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es) . _____ yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR-200.516(a) _____ yes x no

Identification of major programs:

Name of Federal Program or Cluster

United States Department of agriculture--Rural Development Loan
 CFDA Number 10-760

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee _____ yes x no

CITY OF PRIEST RIVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II - Findings – Financial Statement Audit

We noted no findings relating to the Financial Statement Audit which are required to be reported in accordance with generally accepted *Government Auditing Standards*.

Section III - Findings and Questioned Costs – Major Federal Award Programs Audit

We noted one material weakness in the City’s internal control over Federal Awards Programs, which are required to be reported in accordance with generally accepted *Government Auditing Standards*.

MATERIAL WEAKNESS

2018-1

Criteria – The City should adopt written policies, procedures and standards of conduct as required by the Uniform Guidance. Part of those policies would relate to monitoring procedures in regards to certified payrolls as required under the Davis-Bacon Act.

Condition – The city has not adopted written policies, procedures and standards of conduct referred to above. As a result of not having such a program the City failed to have a system in place monitor subcontractors compliance with certified payrolls as required under the Davis-Bacon Act.

Effect – Neither the City nor its contract engineers had a process to insure that the work was completed in compliance with the Davis-Bacon Act.

Cause – The City is a very small entity, without the staff training to provide the required oversight.

Recommendation – The City could work with consultants who are comfortable with federal funding requirements to insure that the City maintains adequate internal control over federal awards.

Section IV – Summary of Prior Year Audit Findings Relating to Federal Awards

No prior year audit findings relating to Federal Awards. The City has not been required to have a “Single Audit” for several years.

Views of responsible officials and planned corrective actions: *Before the end of fiscal year 2019, the City will adopt written policies and procedures as required by the uniform guidance related to its administration of federal grants. As part of those policies and procedures, the City will ensure the inclusion of reasonable internal control over all federal compliance requirements that could have a direct and material effect on each of its major federal programs. The City will implement those policies and procedures, and if necessary, engage qualified consultants to assist in the monitoring of federal grants.*