

City of Priest River

FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

(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, Idaho, as of and for the year ended September 30, 2021, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 of Priest River, Idaho, as of September 30, 2021, 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2022, on our consideration of the City of Priest River, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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, Idaho's internal control over financial reporting and compliance.

Williams & Schiller, PC
Certified Public Accountants
Sandpoint, Idaho
January 21, 2022

**City of Priest River
Idaho**

Statements of net position

September 30, 2021

	Governmental activities	Business type activities	Total
ASSETS			
Current assets			
Cash	\$ 915,135	\$ 456,540	\$ 1,371,675
Restricted cash	-	804,426	804,426
Taxes receivable	34,322	-	34,322
Accounts receivable	119,130	331,284	450,414
Prepaid items	28,114	17,999	46,113
Pension asset	11,414	5,534	16,948
Property and equipment, net of depreciation	6,434,300	14,868,182	21,302,482
Total assets	<u>7,542,415</u>	<u>16,483,965</u>	<u>24,026,380</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension obligations	170,384	71,681	242,065
Total deferred outflows of resources	<u>170,384</u>	<u>71,681</u>	<u>242,065</u>
	<u>\$ 7,712,799</u>	<u>\$ 16,555,646</u>	<u>\$ 24,268,445</u>
LIABILITIES			
Current liabilities			
Accounts payable	132,922	104,787	237,709
Accrued payroll and burden	44,791	18,018	62,809
Accrued interest payable	-	90,372	90,372
Bond deposit payable	33,377	-	33,377
Current portion of long term debt	18,997	254,669	273,666
Non-current liabilities			
Long term debt	129,150	6,603,367	6,732,517
Compensated absences	67,215	41,489	108,704
Total liabilities	<u>426,452</u>	<u>7,112,702</u>	<u>7,539,154</u>
DEFERRED INFLOWS OF RESOURCES			
Pension obligations	365,176	177,046	542,222
Total deferred inflows of resources	<u>365,176</u>	<u>177,046</u>	<u>542,222</u>
NET POSITION			
Net investment in capital assets	6,286,153	8,010,146	14,296,299
Restricted net position spendable	-	804,426	804,426
Restricted net position non-spendable	28,114	-	28,114
Unassigned net position	606,904	451,326	1,058,230
Total net position	<u>6,921,171</u>	<u>9,265,898</u>	<u>16,187,069</u>
	<u>\$ 7,712,799</u>	<u>\$ 16,555,646</u>	<u>\$ 24,268,445</u>

**City of Priest River
Idaho**

Statement of activities

Year ended September 30, 2021

	Program revenues			Net		Total	
	Expenses	Charges for service	Operating grants	Capital grants	Governmental activities		Business activities
Functions/programs							
<i>Governmental activities:</i>							
General government	\$ 330,772	\$ 190,423	\$ -	\$ -	\$ (140,349)	\$ (140,349)	
Streets	558,697	40,891	-	-	(517,806)	(517,806)	
Public safety	555,845	8,673	-	7,072	(540,100)	(540,100)	
Parks and recreation	67,690	-	-	-	(67,690)	(67,690)	
Total government activity	<u>1,513,004</u>	<u>239,987</u>	<u>-</u>	<u>7,072</u>	<u>(1,265,945)</u>		
<i>Business type activities:</i>							
Wastewater	637,330	776,979		483,533		623,182	
Water	657,855	839,526		217,871		399,542	
	<u>1,295,185</u>	<u>1,616,505</u>		<u>701,404</u>		<u>1,022,724</u>	
			General revenues				
			Property taxes		918,840		918,840
			Transfers from state government		734,379		734,379
			Donations		-		-
			Investment earnings		2,308	1,785	4,093
			Total general revenues		<u>1,655,527</u>	<u>1,785</u>	<u>1,657,312</u>
			Change in net position		<u>389,582</u>	<u>1,024,509</u>	<u>1,414,091</u>
			Net position beginning of period		<u>6,531,589</u>	<u>8,241,389</u>	<u>14,772,978</u>
			Net position end of period		<u>\$ 6,921,171</u>	<u>\$ 9,265,898</u>	<u>\$ 16,187,069</u>

**City of Priest River
Idaho**

Balance sheet-governmental funds

September 30, 2021

	General fund	Street fund	Total
ASSETS			
Cash	\$ 586,082	\$ 329,053	\$ 915,135
Taxes receivable	25,742	8,580	34,322
Accounts receivable	69,395	49,735	119,130
Prepaid items	20,401	7,713	28,114
Total assets	<u>\$ 701,620</u>	<u>\$ 395,081</u>	<u>\$ 1,096,701</u>
LIABILITIES			
Accounts payable	\$ 26,196	\$ 106,726	132,922
Accrued payroll and burden	36,792	8,009	44,801
Bond	33,377	-	33,377
Total liabilities	<u>96,365</u>	<u>114,735</u>	<u>211,100</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	<u>21,924</u>	<u>7,308</u>	<u>29,232</u>
FUND BALANCES			
Non-spendable	20,401	7,713	28,114
Unreserved	562,930	265,325	828,255
Total fund balances	<u>583,331</u>	<u>273,038</u>	<u>856,369</u>
	<u>\$ 701,620</u>	<u>\$ 395,081</u>	<u>\$ 1,096,701</u>

**City of Priest River
Idaho**

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

Year ended September 30, 2021

	General fund	Street fund	Total
REVENUE			
Property taxes	\$ 664,560	\$ 254,280	\$ 918,840
Transfers from state government	309,413	424,966	734,379
User fees and charges	169,390	1,900	171,290
Capital grant	7,072	-	7,072
Fines	8,673	-	8,673
Franchise fees	4,916	28,631	33,547
Other	16,117	10,360	26,477
Investment earnings	961	1,347	2,308
Total revenue	<u>1,181,102</u>	<u>721,484</u>	<u>1,902,586</u>
EXPENDITURES			
General government	190,468	-	190,468
Police	517,906	-	517,906
Highways and streets	-	384,725	384,725
Recreation	65,683	-	65,683
Code enforcement	24,522	-	24,522
Building and zoning	119,948	-	119,948
Urban renewal	9,869	-	9,869
Capital outlay	7,977	657,898	665,875
Total expenditures	<u>936,373</u>	<u>1,042,623</u>	<u>1,978,996</u>
Excess (deficiency) of revenues over expenditures	<u>244,729</u>	<u>(321,139)</u>	<u>(76,410)</u>
OTHER FINANCING SOURCE			
Proceeds from debt financing	-	148,147	148,147
Net other financing sources and uses	<u>-</u>	<u>148,147</u>	<u>148,147</u>
Net change in fund balance	244,729	(172,992)	71,737
Fund balance, beginning	<u>338,602</u>	<u>446,030</u>	<u>784,632</u>
Fund balance, ending	<u>\$ 583,331</u>	<u>\$ 273,038</u>	<u>\$ 856,369</u>

See accountants' report and accompanying notes

**City of Priest River
Idaho**

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

Year ended September 30, 2021

	<u>Actual</u>	<u>Original and final budget</u>	<u>Variance</u>
<i>General fund</i>			
EXPENDITURES:			
Total expenditures	936,373	981,501	45,128
<i>Street fund</i>			
EXPENDITURES:			
Total expenditures	1,042,623	1,737,078	694,455
Total governmental fund expenditures	<u>1,978,996</u>	<u>2,718,579</u>	<u>739,583</u>

The budget as adopted 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	\$ 856,369
<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	6,434,300
GASB 68 pension liabilities	
Net pension asset	11,414
Deferred inflows of resources	(365,176)
Deferred outflows of resources	170,384
Amount of tax and special assessment receivable that is not available to pay current period expenditures; these amounts are deferred in the funds	29,232
Compensated absences that are not due in the current period and not reported in the fund basis accounting	(67,215)
Liabilities are not due and payable in the current period and accordingly, are not reported in the funds	(148,137)
Net position of governmental activities	<u>\$ 6,921,171</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	71,737
Capital outlay	665,875
Depreciation expense	(285,257)
Debt principal payments	-
Change in compensated absence	7,291
Difference between property tax and special assessment revenue on modified accrual (governmental) basis versus tax revenue on a full accrual basis	(3,562)
Proceeds from debt financing recorded as income in the fund statements	(148,147)
Pension expense relating to net pension liability	81,645
Change in net position of governmental activities	<u>\$ 389,582</u>

See accompanying notes to the financial statements.

**City of Priest River
Idaho**

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

September 30, 2021

	Waste water fund	Water fund	Total
ASSETS			
Current assets			
Cash	\$ 287,879	\$ 168,661	\$ 456,540
Restricted cash - deposits & loan reserves	385,857	418,569	804,426
Accounts receivable	163,489	167,795	331,284
Prepaid expense	7,132	10,867	17,999
Total current assets	<u>844,357</u>	<u>765,892</u>	<u>1,610,249</u>
Noncurrent assets			
Pension asset	2,522	3,012	5,534
Property and equipment, net of depreciation	8,249,553	6,618,629	14,868,182
Total non-current assets	<u>8,252,075</u>	<u>6,621,641</u>	<u>14,873,716</u>
	<u>9,096,432</u>	<u>7,387,533</u>	<u>16,483,965</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension obligations	<u>32,670</u>	<u>39,011</u>	<u>71,681</u>
Total deferred outflows of resources	<u>32,670</u>	<u>39,011</u>	<u>71,681</u>
	<u>\$ 9,129,102</u>	<u>\$ 7,426,544</u>	<u>\$ 16,555,646</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 21,797	\$ 82,990	\$ 104,787
Accrued payroll and benefits	8,124	9,894	18,018
Accrued interest payable	52,381	37,991	90,372
Current portion of long term debt	128,324	126,345	254,669
Total current liabilities	<u>210,626</u>	<u>257,220</u>	<u>467,846</u>
Non-current liabilities			
Long term debt	3,539,772	3,063,595	6,603,367
Compensated absences	17,618	23,871	41,489
Net pension liability	-	-	-
Total non-current liabilities	<u>3,557,390</u>	<u>3,087,466</u>	<u>6,644,856</u>
Total liabilities	<u>3,768,016</u>	<u>3,344,686</u>	<u>7,112,702</u>
DEFERRED INFLOWS OF RESOURCES			
Pension obligations	<u>80,691</u>	<u>96,355</u>	<u>177,046</u>
Total deferred inflows of resources	<u>80,691</u>	<u>96,355</u>	<u>177,046</u>
NET POSITION			
Invested in capital assets, net of related debt	4,581,457	3,428,689	8,010,146
Restricted	385,857	418,569	804,426
Unrestricted	313,081	138,245	451,326
Total net position	<u>5,280,395</u>	<u>3,985,503</u>	<u>9,265,898</u>
	<u>\$ 9,129,102</u>	<u>\$ 7,426,544</u>	<u>\$ 16,555,646</u>

See accountants' report and accompanying notes

**City of Priest River
Idaho**

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

Year ended September 30, 2021

	<u>Wastewater fund</u>	<u>Water fund</u>	<u>Proprietary Total</u>
OPERATING REVENUE			
Charges for services	\$ 633,229	\$ 728,036	\$ 1,361,265
Hook-up charges	143,750	111,490	255,240
Total revenue	<u>776,979</u>	<u>839,526</u>	<u>1,616,505</u>
OPERATING EXPENSE			
Wages and burden	154,433	184,338	338,771
Depreciation	164,041	138,602	302,643
Utilities	52,482	92,272	144,754
Other	115,776	71,319	187,095
Maintenance	61,870	87,340	149,210
Total expense	<u>548,602</u>	<u>573,871</u>	<u>1,122,473</u>
Income from operations	<u>228,377</u>	<u>265,655</u>	<u>494,032</u>
NON-OPERATING REVENUE (EXPENSE)			
Interest income	843	942	1,785
Capital grant revenue	483,533	217,871	701,404
Interest expense	(88,728)	(83,984)	(172,712)
Total non-operating revenue (expense)	<u>395,648</u>	<u>134,829</u>	<u>530,477</u>
Change in net assets	<u>624,025</u>	<u>400,484</u>	<u>1,024,509</u>
NET POSITION BEGINNING	<u>4,656,370</u>	<u>3,585,019</u>	<u>8,241,389</u>
NET POSITION ENDING	<u>\$ 5,280,395</u>	<u>\$ 3,985,503</u>	<u>\$ 9,265,898</u>

**City of Priest River
Idaho**

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

Year ended September 30, 2021

	<u>Waste water fund</u>	<u>Water fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 950,889	\$ 728,644	\$ 1,679,533
Payments to suppliers	(504,354)	(206,039)	(710,393)
Payments to employees and related costs	(171,644)	(198,567)	(370,211)
Net cash provided (used)	<u>274,891</u>	<u>324,038</u>	<u>598,929</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Increase (decrease) of loan principal	(107,610)	56,223	(51,387)
Cash paid for interest	(89,072)	(81,347)	(170,419)
Capital grant proceeds	483,533	217,871	701,404
Acquisition and construction of capital assets	(290,187)	(238,286)	(528,473)
Net cash provided (used)	<u>(3,336)</u>	<u>(45,539)</u>	<u>(48,875)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	843	942	1,785
Net cash provided (used)	<u>843</u>	<u>942</u>	<u>1,785</u>
Net increase (decrease) in cash	272,398	279,441	551,839
Cash at beginning of year	401,338	307,789	709,127
Cash at end of year	<u>\$ 673,736</u>	<u>\$ 587,230</u>	<u>\$ 1,260,966</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net income (loss) from operations	228,377	265,655	494,032
Adjustments to reconcile net income to cash provided by operations:			
Depreciation	164,041	138,602	302,643
GASB 68 pension expense	-	-	-
Changes in operating assets and liabilities:			
Accounts receivable	173,910	(110,882)	63,028
Prepaid expense	(521)	(561)	(1,082)
Accounts payable	(290,572)	28,587	(261,985)
Accrued interest payable	(344)	2,637	2,293
Net cash provided (used) by operations	<u>\$ 274,891</u>	<u>\$ 324,038</u>	<u>\$ 598,929</u>
Other cash flow information			
Cash paid for interest	\$ 89,072	\$ 81,347	\$ 170,419
Non cash activity			
Acquired equipment for a capital lease obligation	\$ 148,147	\$ 148,147	\$ 296,294
Noncash change in pension	\$ 41,438	\$ 17,673	\$ 59,111

See accountants' report and accompanying notes

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Priest River, Idaho (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, Idaho. 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, Idaho.

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 two individuals who are on the City Council and two others who are appointed by 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. Component unit financial statements may be obtained from 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. 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, streetlights, 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.
- **Unassigned:** amounts that are available for any purpose; these amounts are reported only in the general fund.

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, 2021 was \$2,176,102 and the bank and state pool balances totaled \$2,194,606. The differences between the book carrying amounts and the bank balances are checks and deposits not yet clearing the banks as of September 30, 2021.

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, 2020	Additions	Disposals	Balance at Sept 30, 2021
Land-nondepreciable	\$166,216	\$204,326	\$ -	\$370,542
Buildings	1,094,417	-	-	1,094,417
Machinery and equipment	1,043,734	192,717	-	1,236,451
Infrastructure	8,740,996	268,831	-	9,009,827
Total	11,045,363	665,874	-	11,711,237
Accumulated depreciation	(4,991,680)	(285,257)	-	(5,276,937)
Governmental activities- Capital assets, net	<u>\$6,053,683</u>			<u>\$6,434,300</u>

Infrastructure assets include \$388,388 of construction in progress which is not yet being depreciated.

Capital asset activity for business-type activities

	Balance at Sept 30, 2020	Additions	Disposals	Balance at Sept 30, 2021
Land-nondepreciable	\$ 123,481	\$ -	\$ -	\$ 123,481
Buildings	6,874,484	7,275	-	6,881,759
Machinery and equipment	360,044	296,251	-	656,295
Infrastructure	10,829,212	521,241	-	11,350,453
Total	18,187,221	824,767	-	19,011,988
Accumulated depreciation	(3,841,163)	(302,643)		(4,143,806)
Business type activities- Capital assets, net	<u>\$ 14,346,058</u>			<u>\$ 14,868,182</u>

Infrastructure assets include \$2,781,408 of construction in progress which is not yet being depreciated.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Long-Term Debt

<i>Governmental type activities</i>	Balance Sept 30, 2020	New debt	Repayments	Balance Sept 30, 2021
Vactor capital lease	\$ -	\$ 148,147	\$ -	\$ 148,147
Total governmental type activities	\$-	\$148,147	\$ -	\$ 148,147
<i>Business type activities</i>				
USDA 91-07	\$ 2,969,992	\$ -	\$ (100,081)	\$ 2,869,911
Excavator capital lease	31,155	-	(12,319)	18,836
Vactor capital lease	-	296,294	-	296,294
USDA 92-11	2,608,448	-	(42,487)	2,565,961
USDA Water Revenue bond	-	162,464	-	162,464
USDA 92-05	453,532	-	(49,606)	403,926
USDA 92-13	550,000	-	(9,356)	540,645
Total business type activities	\$6,613,127	\$458,758	\$ (213,848)	\$6,858,037

Governmental fund compensated absences were \$67,215 as of September 30, 2021.

Governmental Fund Debt

Debt obligations payable at September 30, 2021, are comprised of the following issues:

- During the year ended September 30, 2021, the City acquired a Vacuum truck at a total cost of \$444,441. The acquisition was financed by a capital lease arrangement requiring 7 annual payments of \$72,903, including interest at 3.58%. The lease is recorded as 1/3 the obligation of the Street Fund and 2/3 of the obligation of the Water and Wastewater Funds.

Enterprise Fund Debt

Bonds payable at September 30, 2021, are comprised of the following issues:

- Sewer Revenue Bond of 2001 (USDA 92-05) – original debt of \$1,140,300 payable in 30 annual installments of \$70,015, including interest of 4.5%.
- Water revenue bond (USDA 91-07) 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.
- Wastewater project 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. The maximum amount allowed is \$550,000 and is to be repaid upon completion at an interest rate of 3.65%. The maximum amount of the loan was drawn, then the loan was repaid with funds from the

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

USDA loan 92-13.

- Sewer Revenue Bond (USDA 92-11) – original debt of \$2,650,000 payable in 40 annual installments of \$101,170, including interest of 2.25%.
- Sewer Revenue Bond (USDA 92-13) – original debt of \$550,000 payable in 40 annual installments of \$19,668, including interest of 2.875%.
- Capital lease of an excavator—the original cost of the equipment was \$32,820 and is payable in 36 monthly payments of \$967, including interest of 4.10%. The equipment becomes the property of the City after all payments are made.
- During the year ended September 30, 2021, the City acquired a Vacuum truck at a total cost of \$444,441. The acquisition was financed by a capital lease arrangement requiring 7 annual payments of \$72,903, including interest at 3.58%. The lease is recorded as 1/3 the obligation of the Street Fund and 2/3 of the obligation of the Water and Wastewater Funds.

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.

Enterprise fund debt service requirements to maturity are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2022	\$256,333	\$180,697	\$6,603,367
2023	265,465	172,504	6,337,902
2024	263,658	164,307	6,074,244
2025	271,923	156,041	5,802,321
2026	80,466	147,498	5,521,854
2027-31	1,154,229	615,461	4,367,626
2032-36	1,071,736	475,004	3,295,890
2037-41	216,742	329,998	2,079,148
2042-46	622,959	195,781	1,456,189
2047-51	498,733	139,226	957,456
2052-56	556,476	81,483	400,980
2057-61	400,980	19,303	0

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, 2021.

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 entered into two compliance agreements with the Idaho Department of Environmental Quality in the spring of 2021. Both compliance agreements relate to the City's water system. The first compliance agreement relates to surface water discharge the City had uses to clean certain filters. The second agreement relates to the failure of the City's current water tank. The water tank has certain rust and structural issues, and the city's engineering contractor has determined that the best course of action is replacement of the existing tank.

The compliance agreements require the City to implement a system whereby water discharge will be run through the city sewer system, that upgrade is required to be completed by December 31, 2021. The City also agreed to replace the water tank by December 31, 2022.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

The total cost of the two projects, plus the installation of a generator at the water treatment plant and the replacement of a water main within the intersection of Wisconsin Street and Highway 2, is expected to be \$2,000,700. To provide funding for these two projects, the voters of the City approved a bond issue in the winter of 2020 in the amount of \$2,000,000. The city has also sought grant funding from the Idaho Department of Commerce through an Idaho Community Development Block Grant in the amount of \$500,000 for the completion of the two projects. The city expects to have the discharge related project completed in the near future, and to have the water tank project completed by October 2022.

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, 2021. 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.

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.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

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 74% for police and firefighters. As of June 30, 2021, it was 7.16% for general employees and 9.13% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.94% general employees and 12.28% for police and firefighters. The City's contributions were \$98,397 for the year ended September 30, 2021.

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

At September 30, 2021 the City reported an asset for its proportionate share of the net pension. The net pension asset was measured as of June 30, 2021, and the total pension asset 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 asset 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, 2021, the City's proportion was 0.0214610 percent.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

For the year ended September 30, 2021, the City recognized pension expense (revenue) of (\$3,536). At September 30, 2021, 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	\$24,973	\$9,852
Changes in assumptions or other inputs	194,558	-
Net difference between projected and actual earnings on pension plan investments	-	532,370
Changes in the employer’s proportion and differences between the employer’s contributions and the employer’s proportionate contributions	-	-
District contributions subsequent to the measurement date	22,534	-
Total	\$242,065	\$542,222

\$22,534 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, 2021.

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, 2021 the beginning of the measurement period ended June 30, 2020 is 4.7 and 4.6 for the measurement period June 30, 2021.

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:

2022	\$24,055
2023	31,261
2024	39,551
2025	3,107

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

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 asset in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%
Salary inflation	3.05%
Investment rate of return	6.35%, net of investment expenses
Cost-of-living adjustments	1%

Mortality rates

General Employees and All Beneficiaries - Males Pub-2010 General Tables, increased 11%.
General Employees and All Beneficiaries - Females Pub-2010 General Tables, increased 21%.
Teachers - Males Pub-2010 Teacher Tables, increased 12%.
Teachers - Females Pub-2010 Teacher Tables, increased 21%.

Fire & Police - Males Pub-2010 Safety Tables, increased 21%.
Fire & Police - Females Pub-2010 Safety Tables, increased 26%.
Disabled Members - Males Pub-2010 Disabled Tables, increased 38%.
Disabled Members - Females Pub-2010 Disabled Tables, increased 36%.

An experience study was performed for the period July 1, 2015 through June 30, 2020 which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2021 is based on the results of **an actuarial valuation date July 1, 2021.**

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

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. 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 PERSI'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 2021.

Capital Market Assumptions from Callan 2021

Asset Class	Target Allocation	Long-Term Expected Nominal Rate of Return (Arithmetic)	Long-Term Expected Real Rate of Return (Arithmetic)
Core Fixed Income	30.00%	1.80%	(0.20)%
Broad US Equities	55.00%	8.00%	6.00%
Developed Foreign Equities	15.00%	8.25%	6.25%
Assumed Inflation - Mean		2.00%	2.00%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.18%	4.18%
Portfolio Standard Deviation		12.29%	12.29%
Portfolio Long-Term (Geometric) Expected Rate of Return		5.55%	3.46%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.15%	3.06%

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Discount Rate

The discount rate used to measure the total pension liability was 7.05%. 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 7.05 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 (6.05 percent) or 1-percentage-point higher (8.05 percent) than the current rate:

	1% Decrease (5.35%)	Current Discount Rate (6.35%)	1% Increase (7.35%)
Employer's proportionate share of the net pension liability (asset)	(\$589,200)	(\$16,949)	\$513,822

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, 2021 the City reported payables to the defined benefit pension plan of \$3,473 αlegally required employer contributions and \$2,441 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

CITY OF PRIEST RIVER
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued

Subsequent Events

Since September 30, 2021, COVID has continued to impact many local economies around the globe. The City of Priest River, Idaho has not experienced significant financial impacts as a result of COVID-19. The City has experienced some state revenue sharing variances, but overall operations not affected materially. The duration and impact of the COVID-19 pandemic, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the City for future periods.

Subsequent events have been evaluated through January 21, 2022 which is the date the financial statements were available.



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, Idaho, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated January 21, 2022.

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 & Schiller, PC
Certified Public Accountants
Sandpoint, Idaho
January 21, 2022

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.

CITY OF PRIEST RIVER
REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Employer's portion of the net pension liability	0.0214610%	0.0206217%	0.0218684%	0.0220506%	0.0227466%	0.0214788%
Employer's proportionate share of the net pension liability	\$16,948	\$478,863	\$249,622	\$325,250	\$357,537	\$435,408
Employer's covered-employee payroll	\$818,119	\$750,561	\$749,388	\$716,265	\$689,299	\$641,885
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	(2%)	63.80%	33.31%	45.41%	51.87%	67.83%
Plan fiduciary net position as a percentage of the total pension	100.36	88.22%	93.79%	91.69%	90.68%	87.26%

* 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, 2021.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$98,397	\$90,456	\$85,705	\$81,032	\$78,071	\$73,467
Contributions in relation to the statutorily required contribution	(98,397)	(90,092)	(85,705)	(81,032)	(78,071)	(73,084)
Contribution (deficiency) excess	-	(364)	-	-	-	383
Employer's covered-employee payroll	818,119	750,561	749,388	716,265	689,299	641,855
Contributions as a percentage of covered-employee payroll	12.03%	12.00%	11.44%	11.31%	11.33%	11.39%

* 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, 2021.