

CITY OF SANDPOINT

FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

CITY OF SANDPOINT

September 30, 2014

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September 30, 2014

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council of the
City of Sandpoint
Sandpoint ID, 83864

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 unit, each major fund, and the aggregate remaining fund information of City of Sandpoint, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Sandpoint's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Sandpoint's 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Sandpoint Urban Renewal Agency which represent 100 percent, of the assets, net position and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sandpoint Urban Renewal Agency discretely presented component unit, is based solely on the report of the other auditors. 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.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

Opinions

In our opinion, based on our audit and the report of the other auditors, 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 unit, each major fund, and the aggregate remaining fund information of City of Sandpoint, as of September 30, 2014, 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 the management's discussion and required supplementary information, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sandpoint's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards 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. Such 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 February 17, 2015 on our consideration of City of Sandpoint'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 Sandpoint's internal control over financial reporting and compliance

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh, & Co., P.A.

February 17, 2015

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

As management of the City of Sandpoint, we offer readers of City of Sandpoint's financial statements this narrative overview and analysis of the financial activities of the City of Sandpoint for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the accompanying *Notes* which are a part of this audit report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Sandpoint exceeded its liabilities at the close of the most recent fiscal year by \$61,424,832. Of this amount \$12,784,265 represents the unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Sandpoint's total net position increased \$4,493,993. 70% of the increase is directly related to the multi-million dollar upgrade of the City's water treatment facilities. The remaining 30% is due to several capital projects that were not completed or delayed to the following construction season.
- As of the close of the current fiscal year, the City of Sandpoint's governmental funds reported combined fund balances of \$7,563,013, an increase of \$1,358,243 in comparison with the prior year. Approximately 58% of this amount (\$4,378,658) is available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$4,378,658, or approximately 63% of the total general fund expenditures.
- The City of Sandpoint's total outstanding long-term debt decreased by \$1,027,473 during the current fiscal year. This is due to satisfaction of a lease purchase and regularly schedule payments to reduce the city's bond indebtedness.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the City of Sandpoint's basic financial statements. The City of Sandpoint's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government wide financial statements* are designed to provide readers with a broad overview of the City of Sandpoint's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Sandpoint's assets and liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Sandpoint is improving or deteriorating.

The *statement of activities* presents information showing how the City of Sandpoint's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Both of the government-wide financial statements distinguish functions of the City of Sandpoint that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Sandpoint include general government, public safety, streets, the Bonner Business Center and culture, and recreation. The business-type activities of the City of Sandpoint include water treatment and distribution, sewage collection and treatment, sanitation and street lights.

The government-wide financial statements include not only the City of Sandpoint itself (known as the primary government) but also a legally separate urban renewal agency and a business improvement district for which the City of Sandpoint is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The Government-wide financial statement can be found on in the audit section of this report.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sandpoint, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sandpoint can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – *Governmental funds* are used to account for essentially the same functions as those reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for government activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City of Sandpoint maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and individual fund statements and schedules section of this report.

The City of Sandpoint adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 – 18 of this report.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Proprietary funds – The City of Sandpoint maintains four different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Sandpoint uses enterprise funds to account for its water and sewer operations, sanitation, street lights and bond payment fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer and bond payment funds, all of which are considered to be major funds of the City of Sandpoint. Data from the street lights and sanitation funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of these non-major proprietary funds is provided in the form of combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 23 – 28 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statement because the resources of those funds are not available to support the City of Sandpoint's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The *Agency fund* reports resources held by the city in a custodial capacity for individual, private organizations and other governments.

The basic fiduciary fund financial statements can be found on page 29 of this report.

Notes to Financial Statements – The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 30 – 49 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City of Sandpoint's budget and actual of the General fund.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 50 – 63 of this report.

GOVERNMENTAL WIDE OVERALL FIANCIAL ANALYSIS

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Sandpoint, assets and deferred outflows of resources exceeded its liabilities by \$56,930,839, at the close of the most recent fiscal year.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

Table 1

STATEMENTS OF NET POSITION September 30, 2014 and 2013

| | Governmental activities | | Business-type activities | | Total | |
|-----------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other assets | \$ 8,796,894 | \$ 7,574,766 | \$ 20,530,581 | \$ 20,125,374 | \$ 29,327,475 | \$ 27,700,140 |
| Capital assets | 7,919,326 | 8,097,078 | 51,048,380 | 48,724,974 | 58,967,706 | 56,822,052 |
| Total assets | <u>16,716,220</u> | <u>15,671,844</u> | <u>71,578,961</u> | <u>68,850,348</u> | <u>88,295,181</u> | <u>84,522,192</u> |
| Long-term liabilities outstanding | 514,146 | 561,844 | 24,751,118 | 25,730,894 | 25,265,264 | 26,292,738 |
| Other liabilities | 908,151 | 906,918 | 696,934 | 391,697 | 1,605,085 | 1,298,615 |
| Total liabilities | <u>1,422,297</u> | <u>1,468,762</u> | <u>25,448,052</u> | <u>26,122,591</u> | <u>26,870,349</u> | <u>27,591,353</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 7,741,984 | 7,817,045 | 26,174,735 | 23,045,764 | 33,916,719 | 30,862,809 |
| Restricted | 318,614 | 372,292 | 14,405,234 | 17,218,698 | 14,723,848 | 17,590,990 |
| Unrestricted | 7,233,325 | 6,013,745 | 5,550,940 | 2,463,295 | 12,784,265 | 8,477,040 |
| Total net position | <u>\$ 15,293,923</u> | <u>\$ 14,203,082</u> | <u>\$ 46,130,909</u> | <u>\$ 42,727,757</u> | <u>\$ 61,424,832</u> | <u>\$ 56,930,839</u> |

By far, the largest portion of the City of Sandpoint's net position (55%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Sandpoint uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Sandpoint's investments in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

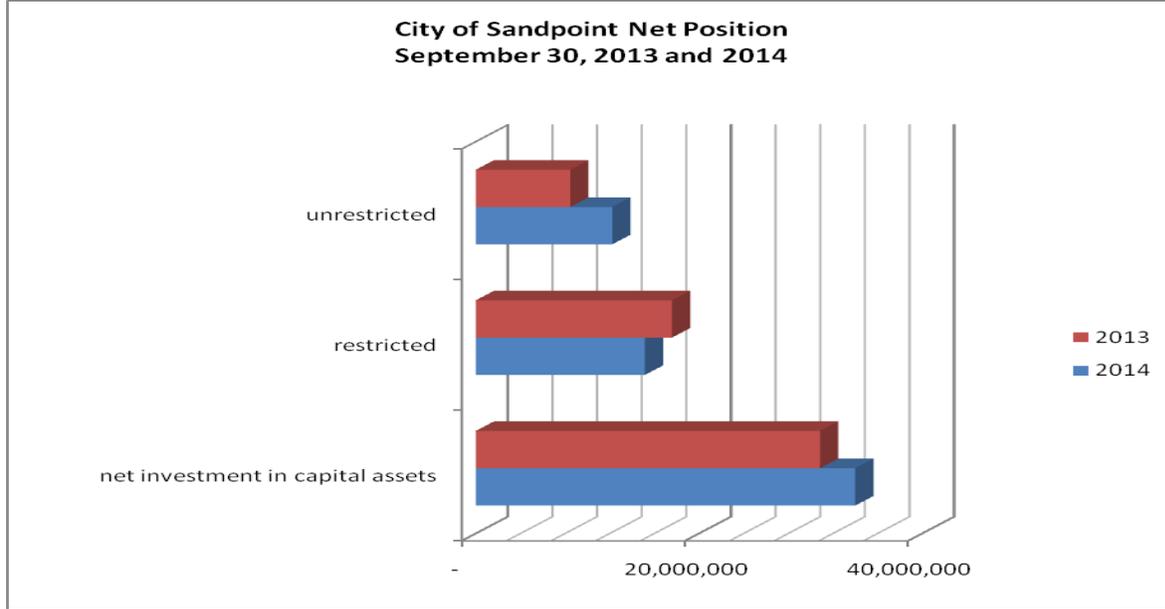
An additional portion of the City of Sandpoint's net position (25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance \$12,784,265 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City of Sandpoint is able to report positive balances in all three categories of net position both for government as a whole, as well as its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)



The City of Sandpoint's overall net position increased \$4,493,993 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for the governmental activities increased \$1,090,841 from the prior fiscal year for an ending balance of \$15,293,923. While the current recession certainly had an impact on the City of Sandpoint, management was able to take various actions (e.g. using reserves to fund public safety and general operations, delaying certain nonrecurring expenses, reducing expenses related to non-essential ongoing programs, and to focus on economic development by budgeting for capital projects with little or no on-going maintenance requirements that will benefit the City of Sandpoint in recovery) that neutralized its effect on the governmental activities. The increase in the overall net position of governmental activities is the result of reducing city expenditures as a precautionary measure awaiting the outcome of litigation with the Independent Highway District, receipt of refunds and reimbursements from prior years' expenses and the incompleteness or delay of projects until the next construction season.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

Table 2

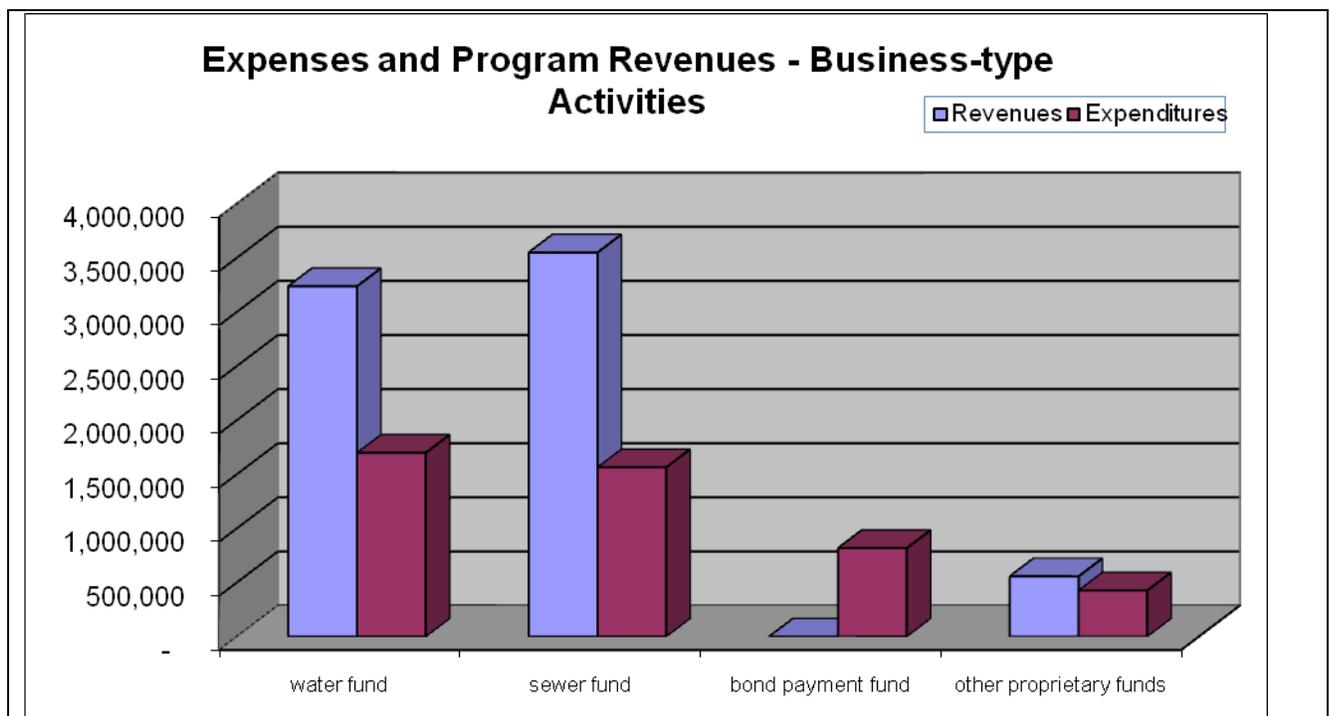
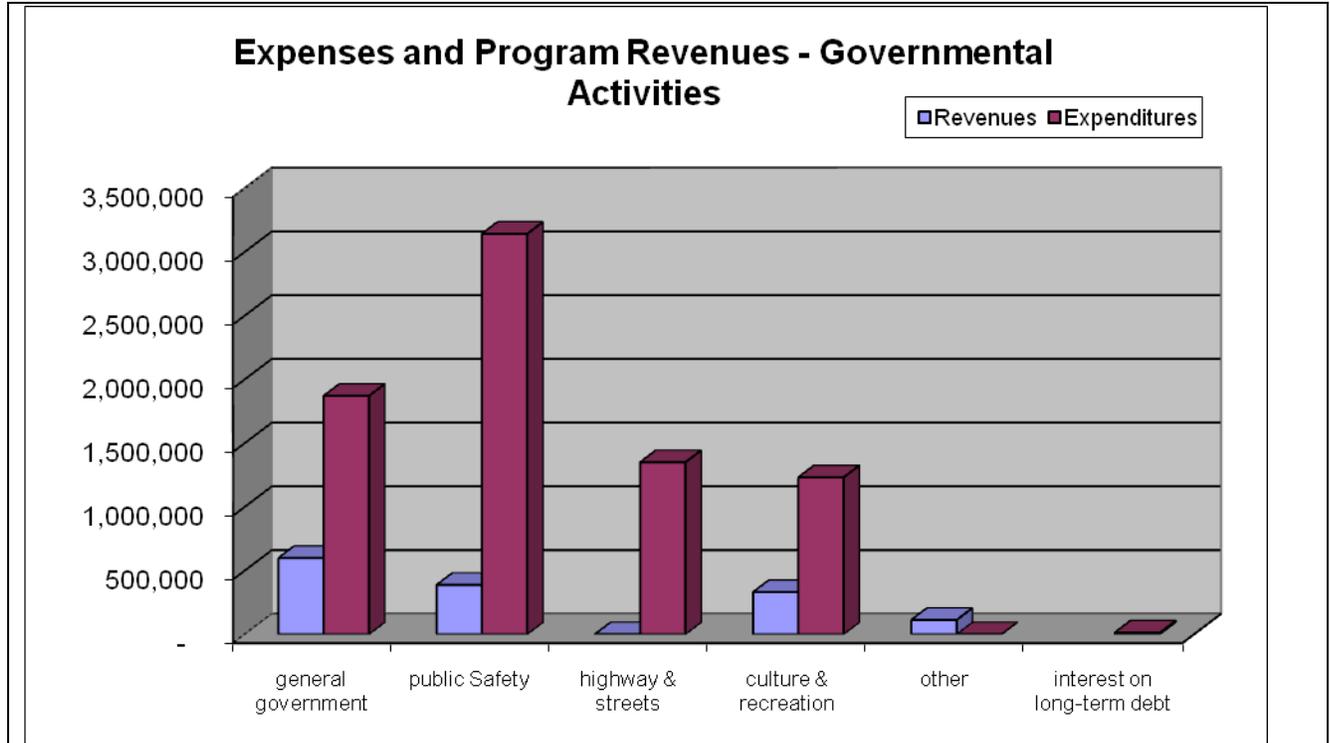
CHANGES IN NET POSITION September 30, 2013 and 2012

| | Governmental activities | | Business-type activities | | Total | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,430,228 | \$ 1,628,315 | \$ 7,342,240 | \$ 7,418,297 | \$ 8,772,468 | \$ 9,046,612 |
| Capital Grants | 233,620 | 112,806 | 1,727,577 | 978,320 | 1,961,197 | 1,091,126 |
| General revenues: | | | | | | |
| Property taxes & special assessments | 3,822,496 | 3,940,726 | - | - | 3,822,496 | 3,940,726 |
| Investment Earnings | 8,284 | 10,270 | 46,571 | 44,628 | 54,855 | 54,898 |
| Miscellaneous | 29,699 | 85,175 | - | - | 29,699 | 85,175 |
| Intergovernmental | 1,972,467 | 1,670,774 | - | - | 1,972,467 | 1,670,774 |
| Gain on disposal of assets | 900 | 5,332 | (7,750) | (1,233) | 6,850 | 4,099 |
| Total revenues | <u>7,497,694</u> | <u>7,453,398</u> | <u>9,108,638</u> | <u>8,440,012</u> | <u>16,606,332</u> | <u>15,893,410</u> |
| Expenses: | | | | | | |
| General government | 1,870,314 | 1,795,265 | - | - | 1,870,314 | 1,795,265 |
| Public safety | 3,141,638 | 3,360,986 | - | - | 3,141,638 | 3,360,986 |
| Highways & streets | 1,349,789 | 1,453,193 | - | - | 1,349,789 | 1,453,193 |
| Culture & recreation | 1,231,525 | 1,211,022 | - | - | 1,231,525 | 1,211,022 |
| Interest on long-term debt | 13,393 | 15,774 | - | - | 13,393 | 15,774 |
| Water | - | - | 1,698,107 | 1,495,404 | 1,698,107 | 1,495,404 |
| Sewer | - | - | 1,564,180 | 1,494,793 | 1,564,180 | 1,494,793 |
| Bond payment fund | - | - | 817,062 | 773,606 | 817,062 | 773,606 |
| Bond construction fund | - | - | - | 83,463 | - | 83,463 |
| Other proprietary funds | - | - | 426,331 | 417,332 | 426,331 | 417,332 |
| Total expenses | <u>7,606,659</u> | <u>7,836,240</u> | <u>4,505,680</u> | <u>4,264,598</u> | <u>12,112,339</u> | <u>12,100,838</u> |
| Increase in net assets before transfers | (108,965) | (382,842) | 4,602,958 | 4,175,414 | 4,493,993 | 3,792,572 |
| Transfers | 1,199,806 | 1,213,672 | (1,199,806) | (1,213,672) | - | - |
| Increase in net position | <u>1,090,841</u> | <u>830,830</u> | <u>3,403,152</u> | <u>2,961,742</u> | <u>4,493,993</u> | <u>3,792,572</u> |
| Net position – beginning | 14,203,082 | 13,372,252 | 42,727,757 | 39,766,015 | 56,930,839 | 53,138,267 |
| Net position – ending | <u>\$ 15,293,923</u> | <u>\$ 14,203,082</u> | <u>\$ 46,130,909</u> | <u>\$ 42,727,757</u> | <u>\$ 61,424,832</u> | <u>\$ 56,930,839</u> |

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONCLUDED)

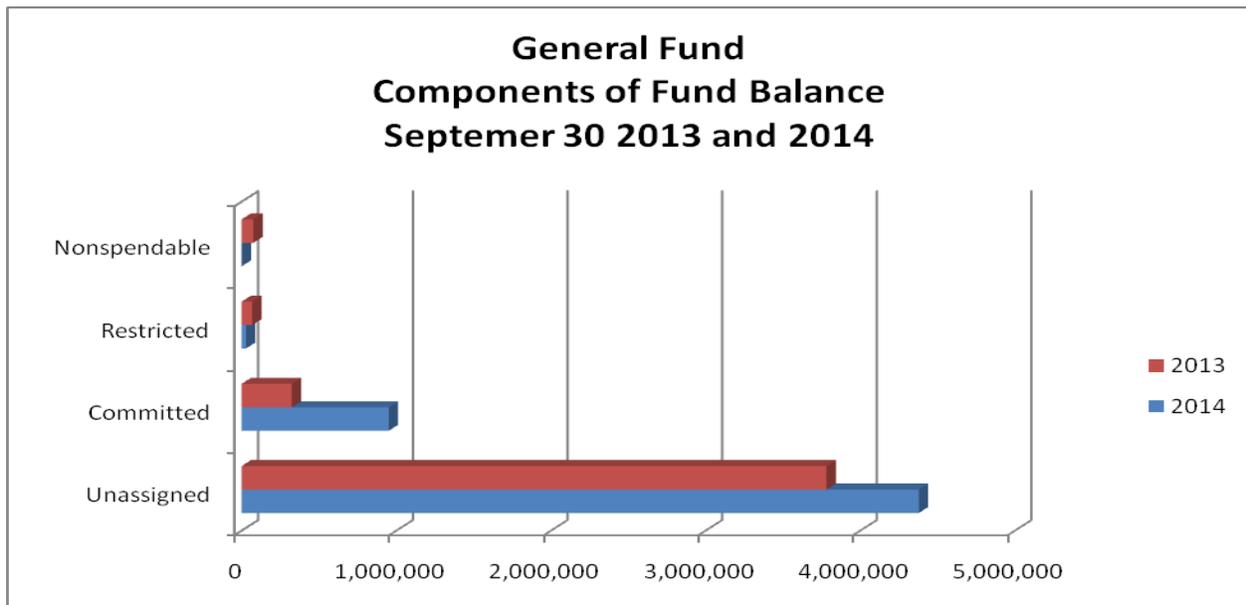
Business-type activities. For the City of Sandpoint's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$46,130,909. The total increase in net position for business-type activities (water, sewer, street lights and garbage) was \$3,403,152 or 7.96% from the prior fiscal year. The growth, in large part, is attributed to major facility improvements to the water treatment facilities and a new variable rate established for garbage to incorporate in the new multi-size cans.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Sandpoint uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Sandpoint's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Sandpoint's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Sandpoint itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the City of Sandpoint's Council.

At September 30, 2014 the City of Sandpoint's governmental funds reported combined fund balances of \$7,563,013, an increase of \$1,358,243 in comparison with the prior year. Approximately 52% of this amount (\$4,378,658) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form (\$0), 2) legally required to be maintained intact (\$0), restricted for a particular purpose (\$318,914), 4) committed for particular purposes (\$1,513,206), or 5) assigned for particular purposes (\$1,352,535).



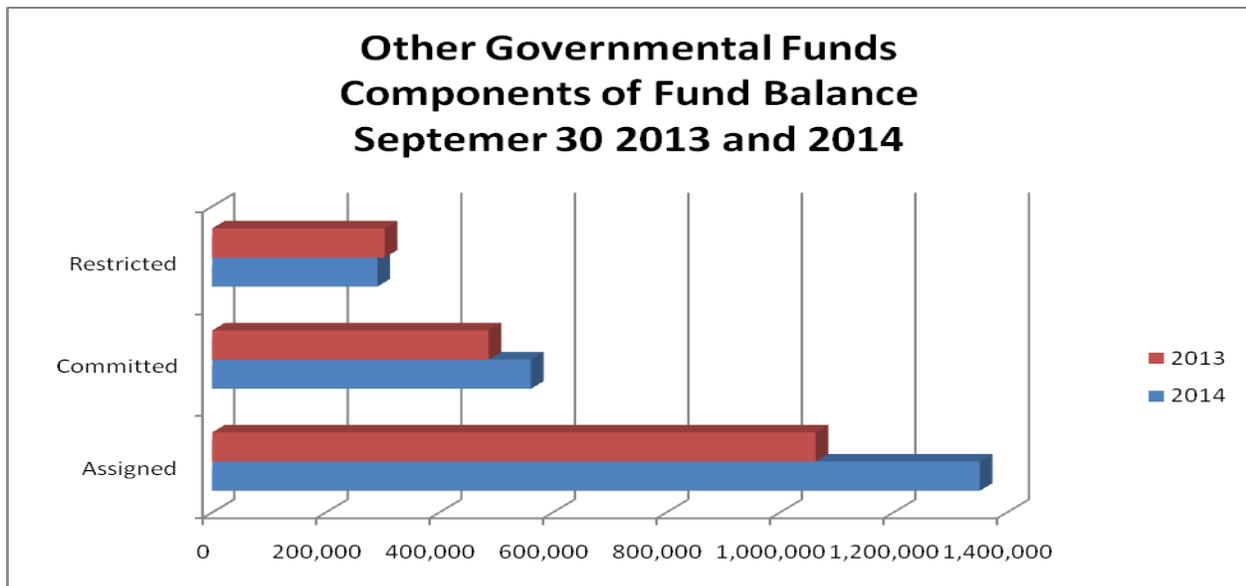
City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONCLUDED)

The general fund is the chief operating fund of the City of Sandpoint. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 4,378,658 while the total fund balance reached \$5,935,424. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 63% of the total general fund expenditures, while total fund balance represents 86% of that same amount.

The fund balance of the City of Sandpoint's general fund increased by \$1,007,316 during the current fiscal year. As discussed earlier in connection with the governmental activities, the increase was due to a decrease in expenditures as a precautionary measure awaiting the outcome of litigation with the Independent Highway District, refunds and reimbursements of prior year revenues, and capital projects that remained incomplete or delayed at the end of the fiscal year.



Proprietary funds – The City of Sandpoint's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Fund at the end of the year was \$3,116,836 and the Sewer Fund was \$2,060,522. The total growth in net position for both funds was \$3,756,369 and \$1,156,861, respectively. As noted earlier in the discussion of business-type activities, the increase for the Water Fund results from an increase in assets due to the upgrades of the water treatment facilities financed through a revenue bond by USDA and a 1.2 million dollar grant. The Sewer Fund increase is related to a reduction in expenses for capital projects.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. During the year there was no need for any significant amendments to increase the original budgeted appropriations.

Final budget compared to actual results. The most significant differences between estimated expenses and revenues and actual expenses and revenues were as follows:

| <u>Revenue source</u> | <u>Estimated revenues</u> | <u>Actual revenues</u> | <u>Difference</u> |
|-----------------------------|---------------------------|------------------------|-------------------|
| Taxes & Special Assessments | \$ 3,755,166 | \$ 3,810,915 | \$ 55,749 |
| Grants | \$ 2,493,700 | \$ 33,620 | \$ (2,260,080) |
| Charge for services | \$ 250,300 | \$ 374,199 | \$ 123,899 |
| Miscellaneous revenues | \$ 346,315 | \$ 6,134 | \$ (340,481) |
| <u>Expenses</u> | <u>Estimated expenses</u> | <u>Actual expenses</u> | <u>Difference</u> |
| General Government | \$ 2,147,576 | \$ 1,731,977 | \$ 415,599 |
| Public Safety | \$ 3,349,301 | \$ 2,996,694 | \$ 352,607 |
| Highway and streets | \$ 2,174,105 | \$ 1,191,365 | \$ 982,740 |
| Capital outlay | \$ 1,837,090 | \$ 249,656 | \$ 1,587,434 |

The shortfalls in the above revenue sources were caused for various reasons. In the grant category there were several grants that were delayed until the next year or not awarded to the City. Miscellaneous revenues reflect a decrease in donations and use of beginning cash. Excess revenues are report in Taxes and Special Assessments which directly correlates to increased revenue from franchise fees, resort city taxes and property taxes. The increase in charges for services is due to a refund from the city's healthcare provider.

Over the last decade the City of Sandpoint has worked to identify and implement more charges for various programs and activities. This has included traffic school program, licenses and permits, charges for services, rental rates for community buildings, and parking fines. The goal of this effort was to increase the percentage of total revenues that are provided for these services that have been generally funded or subsidized by property taxes in the past. In light, of the declining revenues from the State of Idaho and the building and construction industry, this was an appropriate measure to be able to maintain the current and accustomed level of service to Sandpoint's citizens.

Expense variances are apparent in several categories where the actual expenditures are less than estimated. This is in part due to the lack of grant funding for several capital outlay projects. Cutbacks of personnel and expenses in the street department and capital outlay were in direct response to the withholding of funds from the Independent Highway District and pending outcome of litigation. Public safety savings were related to grants that were not awarded, reorganization of the Police that left an unfilled position in the Police Department and salary savings in the Fire Department due to the retirement of the Fire Chief.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Sandpoint's investment in capital assets for its governmental and business-type activities as of September 30, 2014 amounts to \$59,015,480 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, right-of-ways and the water and sewer treatment facilities. The total increase in capital assets for the current fiscal year was approximately 3.9%.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table 3

CITY OF SANDPOINT'S CAPITAL ASSETS (net of depreciation)

| | Governmental activities | | Business-type activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | \$ 2,272,751 | \$ 2,272,751 | \$ 6,029,767 | \$ 6,029,767 | \$ 8,302,518 | \$ 8,302,518 |
| Construction in progress | 204,847 | 85,064 | 194,973 | 16,735,141 | 399,820 | 16,820,205 |
| Buildings | 1,143,908 | 1,180,590 | 351,546 | 361,711 | 1,495,454 | 1,542,301 |
| Other Improvements | 3,480,069 | 3,588,198 | 43,471,453 | 24,464,813 | 46,951,522 | 28,053,011 |
| Machinery and equipment | 860,992 | 965,861 | 882,895 | 1,002,599 | 1,743,887 | 1,968,460 |
| Infrastructure | 4,533 | 4,614 | 117,746 | 130,941 | 122,279 | 135,555 |
| Total | <u>\$ 7,967,100</u> | <u>\$ 8,097,078</u> | <u>\$ 51,048,380</u> | <u>\$ 48,724,972</u> | <u>\$ 59,015,480</u> | <u>\$ 56,822,050</u> |

Major capital asset events during the current fiscal year included the following:

- Park amenities \$96,882
- Fire safety extrication equipment \$10,00
- New police vehicle and mobile data equipment \$82,623
- Sidewalks and pathways \$138,092
- Selkirk Interpretive Center \$55,257
- Lift Station and lining of sewer mains \$496,782
- Completion of the \$20 million water treatment upgrade project

Additional information on the City of Sandpoint capital assets can be found in the Note section of this report.

Long-term Debt – At the end of the current fiscal year, the total City of Sandpoint principal bond indebtedness was \$24,560,400. Of this amount, \$24,346,542 is backed by the full faith and credit of the government and \$213,858 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Sandpoint's long-term debt obligations comprises compensated absences and capital leases.

Table 4

CITY OF SANDPOINT'S OUTSTANDING DEBT

| | Governmental activities | | Business-type activities | | Total | |
|--------------------------|-------------------------|-------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Compensated absences | \$ 289,030 | \$ 281,811 | \$ 157,232 | \$ 130,346 | \$ 446,262 | \$ 412,157 |
| Special assessments | 213,858 | 250,713 | - | - | 213,858 | 250,713 |
| Lease purchase contracts | 11,258 | 29,320 | 247,344 | 423,544 | 258,602 | 452,864 |
| Revenue bonds | - | - | 24,346,542 | 25,177,003 | 24,346,542 | 25,177,003 |
| Total | <u>\$ 514,146</u> | <u>\$ 561,844</u> | <u>\$ 24,751,118</u> | <u>\$ 25,730,893</u> | <u>\$ 25,265,264</u> | <u>\$ 26,292,737</u> |

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

The City of Sandpoint's total debt decreased by \$1,027,473, (-3.9%) during the current fiscal year. The reason for the decrease is due to regular annual payments that reduced the principal due.

Additional information on the City of Sandpoint's long-term debt can be found in the Note section of this report.

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

The following economic factors currently affect the City of Sandpoint and were considered in developing the 2014-2015 fiscal year budget.

- Litigation with the Independent Highway District to compel compliance with a 2003 agreement that provided funding for Sandpoint streets has necessitated a conservative approach limiting projects to those that are short-near-term and avoiding purchases of equipment and personnel.
- A 2.5% increase in water rates and sewer rates went into effect on January 1st of 2015. These rate increases are less than anticipated and due to the low interest rates on our recent bond issues.
- Property taxes were budget for the 2014-2015 fiscal year at \$3,604,165, an increase of \$81,740 over last year's property tax amount to fund increases in recurring expenditures obligations.
- Fees for specific services were increased, effective January 1, 2015 to accommodate the increased cost of providing those services. (e.g. parking fees, moorage fees, parade/public assembly permits, and parking tickets.
- Coldwater Creek's closure resulted in a loss of 339 jobs in the Sandpoint area. While this was a devastating loss in the community, the impact was lessened due to the diversification of the job market over the last six years. Health care and manufacturing that includes aerospace and high tech businesses have been major players.
- Interest rates for investments continue to remain at record low levels throughout this fiscal year.
- The budget includes the money to re-design the City's website, making it more user-friendly and to provide public access to many of the departmental processes and forums.
- Departmental maintenance and operation budgets were held at the same levels as the prior year, in most departments to accommodate our conservative approach to weathering the economic downturn and the litigation over the funding of our street repairs and maintenance.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONCLUDED)

During the current fiscal year, the City of Sandpoint has budgeted to use \$487,159 of the governmental funds unassigned fund balance to fund the 2013-2014 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Sandpoint's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Shannon Syth
City of Sandpoint Treasurer
1123 Lake Street
Sandpoint, Idaho 83864**

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Sandpoint

**STATEMENT OF NET POSITION
September 30, 2014**

| | Primary Government | | | Component Unit |
|--|--------------------------------|---------------------------------|----------------------|---------------------------------------|
| | Governmental Activities | Business-type Activities | Total | Sandpoint Urban Renewal Agency |
| ASSETS | | | | |
| Cash and investments | \$ 5,963,166 | \$ 6,674,393 | \$ 12,637,559 | \$ 2,714,141 |
| Receivables | 751,047 | 1,226,102 | 1,977,149 | 956,177 |
| Internal balances | (47,774) | 47,774 | - | - |
| Inventory | - | 89,033 | 89,033 | - |
| Restricted assets: | | | | |
| Cash and investments | 2,082,681 | 12,493,279 | 14,575,960 | 125,900 |
| Capital assets not being depreciated: | | | | |
| Land | 2,272,751 | 6,029,767 | 8,302,518 | - |
| Construction in progress | 204,847 | 194,973 | 399,820 | - |
| Capital assets, net of accumulated depreciation | 5,489,502 | 44,823,640 | 50,313,142 | - |
| Total assets | <u>16,716,220</u> | <u>71,578,961</u> | <u>88,295,181</u> | <u>3,796,218</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | 781,372 | 415,239 | 1,196,611 | 48,311 |
| Unearned property taxes | - | - | - | 945,269 |
| Payable from restricted assets: | | | | |
| Customer deposits | 126,502 | 1,936 | 128,438 | - |
| Accrued interest payable | 277 | 279,759 | 280,036 | - |
| Noncurrent liabilities: | | | | |
| Compensated absences - due within one year | 173,637 | 61,889 | 235,526 | - |
| Compensated absences - due in more than one year | 115,393 | 95,343 | 210,736 | - |
| Due within one year | 43,114 | 961,422 | 1,004,536 | 201,387 |
| Due in more than one year | 182,002 | 23,632,464 | 23,814,466 | 1,243,524 |
| Total liabilities | <u>1,422,297</u> | <u>25,448,052</u> | <u>26,870,349</u> | <u>2,438,491</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 7,741,984 | 26,174,735 | 33,916,719 | - |
| Restricted for: | | | | |
| Contributions | 27,567 | - | 27,567 | - |
| Debt | 291,047 | 3,374,490 | 3,665,537 | - |
| Capital improvements | - | 8,704,720 | 8,704,720 | - |
| Inflow and infiltration | - | 1,753,319 | 1,753,319 | - |
| Kootenai/Ponderay | - | 82,572 | 82,572 | - |
| Watershed protection | - | 212,823 | 212,823 | - |
| Other | - | 277,310 | 277,310 | - |
| Downtown district | - | - | - | (149,911) |
| Northern district | - | - | - | 1,507,638 |
| Unrestricted | 7,233,325 | 5,550,940 | 12,784,265 | - |
| Total net position | <u>\$ 15,293,923</u> | <u>\$ 46,130,909</u> | <u>\$ 61,424,832</u> | <u>\$ 1,357,727</u> |

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

City of Sandpoint

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014**

| Functions/Programs | Expenses | Program Revenues | |
|---------------------------------------|----------------------|-----------------------------|-----------------------|
| | | Charges for Services | Capital Grants |
| Governmental activities: | | | |
| General government | \$ 1,870,314 | \$ 598,776 | \$ - |
| Public safety | 3,141,638 | 387,570 | 233,620 |
| Highways and streets | 1,349,789 | - | - |
| Culture and recreation | 1,231,525 | 331,047 | - |
| Other | - | 112,835 | - |
| Interest on long-term debt | 13,393 | - | - |
| Total governmental activities | 7,606,659 | 1,430,228 | 233,620 |
| Business-type activities: | | | |
| Water | 1,698,107 | 3,236,740 | 1,482,661 |
| Sewer | 1,564,180 | 3,549,091 | 244,916 |
| Bond payment fund | 817,062 | - | - |
| Other proprietary funds | 426,331 | 556,409 | - |
| Total business-type activities | 4,505,680 | 7,342,240 | 1,727,577 |
| Total primary government | \$ 12,112,339 | \$ 8,772,468 | \$ 1,961,197 |

Component units:
Community development
Interest expense
Total component unit

General revenues:
Property taxes and special assessments
Investment earnings
Miscellaneous
Intergovernmental revenue
Gain on disposal of assets
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Prior period adjustment
Net position - ending

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

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | | Component Units |
|--------------------------------|---------------------------------|----------------------|---------------------------------------|
| Governmental Activities | Business-type Activities | Total | Sandpoint Urban Renewal Agency |
| \$ (1,271,538) | \$ - | \$ (1,271,538) | \$ - |
| (2,520,448) | - | (2,520,448) | - |
| (1,349,789) | - | (1,349,789) | - |
| (900,478) | - | (900,478) | - |
| 112,835 | - | 112,835 | - |
| (13,393) | - | (13,393) | - |
| <u>(5,942,811)</u> | <u>-</u> | <u>(5,942,811)</u> | <u>-</u> |
| - | 3,021,294 | 3,021,294 | - |
| - | 2,229,827 | 2,229,827 | - |
| - | (817,062) | (817,062) | - |
| - | 130,078 | 130,078 | - |
| - | <u>4,564,137</u> | <u>4,564,137</u> | <u>-</u> |
| <u>(5,942,811)</u> | <u>4,564,137</u> | <u>(1,378,674)</u> | <u>-</u> |
| | | | 1,009,521 |
| | | | <u>56,464</u> |
| | | | <u>1,065,985</u> |
| 3,822,496 | - | 3,822,496 | 994,982 |
| 8,284 | 46,571 | 54,855 | - |
| 29,699 | - | 29,699 | 3,481 |
| 1,972,467 | - | 1,972,467 | - |
| 900 | (7,750) | (6,850) | - |
| 1,199,806 | (1,199,806) | - | - |
| <u>7,033,652</u> | <u>(1,160,985)</u> | <u>5,872,667</u> | <u>998,463</u> |
| 1,090,841 | 3,403,152 | 4,493,993 | (67,522) |
| 14,203,082 | 42,727,757 | 56,930,839 | 1,448,319 |
| - | - | - | (23,070) |
| <u>\$ 15,293,923</u> | <u>\$ 46,130,909</u> | <u>\$ 61,424,832</u> | <u>\$ 1,357,727</u> |

City of Sandpoint

**GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2014**

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|---|
| ASSETS | | | |
| Cash and investments | \$ 5,082,472 | \$ 488,100 | \$ 5,570,572 |
| Receivables | 355,263 | 176,119 | 531,382 |
| Due from other governments | 219,665 | - | 219,665 |
| Due from other funds | - | - | - |
| Restricted assets: | | | |
| Cash and investments | 278,024 | 1,804,657 | 2,082,681 |
| Total assets | <u>\$ 5,935,424</u> | <u>\$ 2,468,876</u> | <u>\$ 8,404,300</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Vouchers payable | \$ 331,652 | \$ 57,126 | \$ 388,778 |
| Due to other funds | - | 47,774 | 47,774 |
| Payable from restricted assets: | | | |
| Customer deposits | 118,561 | 7,941 | 126,502 |
| Total liabilities | <u>450,213</u> | <u>112,841</u> | <u>563,054</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue-property taxes | 127,780 | 6,021 | 133,801 |
| Unavailable revenue-special assessments | - | 144,432 | 144,432 |
| Total deferred inflows of resources | <u>127,780</u> | <u>150,453</u> | <u>278,233</u> |
| FUND BALANCES: | | | |
| Restricted for | | | |
| Streets | 2,685 | - | 2,685 |
| Art Contributions | 2,103 | - | 2,103 |
| Debt | - | 291,047 | 291,047 |
| Citizen's pride Contributions | 100 | - | 100 |
| Police Contributions | 4,159 | - | 4,159 |
| RCT Property Tax Relief | 18,520 | - | 18,520 |
| Committed to: | | | |
| Insurance | 212,522 | - | 212,522 |
| Downtown Parking Dedicated Funds | 31,975 | - | 31,975 |
| In Lieu of Sidewalk Dedicated Funds | 5,460 | - | 5,460 |
| FY15 Capital Improvement Fund (impact fees) | - | 522,000 | 522,000 |
| FY15 parks Improvement Fund Budget | - | 40,000 | 40,000 |
| FY15 General Fund Budget | 701,249 | - | 701,249 |
| Assigned to | | | |
| Bonner business center | - | 183,538 | 183,538 |
| Recreation fund | - | 267,266 | 267,266 |
| Capital improvement fund (impact fees) | - | 36,759 | 36,759 |
| Parks capital improvement fund | - | 864,972 | 864,972 |
| Unassigned | | | |
| General fund | 4,378,658 | - | 4,378,658 |
| Total fund balances | <u>5,357,431</u> | <u>2,205,582</u> | <u>7,563,013</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 5,935,424</u> | <u>\$ 2,468,876</u> | <u>\$ 8,404,300</u> |

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

City of Sandpoint

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2014**

| | | |
|---|------------------|-----------------------------|
| Total fund balance at September 30, 2014 - Governmental Funds | | \$ 7,563,013 |
| Cost of capital assets at September 30, 2014 | \$ 13,644,322 | |
| Less: Accumulated depreciation as of September 30, 2014 | | |
| Buildings and structures | (929,054) | |
| Improvements other than buildings | (1,998,458) | |
| Equipment | (2,748,113) | |
| Infrastructure | <u>(1,597)</u> | 7,967,100 |
| Elimination of deferred revenue | | 278,233 |
| Long-term liabilities at September 30, 2014 | | |
| Accrued interest | (277) | |
| Capital leases payable | (11,258) | |
| Compensated absences | (289,030) | |
| Special assessments | <u>(213,858)</u> | <u>(514,423)</u> |
| Net position at September 30, 2014 | | <u><u>\$ 15,293,923</u></u> |

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

City of Sandpoint

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2014

| | General | Other Governmental Funds | Total |
|--|--------------|--------------------------------|--------------|
| REVENUES | | | |
| Taxes and special assessments | \$ 3,810,915 | \$ 197,126 | \$ 4,008,041 |
| Licenses and permits | 209,309 | - | 209,309 |
| Grants | 233,620 | - | 233,620 |
| Intergovernmental revenue | 1,972,467 | - | 1,972,467 |
| Interest | 6,075 | 2,209 | 8,284 |
| Impact fees | - | 112,835 | 112,835 |
| Charges for services | 374,199 | 652,268 | 1,026,467 |
| Fines and forfeits | 81,617 | - | 81,617 |
| Miscellaneous revenues | 6,134 | 23,565 | 29,699 |
| Total revenues | 6,694,336 | 988,003 | 7,682,339 |
| EXPENDITURES | | | |
| General government | 1,731,977 | 90,615 | 1,822,592 |
| Public safety | 2,996,694 | - | 2,996,694 |
| Highways and streets | 1,191,365 | - | 1,191,365 |
| Culture and recreation | 696,875 | 323,362 | 1,020,237 |
| Capital projects | 249,656 | 175,525 | 425,181 |
| Debt service: | | | |
| Principal retirement | 18,061 | 36,856 | 54,917 |
| Interest expense | 950 | 12,866 | 13,816 |
| Total expenditures | 6,885,578 | 639,224 | 7,524,802 |
| (Deficiency) excess of revenues over (under) expenditures | (191,242) | 348,779 | 157,537 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of assets | 900 | - | 900 |
| Transfers in | 1,234,610 | 36,952 | 1,271,562 |
| Transfers (out) | (36,952) | (34,804) | (71,756) |
| Total other financing sources (uses) | 1,198,558 | 2,148 | 1,200,706 |
| Change in fund balance | 1,007,316 | 350,927 | 1,358,243 |
| Fund balances - beginning | 4,350,115 | 1,854,655 | 6,204,770 |
| Fund balances - ending | \$ 5,357,431 | \$ 2,205,582 | \$ 7,563,013 |

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

City of Sandpoint

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2014

| | |
|--|----------------------------|
| Total net changes in fund balances for the year ended September 30, 2014 | \$ 1,358,243 |
| Add: Capital outlay which is considered expenditures | 424,943 |
| Less: Depreciation expense for the year ended September 30, 2014 | (554,921) |
| Add: Special assessment debt and lease principal payments considered as an expenditure | 54,917 |
| Add: Change in accrued interest expense | 423 |
| Less: Change in compensated absences | (7,219) |
| Add: Difference between revenue revenue from other governments on modified accrual basis versus revenue on accrual basis | 144,432 |
| Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis | <u>(329,977)</u> |
| Change in net position for year ended September 30, 2014 | <u><u>\$ 1,090,841</u></u> |

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

City of Sandpoint

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2014**

| | <u>Water</u> | <u>Sewer</u> | <u>Bond Payment Fund</u> |
|---|----------------------|----------------------|----------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash/investments | \$ 3,915,490 | \$ 2,405,850 | \$ - |
| Receivables | 573,456 | 582,819 | 1,068 |
| Due from other funds | 47,774 | - | - |
| Inventory | 89,033 | - | - |
| Restricted cash/investments | 4,631,031 | 6,111,659 | 1,750,589 |
| Total current assets | <u>9,256,784</u> | <u>9,100,328</u> | <u>1,751,657</u> |
| Noncurrent assets: | | | |
| Land | 5,121,649 | 908,118 | - |
| Construction in progress | 194,973 | - | - |
| Capital assets, net of accumulated depreciation | 29,210,644 | 15,508,174 | - |
| Total noncurrent assets | <u>34,527,266</u> | <u>16,416,292</u> | <u>-</u> |
| Total assets | <u>43,784,050</u> | <u>25,516,620</u> | <u>1,751,657</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 142,976 | 236,713 | - |
| Payable from restricted assets: | | | |
| Customer deposits | 1,936 | - | - |
| Accrued interest payable | - | - | 279,759 |
| Compensated absences - current portion | 37,958 | 23,931 | - |
| Capital lease payable | 69,912 | 32,515 | - |
| Revenue bonds - current portion | - | - | 858,995 |
| Total current liabilities | <u>252,782</u> | <u>293,159</u> | <u>1,138,754</u> |
| Noncurrent: | | | |
| Revenue bonds - noncurrent portion | - | - | 23,487,547 |
| Capital lease payable | 111,540 | 33,377 | - |
| Compensated absences | 79,801 | 15,542 | - |
| Total noncurrent liabilities | <u>191,341</u> | <u>48,919</u> | <u>23,487,547</u> |
| Total liabilities | <u>444,123</u> | <u>342,078</u> | <u>24,626,301</u> |
| NET POSITION | | | |
| Net investment in capital assets | 34,345,814 | 16,350,400 | (24,626,301) |
| Restricted for: | | | |
| Debt | 973,375 | 649,458 | 1,751,657 |
| Capital improvements | 4,333,700 | 4,358,340 | - |
| Inflow & filtration | - | 1,753,319 | - |
| Kootenai/Ponderay | 82,572 | - | - |
| Watershed protection | 212,823 | - | - |
| Other | 274,807 | 2,503 | - |
| Unrestricted | 3,116,836 | 2,060,522 | - |
| Total net position | <u>\$ 43,339,927</u> | <u>\$ 25,174,542</u> | <u>\$ (22,874,644)</u> |

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

| Bond Construction Fund | Other Proprietary Funds | Total |
|---------------------------------------|--|---------------|
| \$ - | \$ 353,053 | \$ 6,674,393 |
| - | 68,759 | 1,226,102 |
| - | - | 47,774 |
| - | - | 89,033 |
| - | - | 12,493,279 |
| - | 421,812 | 20,530,581 |
| - | - | 6,029,767 |
| - | - | 194,973 |
| - | 104,822 | 44,823,640 |
| - | 104,822 | 51,048,380 |
| - | 526,634 | 71,578,961 |
| - | 35,550 | 415,239 |
| - | - | 1,936 |
| - | - | 279,759 |
| - | - | 61,889 |
| - | - | 102,427 |
| - | - | 858,995 |
| - | 35,550 | 1,720,245 |
| - | - | 23,487,547 |
| - | - | 144,917 |
| - | - | 95,343 |
| - | - | 23,727,807 |
| - | 35,550 | 25,448,052 |
| - | 104,822 | 26,174,735 |
| - | - | 3,374,490 |
| - | 12,680 | 8,704,720 |
| - | - | 1,753,319 |
| - | - | 82,572 |
| - | - | 212,823 |
| - | - | 277,310 |
| - | 373,582 | 5,550,940 |
| \$ - | \$ 491,084 | \$ 46,130,909 |

City of Sandpoint

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended September 30, 2014

| | <u>Water</u> | <u>Sewer</u> | <u>Bond Payment Fund</u> |
|--|----------------------|----------------------|----------------------------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 3,055,976 | \$ 3,505,297 | \$ - |
| Equipment and meter sales | 20,587 | 30,488 | - |
| Miscellaneous | 160,177 | 13,306 | - |
| Total operating revenues | <u>3,236,740</u> | <u>3,549,091</u> | <u>-</u> |
| OPERATING EXPENSES | | | |
| Personal services | 793,854 | 468,772 | - |
| Contractual services | 170,371 | 188,058 | - |
| Other services and charges | 219,678 | 109,252 | - |
| Heat, lights, and power | 87,373 | 90,122 | - |
| Depreciation | 419,475 | 702,829 | - |
| Total operating expenses | <u>1,690,751</u> | <u>1,559,033</u> | <u>-</u> |
| Operating income | <u>1,545,989</u> | <u>1,990,058</u> | <u>-</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest income | 9,579 | 11,354 | 24,092 |
| Grant income | 1,099,108 | - | - |
| Interest expense | (7,356) | (5,147) | (817,062) |
| Gain (loss) on sale of capital assets | (7,750) | - | - |
| Total nonoperating revenues (expenses) | <u>1,093,581</u> | <u>6,207</u> | <u>(792,970)</u> |
| Income (loss) before contributions and transfers | <u>2,639,570</u> | <u>1,996,265</u> | <u>(792,970)</u> |
| Capital contributions - cap fees | <u>383,553</u> | <u>244,916</u> | <u>-</u> |
| Transfers in | 2,160,583 | 781,550 | 2,132,615 |
| Transfers out | (1,427,337) | (1,865,870) | (781,550) |
| Total transfers | <u>733,246</u> | <u>(1,084,320)</u> | <u>1,351,065</u> |
| Change in net position | 3,756,369 | 1,156,861 | 558,095 |
| Total net position - beginning | <u>39,583,558</u> | <u>24,017,681</u> | <u>(23,432,739)</u> |
| Total net position - ending | <u>\$ 43,339,927</u> | <u>\$ 25,174,542</u> | <u>\$ (22,874,644)</u> |

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

| Bond Construction Fund | Other Proprietary Funds | Total |
|---------------------------------------|--|----------------------|
| \$ - | \$ 556,409 | \$ 7,117,682 |
| - | - | 51,075 |
| - | - | 173,483 |
| <u>-</u> | <u>556,409</u> | <u>7,342,240</u> |
| - | - | 1,262,626 |
| - | 298,384 | 656,813 |
| - | 3,075 | 332,005 |
| - | 112,202 | 289,697 |
| - | 12,670 | 1,134,974 |
| <u>-</u> | <u>426,331</u> | <u>3,676,115</u> |
| <u>-</u> | <u>130,078</u> | <u>3,666,125</u> |
| 1,155 | 391 | 46,571 |
| - | - | 1,099,108 |
| - | - | (829,565) |
| - | - | (7,750) |
| <u>1,155</u> | <u>391</u> | <u>308,364</u> |
| <u>1,155</u> | <u>130,469</u> | <u>3,974,489</u> |
| <u>-</u> | <u>-</u> | <u>628,469</u> |
| - | - | 5,074,748 |
| (2,100,048) | (99,749) | (6,274,554) |
| <u>(2,100,048)</u> | <u>(99,749)</u> | <u>(1,199,806)</u> |
| (2,098,893) | 30,720 | 3,403,152 |
| <u>2,098,893</u> | <u>460,364</u> | <u>42,727,757</u> |
| <u>\$ -</u> | <u>\$ 491,084</u> | <u>\$ 46,130,909</u> |

City of Sandpoint

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2014**

| | Water | Sewer |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers and users | \$ 3,174,672 | \$ 3,462,705 |
| Payments to employees | (793,854) | (457,611) |
| Payments to suppliers | (351,396) | (204,248) |
| Net cash provided by operating activities | 2,029,422 | 2,800,846 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Additional contributed capital | 383,553 | 244,916 |
| Grant receipts | 1,099,108 | - |
| Operating transfers (out) in | 685,472 | (1,084,320) |
| Net cash (used) provided by noncapital financing activities | 2,168,133 | (839,404) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of fixed assets | (3,225,440) | (240,690) |
| Principal paid on bonds and leases | (67,896) | (108,304) |
| Interest paid | - | (5,147) |
| Net cash (used) by capital and related financing activities | (3,293,336) | (354,141) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 2,223 | 11,354 |
| Net cash provided by investing activities | 2,223 | 11,354 |
| Net increase in cash and investments | 906,442 | 1,618,655 |
| Cash and investments, beginning | 7,640,079 | 6,898,854 |
| Cash and investments, ending | \$ 8,546,521 | \$ 8,517,509 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 1,545,989 | \$ 1,990,058 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 419,475 | 702,829 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | (60,171) | (86,386) |
| Inventory | 12,347 | - |
| Increase (decrease) in: | | |
| Vouchers payable | 113,679 | 194,345 |
| Customer deposits | (1,897) | - |
| Net cash provided by operating activities | \$ 2,029,422 | \$ 2,800,846 |
| Reconciliation of cash to the statement of net position: | | |
| Cash/investments | \$ 3,915,490 | \$ 2,405,850 |
| Restricted cash/investments | 4,631,031 | 6,111,659 |
| | \$ 8,546,521 | \$ 8,517,509 |

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

| <u>Bond Payment</u> | <u>Bond Construction Fund</u> | <u>Other Proprietary Funds</u> | <u>Total</u> |
|-------------------------|---------------------------------------|--|----------------------|
| \$ - | \$ - | \$ 555,127 | \$ 7,192,504 |
| - | - | - | (1,251,465) |
| - | - | (412,563) | (968,207) |
| - | - | 142,564 | 4,972,832 |
| - | - | - | 628,469 |
| - | - | - | 1,099,108 |
| 1,351,065 | (2,100,048) | (99,749) | (1,247,580) |
| 1,351,065 | (2,100,048) | (99,749) | 479,997 |
| - | - | - | (3,466,130) |
| (830,461) | - | - | (1,006,661) |
| (792,165) | - | - | (797,312) |
| (1,622,626) | - | - | (5,270,103) |
| 24,533 | 1,155 | 391 | 39,656 |
| 24,533 | 1,155 | 391 | 39,656 |
| (247,028) | (2,098,893) | 43,206 | 222,382 |
| 1,997,617 | 2,098,893 | 309,847 | 18,945,290 |
| <u>\$ 1,750,589</u> | <u>\$ -</u> | <u>\$ 353,053</u> | <u>\$ 19,167,672</u> |
| \$ - | \$ - | \$ 130,078 | \$ 3,666,125 |
| - | - | 12,670 | 1,134,974 |
| - | - | (1,282) | (147,839) |
| - | - | - | 12,347 |
| - | - | 1,098 | 309,122 |
| - | - | - | (1,897) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 142,564</u> | <u>\$ 4,972,832</u> |
| \$ - | \$ - | \$ 353,053 | \$ 6,674,393 |
| 1,750,589 | - | - | 12,493,279 |
| <u>\$ 1,750,589</u> | <u>\$ -</u> | <u>\$ 353,053</u> | <u>\$ 19,167,672</u> |

City of Sandpoint

**AGENCY FUND
STATEMENT OF NET POSITION
September 30, 2014**

| | Business Improvement District Agency Fund |
|--------------------------------------|--|
| ASSETS | |
| Cash and cash equivalents | \$ 2,171 |
| Accounts receivable | <u>51,395</u> |
| | |
| Total assets | <u><u>\$ 53,566</u></u> |
| | |
| LIABILITIES | |
| Accounts payable | \$ 2,171 |
| Due to Business Improvement District | <u>51,395</u> |
| | |
| Total liabilities | <u><u>\$ 53,566</u></u> |

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

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Sandpoint (the "City") is an incorporated city of the State of Idaho. The City of Sandpoint, Idaho operates under a Mayor/Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services.

The City is governed by an elected Mayor and City Council. The City provides a wide range of municipal services that include police, fire, and other services. Water, sewer, street lights, and sanitation services are provided by the City and are accounted for as enterprise funds.

The financial statements include all operations controlled by the City. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading.

The Sandpoint Urban Renewal Agency (the "Agency") was established to promote urban development and improvement in deteriorated areas within the Agency's boundaries. The Agency is governed by a five-member Board of Commissioners appointed by the Mayor of the City and confirmed by the City Council. The City Council has the ability to appoint, reassign or dismiss the board members of the Agency. The Agency is considered a discretely presented component unit of the City and is reported in the discretely presented component unit column in the government wide financial statements to emphasize it is legally separate from the City. Complete financial statements for the Agency can either be obtained at the clerk's office or at the following location:

**515 Pine Street
Suite D
Sandpoint ID 83864**

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

B. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The city at this time does not report internal service funds.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The *Bond Payment Fund* accounts for the payment of bond debt associated with the proprietary funds.

The *Bond Construction Fund* accounts for the interim financing and for the payment of the bond debt associated with the water fund for the construction of the City's water facilities.

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

The *Water Utility Fund* accounts for the provision of water services to individuals and commercial users. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing, and related debt service.

The *Wastewater Utility Fund* accounts for the provision of wastewater services to individuals and commercial users. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing, and related debt service.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in the governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

For purposes of reporting cash flows, cash and cash equivalents include: Cash on hand, amount due from banks, and investments with maturities of less than 90 days. If maturity is greater than 90 days, the certificates of deposit are classified as cash equivalents since they are part of the City's cash management activity, short-term and readily convertible to known amounts of cash. Investments are stated at cost, which approximates market. Investments on hand at September 30, 2014 meet the guidelines as set by regulations of the State of Idaho.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City contracted with an independent appraisal firm to perform a complete inventory of fixed assets in June of 2004. Assets were valued at estimated historical costs, when original costs were not available. The City continues to update this inventory. Donated fixed assets are capitalized at fair value on the date donated. Assets valued at \$5,000 or more which have a useful life of more than one year are capitalized.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

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

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

| <u>Assets</u> | <u>Years</u> |
|--------------------|--------------|
| Buildings | 50 |
| Equipment | 5-15 |
| Infrastructure | 75 |
| Other improvements | 20 |

G. Compensated Absences

Employees accumulate sick leave at the rate of one work day per month. Upon termination, an employee will be compensated for 50% of accumulated sick days up to a maximum of 45 days compensation. Their benefit only applies to employees hired prior to January 1, 1989. Employees hired after January 1, 1989 do not receive any payout for sick leave when they are terminated.

Employees earn annual vacation leave at the rate of 6 days for the first year of service; 12 days per year for 1 to 10 years of service; 18 days per year for 10 to 15 years of service; and 24 days per year for over 15 years of service. Employees are allowed to accumulate vacation up to a maximum equal to the number of vacation days earned in a given calendar year plus 6 days. Days accumulated over this amount will have to be taken or will be lost. Outstanding vacation leave up to a maximum of 30 days is payable upon termination of employment with the City.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accrued Liabilities and Long-term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the noncurrent portion of capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, other governments and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Fund Balance Classifications

The City has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (required implementation date of September 2011). This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the City to classify and report amounts in the appropriate fund balance classifications. The City's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned.

The City reports the following classifications:

Nonspendable Fund Balance — Nonspendable fund balances are amounts that cannot be spent because they are either: (a) not in spendable form—such as inventory or prepaid insurance, or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance Classifications (Concluded)

Restricted Fund Balance — Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions are placed on fund balances when legally enforceable legislation establishes a specific purpose for the funds. Legal enforceability means that the City can be compelled by an external party (e.g., citizens, public interest groups, the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance — Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the City Council. Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the City Council. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance — Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (a) the City Treasure, or (b) an appointed body (e.g., a budget or finance committee) or official to which the City Council have delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned fund balance includes: (a) all remaining amounts that are reported in governmental funds (other than the general fund) that are not classified as non-spendable, restricted, or committed, and (b) amounts in the general fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance — Unassigned fund balance is the residual classification for the general fund. This classification represents general fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the general fund.

K. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

L. Net Position Flow Assumptions

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

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

M. Estimates

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

N. Property Taxes

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

Bonner County – Due from Bonner County are taxes and other county collections allocable to the fiscal year ended September 30, 2014, which were collected and held by the county at September 30, 2014, but not yet remitted to the City until after September 30, 2014.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to September 1, the Finance Director, the Mayor, and the City Council prepare a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted at the city hall to obtain taxpayer comments.
- 3) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- 4) The City Council by following the same budgetary procedures used to adopt the original budget may amend it to a greater amount if additional revenue will accrue to the City as a result of increases in state or federal grants or allocations, as a result of an increase in revenues from any source other than ad valorem tax revenues or as a result of an increase in enterprise funds to finance the operation and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges.
- 5) Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds and capital project funds.
- 6) Budgets for the general and special revenue funds are adopted on a basis that differs with generally accepted accounting principles (GAAP) as applied to government units. Generally accepted accounting principles require that the total cost of equipment purchased through capital leases for the current year be recorded as an expenditure. The City budgets for the payment on these capital leases only and not the total cost of the equipment.
- 7) Budgeted amounts are as originally adopted or as amended by the City Council.

The City does not use the encumbrance method of accounting.

NOTE 3: CASH AND INVESTMENTS

General:

State statutes authorize the City's deposits and investments. The City is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred during the year.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 3: CASH AND INVESTMENTS (CONCLUDED)

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the City's deposits and investments may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2014, the City's deposits and investments were not exposed to custodial credit risk as follows:

Deposits without exposure to custodial credit risk:

| | |
|---|---------------------|
| Amount insured by FDIC | \$ 24,484 |
| Amount collateralized with securities held in trust, but not to the City's name | <u>27,202,300</u> |
| Total deposits without exposure to custodial credit risk | <u>\$27,226,784</u> |

The following is a recap of the carrying amount:

| | |
|----------------------|---------------------|
| Cash and investments | \$12,637,559 |
| Restricted cash | 14,575,960 |
| Fiduciary fund cash | <u>2,171</u> |
| | <u>\$27,215,690</u> |

Fair value:

The City invests in two 2a7-like pools, the Idaho State Investment Pool and Diversified Bond Fund (DBF). The advisory board of the Idaho State Investment Pool and DBF is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool and DBF are duly chartered and administered by the State Treasurer's office and consist of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The balances above that the City has in the State Investment Pool DBF are carried at cost which approximates fair market value. The City's portion of the State Investment Pool and DBF had an unrealized gain of \$28,727 and \$30,498 respectively as of September 30, 2014; this unrealized gain has not been recorded by the City.

The City considers funds held in the State Investment Pool and DBF to be cash equivalents, as the City is able to liquidate their account at any time.

Credit risk:

The Idaho State Investment Pool and DBF do not have an established credit rating, but invests in entities with credit ratings as stipulated by Idaho code. The City does not have a formal policy for credit risk. Financial information on the State Investment Pool and DBF can be obtained by contacting the Idaho State Treasurer.

Supplemental Cash Flow Disclosures - For purposes of the statement of cash flows, cash includes unrestricted as well as restricted cash.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 4: ACCOUNTS RECEIVABLE

Enterprise accounts receivable consist of the following as of September 30, 2014:

| Receivables | Water | Sewer | Bond Payment | Street Lights | Sanitation | Total |
|-----------------------------------|------------------|------------------|-----------------|------------------|------------------|---------------------|
| Accounts | \$577,773 | \$585,302 | \$ - | \$ 21,382 | \$ 48,116 | \$ 1,232,573 |
| Interest | 763 | 886 | 1,068 | 21 | 11 | 2,749 |
| Gross receivables | 578,536 | 586,188 | 1,068 | 21,403 | 48,127 | 1,235,322 |
| Less: Allowance for uncollectible | (5,080) | (3,369) | - | (246) | (525) | (9,220) |
| Net receivables | <u>\$573,456</u> | <u>\$582,819</u> | <u>\$ 1,068</u> | <u>\$ 21,157</u> | <u>\$ 47,602</u> | <u>\$ 1,226,102</u> |

NOTE 5: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2014, and are recorded in the debt service fund:

Deferred principal amounts not currently due, but due at a future date \$144,432

NOTE 6: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

| | Beginning Balance | Increases | Decreases | Adjustments | Ending Balance |
|--|----------------------|---------------------|----------------|-------------|---------------------|
| Governmental activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 2,272,751 | \$ - | \$ - | \$ - | \$ 2,272,751 |
| Construction in progress | 85,064 | 119,783 | - | - | 204,847 |
| Total capital assets, not being depreciated | <u>2,357,815</u> | <u>119,783</u> | <u>-</u> | <u>-</u> | <u>2,477,598</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 2,072,962 | - | - | - | 2,072,962 |
| Improvements other than buildings | 5,290,816 | 187,711 | - | - | 5,478,527 |
| Machinery and equipment | 3,497,187 | 117,449 | (5,531) | - | 3,609,105 |
| Infrastructure | 6,130 | - | - | - | 6,130 |
| Total capital assets being depreciated | <u>10,867,095</u> | <u>305,160</u> | <u>(5,531)</u> | <u>-</u> | <u>11,166,724</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (892,372) | (36,682) | - | - | (929,054) |
| Other improvements | (1,702,618) | (295,840) | - | - | (1,998,458) |
| Machinery and equipment | (2,531,326) | (222,318) | 5,531 | - | (2,748,113) |
| Infrastructure | (1,516) | (81) | - | - | (1,597) |
| Total accumulated depreciation | <u>(5,127,832)</u> | <u>(554,921)</u> | <u>5,531</u> | <u>-</u> | <u>(5,677,222)</u> |
| Total capital assets, being depreciated, net | <u>5,739,263</u> | <u>(249,761)</u> | <u>-</u> | <u>-</u> | <u>5,489,502</u> |
| Governmental activities capital assets, net | <u>\$ 8,097,078</u> | <u>\$ (129,978)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,967,100</u> |

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 6: CHANGES IN FIXED ASSETS (CONCLUDED)

| | Beginning Balance | Increases | Decreases | Adjustments | Ending Balance |
|--|----------------------|----------------------|------------------------|---------------|----------------------|
| Business-type activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 6,029,767 | \$ - | \$ - | \$ - | \$ 6,029,767 |
| Construction in progress | 16,735,141 | 31,139 | (16,571,307) | - | 194,973 |
| Total capital assets, not being depreciated | <u>22,764,908</u> | <u>31,139</u> | <u>(16,571,307)</u> | <u>-</u> | <u>6,224,740</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 527,400 | - | - | - | 527,400 |
| Infrastructure | 32,420,963 | 20,006,799 | (15,000) | (1) | 52,412,761 |
| Machinery & equipment | 2,135,227 | - | - | - | 2,135,227 |
| Improvements other than buildings | 268,396 | - | - | - | 268,396 |
| Total capital assets, being depreciated | <u>35,351,986</u> | <u>20,006,799</u> | <u>(15,000)</u> | <u>(1)</u> | <u>55,343,784</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (165,690) | (10,164) | - | - | (175,854) |
| Infrastructure | (7,956,150) | (991,908) | 6,750 | - | (8,941,308) |
| Machinery & equipment | (1,132,625) | (119,707) | - | - | (1,252,332) |
| Improvements | (137,455) | (13,195) | - | - | (150,650) |
| Total accumulated depreciation | <u>(9,391,920)</u> | <u>(1,134,974)</u> | <u>6,750</u> | <u>-</u> | <u>(10,520,144)</u> |
| Total capital assets, being depreciated, net | <u>25,960,066</u> | <u>18,871,825</u> | <u>(8,250)</u> | <u>(1)</u> | <u>44,823,640</u> |
| Business type activities capital assets net | <u>\$ 48,724,974</u> | <u>\$ 18,902,964</u> | <u>\$ (16,579,557)</u> | <u>\$ (1)</u> | <u>\$ 51,048,380</u> |

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

| | |
|---|---------------------|
| Governmental activities: | |
| General government | \$ 41,686 |
| Public safety | 144,944 |
| Highways and streets, including depreciation of general infrastructure assets | 158,424 |
| Culture and recreation | 209,867 |
| Total depreciation expense - governmental activities | <u>\$ 554,921</u> |
| Business -type activities: | |
| Water | \$ 419,475 |
| Sewer | 702,829 |
| Street lights | 12,670 |
| Total depreciation expense - business-type activities | <u>\$ 1,134,974</u> |

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 7: BONDS PAYABLE

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

1997 Water Revenue Bonds

| | |
|--|--------------|
| Payable in annual installments of \$146,624 including interest at 4.5%. | \$ 1,498,220 |
|--|--------------|

2007 Sewer Revenue Bonds

| | |
|---|-----------|
| Payable in annual installments ranging from \$646,850 to \$651,562 including interest ranging from 4.0% to 4.250% | 6,430,000 |
|---|-----------|

2012 Water Facility Improvement Bonds

| | |
|---|-----------|
| Payable in annual installments of \$444,510 including 2.75% interest | 8,600,562 |
|---|-----------|

2013 Water Facility Improvement Bonds

| | |
|---|------------------|
| Payable in annual installments of \$382,240 including 2.50% interest | <u>7,817,760</u> |
|---|------------------|

| | |
|--|-----------------------------|
| | <u><u>\$ 24,346,542</u></u> |
|--|-----------------------------|

The above outstanding bonds are secured by a first lien on net revenues earned by enterprise funds. Net revenues are defined in the bond agreements. The enterprise funds are required to establish bond reserves in the amounts of \$444,510, \$146,624, \$382,240 and \$651,562. The required reserve is on hand. The enterprise funds are also required to establish user fees and rates that will yield net revenues equal to at least 1.4 times the debt service that will become due in the following year.

Revenue bond debt service requirements to maturity are as follows:

| <u>Year ending September 30</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|-----------------------------|----------------------------|
| 2015 | \$ 858,995 | \$ 763,836 |
| 2016 | 887,949 | 734,000 |
| 2017 | 917,337 | 703,112 |
| 2018 | 952,174 | 671,156 |
| 2019 | 982,475 | 638,455 |
| 2020-2024 | 5,459,247 | 2,657,467 |
| 2025-2029 | 5,018,006 | 1,649,940 |
| 2030-2034 | 3,072,593 | 1,061,157 |
| 2035-2039 | 3,499,242 | 634,508 |
| 2040-2044 | <u>2,698,525</u> | <u>161,670</u> |
| | <u><u>\$ 24,346,542</u></u> | <u><u>\$ 9,675,302</u></u> |

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 8: SPECIAL ASSESSMENT DEBT

| | Maturity Date | Interest | Principal | Interest | Total |
|--|---------------|----------|----------------|---------------|----------------|
| | | Rate | | | |
| LID #32 | 2015 | 4.75% | 3,418 | 3,438 | 6,856 |
| | 2016 | 4.75% | 3,581 | 3,276 | 6,857 |
| | 2017 | 4.75% | 3,751 | 3,106 | 6,857 |
| | 2018 | 4.75% | 3,929 | 2,928 | 6,857 |
| | 2019 | 4.75% | 4,115 | 2,741 | 6,856 |
| | 2020-2024 | 4.75% | 23,702 | 10,580 | 34,282 |
| | 2025-2029 | 4.75% | 29,888 | 4,390 | 34,278 |
| | | | | <u>72,384</u> | <u>30,459</u> |
| LID #2002-02 | 2015 | 6.00% | 8,440 | 2,855 | 11,295 |
| | 2016 | 6.00% | 8,947 | 2,348 | 11,295 |
| | 2017 | 6.00% | 9,484 | 1,812 | 11,296 |
| | 2018 | 6.00% | 10,053 | 1,242 | 11,295 |
| | 2019 | 6.00% | 10,656 | 639 | 11,295 |
| | | | | <u>47,580</u> | <u>8,896</u> |
| LID #2006-01 | 2015 | 4.50% | 13,428 | 2,585 | 16,013 |
| | 2016 | 4.50% | 14,032 | 1,981 | 16,013 |
| | 2017 | 4.50% | 14,663 | 1,349 | 16,012 |
| | 2018 | 4.50% | 15,323 | 690 | 16,013 |
| | | | | <u>57,446</u> | <u>6,605</u> |
| LID #2007-01 | 2015 | 5.50% | 6,570 | 2,005 | 8,575 |
| | 2016 | 5.50% | 6,932 | 1,643 | 8,575 |
| | 2017 | 5.50% | 7,313 | 1,262 | 8,575 |
| | 2018 | 5.50% | 7,715 | 860 | 8,575 |
| | 2019 | 5.50% | 7,918 | 657 | 8,575 |
| | | | | <u>36,448</u> | <u>6,427</u> |
| Total special assessment bonds payable | | | <u>213,858</u> | <u>52,387</u> | <u>266,245</u> |

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 9: CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of a Sewer Vac Truck with a down payment of \$106,360 where payments will be shared between the Water and Sewer Department, a Bobcat S630 Skidsteer for the Street Department with a down payment of \$14,000 and a Front End Loader for the Water Department with a down payment of \$53,640. These leases qualify as capital leases for accounting purposes.

The assets acquired through capital leases are as follows:

| | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| Asset: | | |
| Machinery and equipment | \$ 36,165 | \$ 506,822 |
| Less: accumulated depreciation | (603) | (40,407) |
| Total | \$ 35,562 | \$ 466,415 |
| Future minimum lease payments are as follows: | | |
| 2015 | \$ 11,558 | \$ 109,772 |
| 2016 | | 109,577 |
| 2017 | - | 40,777 |
| | 11,558 | 260,126 |
| Less amount representing interest | (300) | (12,782) |
| Total | \$ 11,258 | \$ 247,344 |

NOTE 10: CHANGES IN LONG-TERM DEBT

| | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|--|----------------------|-----------|-------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| Compensated absences | \$ 281,811 | \$ 7,219 | \$ - | \$ 289,030 | \$ 173,637 |
| Special assessment bonds payable | 250,713 | - | 36,855 | 213,858 | 31,856 |
| Lease purchase contracts payable | 29,320 | - | 18,062 | 11,258 | 11,258 |
| Governmental activities long-term liabilities | \$ 561,844 | \$ 7,219 | \$ 54,917 | \$ 514,146 | \$ 216,751 |
| Business-type activities: | | | | | |
| Revenue bonds payable | \$25,177,003 | \$ - | \$ 830,461 | \$24,346,542 | \$ 858,995 |
| Lease purchase contracts payable | 423,544 | - | 176,200 | 247,344 | 102,427 |
| Compensated absences | 130,346 | 26,886 | - | 157,232 | 61,889 |
| Business-type activities long-term liabilities | \$25,730,893 | \$ 26,886 | \$1,006,661 | \$24,751,118 | \$ 1,023,311 |

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The government issued revenue bonds to finance its water and sewer departments. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the water department and sewer department is presented on the following page.

| | Water Funds | Sewer Funds |
|--|---------------|---------------|
| Condensed Statement of net position: | | |
| Assets: | | |
| Current assets | \$ 4,625,753 | \$ 2,988,669 |
| Restricted assets - cash investments | 4,631,031 | 6,111,659 |
| Capital assets | 34,527,266 | 16,416,292 |
| Total assets | 43,784,050 | 25,516,620 |
| Liabilities: | | |
| Current liabilities | 252,782 | 293,159 |
| Noncurrent liabilities | 191,341 | 48,919 |
| Total liabilities | 444,123 | 342,078 |
| Net position: | | |
| Net investment in capital assets | 34,345,814 | 16,350,400 |
| Restricted | 5,877,277 | 6,763,620 |
| Unrestricted | 3,116,836 | 2,060,520 |
| Total Net Position | \$ 43,339,927 | \$ 25,174,540 |
| | | |
| | Water Funds | Sewer Funds |
| Condensed statement of revenues, expenses and changes in net position: | | |
| Charges for services including sales and miscellaneous | \$ 3,236,740 | \$ 3,549,091 |
| Depreciation expense | (419,475) | (702,829) |
| Other operating expenses | (1,271,276) | (856,204) |
| Operating income | 1,545,989 | 1,990,058 |
| Nonoperating revenues (expenses): | | |
| Investment earnings, net | 2,223 | 6,207 |
| Gain(loss) on sale of assets | (7,750) | - |
| Grant income | 1,099,108 | - |
| Capital contributions | 383,553 | 244,919 |
| Operating transfers in (out) | 733,246 | (1,084,320) |
| Total nonoperating revenues (expenses) | 2,210,380 | (833,197) |
| Change in net position | 3,756,369 | 1,156,861 |
| Beginning net position | 39,583,558 | 24,017,681 |
| Ending net position | \$ 43,339,927 | \$ 25,174,540 |
| Condensed statement of cash flows: | | |
| Net cash provided (used) by: | | |
| Operating activities | \$ 2,029,422 | \$ 2,800,849 |
| Noncapital financing activities | 2,168,133 | (839,404) |
| Capital and related financial activities | (3,293,336) | (354,141) |
| Investing activities | 2,223 | 11,354 |
| Net increase | 906,442 | 1,618,658 |
| Beginning cash and cash equivalents | 7,640,079 | 6,898,854 |
| Ending cash and cash equivalents | \$ 8,546,521 | \$ 8,517,502 |

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 12: INTERFUND TRANSACTIONS

Due to or from other funds as of September 30, 2014:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-----------|
| Water | Impact Fees | \$ 47,774 |
| Total all funds | | \$ 47,774 |

Interfund transfers (net) as of September 30, 2014:

| | Transfers In | Transfers Out |
|-----------------------------|--------------|---------------|
| General fund | \$ 1,234,610 | \$ 36,952 |
| Nonmajor governmental funds | 36,952 | 34,804 |
| Enterprise funds | 2,942,133 | 3,293,207 |
| Bond payment fund | 2,132,615 | 781,550 |
| Bond construction fund | - | 2,100,048 |
| Nonmajor enterprise funds | - | 99,749 |
| | \$ 6,346,310 | \$ 6,346,310 |

The principal purposes for the transfer of funds from the Enterprise Funds to the General Fund are to cover the administration costs of operating the City's utility division.

NOTE 13: DEFINED BENEFIT PENSION PLAN

Public Employee Retirement System of Idaho (PERSI) - The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand-alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

The actuarially determined contribution requirements of the City of Sandpoint and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2014, the required contribution rate as a percentage of covered payrolls for members was 6.79% for general members and 8.36% for police/firefighters. The employer rate as a percentage of covered payroll was 11.32% for general members and 11.66% for police/firefighter members. The City of Sandpoint employer contributions required and paid were \$611,858, \$729,859 and \$544,025 for the three years ended September 30, 2014, 2013 and 2012 respectively.

NOTE 14: CONTINGENCIES

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement from grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City management believes such disallowances, if any, will be immaterial. The City is a party to legal actions arising in the ordinary course of its business. In management's opinion, the City has adequate legal defenses and/or insurance coverage regarding these legal actions and does not believe that they will materially affect the City's operations or financial position.

NOTE 15: DEFERRED COMPENSATION PLANS

Employees of the City may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and defer paying taxes on such portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

A financial advisor, unrelated to the City, administers the deferred compensation plan. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the City, subject only to the claims of the general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the City, and each participant's rights are equal to his or her share of the fair market value of the plan assets. The City believes that it is unlikely that plan assets will be needed to satisfy any claims of general creditors. It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 16: 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 contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

NOTE 17: DEFICIT FUND BALANCES

A deficit balance exists in the following individual funds:

| | <u>Deficit Net Position Balance</u> |
|-------------------|-------------------------------------|
| Bond Payment Fund | \$ <u>(22,874,644)</u> |

NOTE 18: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits held in checking and money market accounts with a local bank. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At September 30, 2014, the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Both the carrying amount of cash and cash equivalents on the Agency's books, and bank balances at September 30, 2014, totaled \$2,840,041 (including restricted cash and cash equivalents). A summary of the total insured and uninsured bank balances at September 30, 2014 is as follows:

| | |
|-------------------------|---------------------|
| Total bank balances | \$2,840,041 |
| Portion insured by FDIC | <u>(250,000)</u> |
| Uninsured bank balances | \$ <u>2,590,041</u> |

RECEIVABLES

Receivables at September 30, 2014 are summarized as follows:

| | |
|--------------------------------------|-------------------|
| Unearned property taxes receivable | \$945,269 |
| Property taxes receivable | 412 |
| Delinquent property taxes receivable | <u>10,496</u> |
| | \$ <u>956,177</u> |

Unearned property taxes receivable consist of property taxes levied for the next fiscal year. These amounts have been offset by unearned property tax revenue in the entity-wide and governmental funds financial statements. Property taxes receivable consist of property taxes received within the first 60 days after the end of the Agency's fiscal year end that relate to taxes levied for the current or prior fiscal years. Delinquent property taxes receivable consist of property taxes levied for the current and prior fiscal years, which were not collected within the current period or within 60 days after the end of the Agency's fiscal year. These amounts have been offset by deferred revenue in the governmental funds financial statements.

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE 18: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONTINUED)

LONG-TERM OBLIGATIONS

Revenue Allocation Note Payable

On August 8, 2011, the Agency issued a \$2,000,000 revenue allocation note, with an interest rate of 3.50% per annum. The purpose of note is for the acquisition, construction and installation of public improvements within the Downtown District. The note requires payments of \$125,435, payable in semi-annual installments beginning March 15, 2012, and matures on March 15, 2021.

In connection with this transaction, the Agency recognized deferred expenses, totaling \$29,222 for the costs of issuance. GASB Statement No. 65 became effective for the Agency during 2014. As a result, the implementation of Statement No. 65 impacted the way the Agency reports costs of note issuances, resulting in a prior period adjustment.

At September 30, 2014, the Agency had restricted cash of \$125,900, which is represented by a separate debt service payment account. The use of this cash is restricted to paying the semi-annual installments on the note.

The annual requirements to pay the above revenue allocation note are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|--------------------|------------------|--------------------|
| 2015 | \$ 201,387 | \$ 49,484 | \$ 250,871 |
| 2016 | 208,474 | 42,397 | 250,871 |
| 2017 | 216,061 | 34,810 | 250,871 |
| 2018 | 223,796 | 27,075 | 250,871 |
| 2019 | 231,808 | 19,063 | 250,871 |
| 2020 | 240,098 | 10,773 | 250,871 |
| 2021 | <u>123,287</u> | <u>2,148</u> | <u>125,435</u> |
| Total | <u>\$1,444,911</u> | <u>\$185,750</u> | <u>\$1,630,661</u> |

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2014 as follows:

| | <u>Long-Term Obligations September 30, 2013</u> | <u>Long-Term Obligations Incurred</u> | <u>Long-Term Obligations Paid</u> | <u>Long-Term Obligations September 30, 2014</u> | <u>Due Within One Year</u> |
|----------------------------|---|---|---|---|--|
| Revenue allocation note | <u>\$1,639,318</u> | <u>\$ -</u> | <u>\$(194,407)</u> | <u>\$1,444,911</u> | <u>\$201,387</u> |

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 18: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONCLUDED)

COMMITMENTS AND CONTINGENCIES (SURA)

As of September 30, 2014, the Agency was having discussions with several interested parties on future urban development projects, although none of these projects had been formalized and the Agency had not entered into any agreements to provide funding for the projects. It is anticipated that such projects will be funded through the Agency and tax increment financing in the future.

During 2011, the Agency entered into an agreement with the Panida Theater in Sandpoint, Idaho related to the repair and restoration of the historic building. The agreement calls for the Agency's Downtown District to provide funding of \$450,000 over a five-year period, in maximum annual installments of \$90,000, as work is completed. Any funding below the \$90,000 annual commitment may be assigned to the following year's commitment on the project. As of September 30, 2014, the Agency had provided funding-to-date totaling \$207,036 related to this project. The remaining maximum commitment on this project at September 30, 2014 was \$242,964.

During 2014, the Agency entered into an agreement with the Sandpoint Business Improvement District (SBID) to provide funding for approved economic revitalization projects. The agreement calls for the Agency's Downtown District to provide funding of up to \$45,000, as work is completed. As of September 30, 2014, the Agency had provided funding-to-date totaling \$30,258 related to these projects. The remaining commitment on these projects at September 30, 2014 was \$14,742.

During 2014, the Agency entered into an agreement with the City of Sandpoint, Idaho (the City) to provide funding for capital improvements to be constructed on Third and Fourth Avenues, between Church and Pine Street, as part of the City's Downtown Revitalization Plan. The agreement calls for the Agency's Downtown District to provide funding of up to \$496,281, as work is completed. As of September 30, 2014, the Agency had provided funding-to-date totaling \$485,574 related to these projects. The remaining commitment on these projects at September 30, 2014 was \$10,707.

During 2014, the Agency entered into an agreement with the Sandpoint Airport to provide funding for temporary repairs of the airport's runway, so that it may remain usable until it can be rebuilt in 2019. The agreement calls for the Agency's Northern District to provide funding of up to \$400,000, as work is completed. As of September 30, 2014, the Agency has not provided any funding-to-date.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

City of Sandpoint

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

For the Year Ended September 30, 2014

| | Final Budgeted Amounts * | Actual Amounts | Variance With Final Budget |
|---|---|---------------------------|---------------------------------------|
| REVENUES | | | |
| Taxes and special assessments | \$ 3,755,166 | \$ 3,810,915 | \$ 55,749 |
| Licenses and permits | 186,730 | 209,309 | 22,579 |
| Grants | 2,493,700 | 233,620 | (2,260,080) |
| Intergovernmental revenues | 2,006,750 | 1,972,467 | (34,283) |
| Interest | 7,325 | 6,075 | (1,250) |
| Charges for services | 250,300 | 374,199 | 123,899 |
| Fines and forfeits | 73,000 | 81,617 | 8,617 |
| Miscellaneous revenue | 346,615 | 6,134 | (340,481) |
| Total revenues | 9,119,586 | 6,694,336 | (2,425,250) |
| EXPENDITURES | | | |
| General government | 2,147,576 | 1,731,977 | 415,599 |
| Public safety | 3,349,301 | 2,996,694 | 352,607 |
| Highways and streets | 2,174,105 | 1,191,365 | 982,740 |
| Culture and recreation | 775,831 | 696,875 | 78,956 |
| Capital outlay | 1,837,090 | 249,656 | 1,587,434 |
| Debt service: | | | |
| Principal retirement | 18,716 | 18,061 | 655 |
| Interest expense | 2,495 | 950 | 1,545 |
| Total expenditures | 10,305,114 | 6,885,578 | 3,419,536 |
| (Deficiency) of revenues (under) expenditures | (1,185,528) | (191,242) | 994,286 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of assets | 5,000 | 900 | (4,100) |
| Transfers in | 1,234,610 | 1,234,610 | - |
| Transfers (out) | (54,082) | (36,952) | 17,130 |
| Total other financing sources (uses) | 1,185,528 | 1,198,558 | 13,030 |
| Net change in fund balances | - | 1,007,316 | 1,007,316 |
| Fund balances - beginning | - | 4,350,115 | 4,350,115 |
| Fund balances - ending | \$ - | \$ 5,357,431 | \$ 5,357,431 |

* Final Budgeted amounts were not amended.

FINANCIAL SECTION

OTHER SUPPLEMENTARY INFORMATION

City of Sandpoint

NONMAJOR GOVERNMENTAL FUNDS September 30, 2014

Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources and payments of special assessment bond principal and interest from special assessment levies.

LID #32 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID #2002-01 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID #2002-02 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID #2006-01 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID #2007-01 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID Guarantee – accounts for the additional security for the LID Bonds. This is established by ordinance.

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

Recreation – This fund is used to account for tax levies and program revenues restricted to the administration and development of recreation programs.

Parks Improvement – This fund is used to account for impact fees, user fees, program fees and private donations restricted for the development of public properties devoted to parks and recreation.

Impact Fees – This fund is used to account for impact fee revenue restricted for the development as identified in the City's "Development Impact Fee Program/Capital Improvement Plan".

Bonner Business Center – This fund is used to account for program revenues restricted to the administration and use of the business center for local small startup businesses.

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2014**

| | Debt Service Funds | Special Revenue Funds | Total Nonmajor Governmental Funds |
|--|-----------------------------------|--------------------------------------|--|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash and investments | \$ - | \$ 488,100 | \$ 488,100 |
| Receivables | 148,146 | 27,973 | 176,119 |
| Restricted assets: | | | |
| Cash and investments | <u>287,333</u> | <u>1,517,324</u> | <u>1,804,657</u> |
| Total assets | <u><u>\$ 435,479</u></u> | <u><u>\$ 2,033,397</u></u> | <u><u>\$ 2,468,876</u></u> |
| LIABILITIES | | | |
| Vouchers payable | \$ - | \$ 57,126 | \$ 57,126 |
| Customer deposits | - | 7,941 | 7,941 |
| Due to other funds | - | <u>47,774</u> | <u>47,774</u> |
| Total liabilities | <u>-</u> | <u>112,841</u> | <u>112,841</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue-special assessments | 144,432 | 6,021 | 150,453 |
| Total deferred inflows of resources | <u>144,432</u> | <u>6,021</u> | <u>150,453</u> |
| FUND BALANCES | | | |
| Restricted | 291,047 | - | 291,047 |
| Committed | - | 562,000 | 562,000 |
| Assigned | - | <u>1,352,535</u> | <u>1,352,535</u> |
| Total fund balance | <u>291,047</u> | <u>1,914,535</u> | <u>2,205,582</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u><u>\$ 435,479</u></u> | <u><u>\$ 2,033,397</u></u> | <u><u>\$ 2,468,876</u></u> |

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014**

| | Debt Service Funds | Special Revenue Funds | Total Nonmajor Governmental Funds |
|---|-----------------------------------|--------------------------------------|--|
| REVENUES | | | |
| Taxes and special assessments | \$ 36,263 | \$ 160,863 | \$ 197,126 |
| Impact fees | - | 112,835 | 112,835 |
| Interest | 281 | 1,928 | 2,209 |
| Charges for services | - | 652,268 | 652,268 |
| Miscellaneous revenues | - | 23,565 | 23,565 |
| Total revenues | <u>36,544</u> | <u>951,459</u> | <u>988,003</u> |
| EXPENDITURES | | | |
| General government | - | 90,615 | 90,615 |
| Culture and recreation | - | 323,362 | 323,362 |
| Capital projects | - | 175,525 | 175,525 |
| Debt service: | | | |
| Principal retirement | 36,856 | - | 36,856 |
| Interest expense | 12,866 | - | 12,866 |
| Total expenditures | <u>49,722</u> | <u>589,502</u> | <u>639,224</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(13,178)</u> | <u>361,957</u> | <u>348,779</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 36,952 | 36,952 |
| Transfers (out) | - | (34,804) | (34,804) |
| Total other financing sources (uses) | <u>-</u> | <u>2,148</u> | <u>2,148</u> |
| Net change in fund balances | (13,178) | 364,105 | 350,927 |
| Fund balances - beginning | <u>304,225</u> | <u>1,550,430</u> | <u>1,854,655</u> |
| Fund balances - ending | <u>\$ 291,047</u> | <u>\$ 1,914,535</u> | <u>\$ 2,205,582</u> |

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
September 30, 2014**

| | <u>LID #32</u> | <u>LID #2002-01</u> | <u>LID #2002-02</u> |
|---|--------------------|-------------------------|-------------------------|
| ASSETS | | | |
| Receivables: | | | |
| Special assessments | \$ 27,277 | \$ - | \$ 38,672 |
| Interest | 364 | - | - |
| Restricted assets: | | | |
| Cash and investments | 209,765 | 2,090 | 5,210 |
| Total assets | <u>\$ 237,406</u> | <u>\$ 2,090</u> | <u>\$ 43,882</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue-special assessments | <u>\$ 27,277</u> | <u>\$ -</u> | <u>\$ 38,672</u> |
| Total liabilities | <u>27,277</u> | <u>-</u> | <u>38,672</u> |
| FUND BALANCES | | | |
| Restricted for debt service | <u>210,129</u> | <u>2,090</u> | <u>5,210</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 237,406</u> | <u>\$ 2,090</u> | <u>\$ 43,882</u> |

| LID #2006-01 | LID #2007-01 | LID Guarantee | Total |
|-------------------------|-------------------------|--------------------------|-------------------|
| \$ 41,261 | \$ 37,222 | \$ - | \$ 144,432 |
| 3,346 | - | 4 | 3,714 |
| 21,655 | 10,150 | 38,463 | 287,333 |
| <u>\$ 66,262</u> | <u>\$ 47,372</u> | <u>\$ 38,467</u> | <u>\$ 435,479</u> |
| | | | |
| \$ 41,261 | \$ 37,222 | \$ - | \$ 144,432 |
| <u>41,261</u> | <u>37,222</u> | <u>-</u> | <u>144,432</u> |
| | | | |
| <u>25,001</u> | <u>10,150</u> | <u>38,467</u> | <u>291,047</u> |
| | | | |
| <u>\$ 66,262</u> | <u>\$ 47,372</u> | <u>\$ 38,467</u> | <u>\$ 435,479</u> |

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2014**

| | LID #32 | LID # 2002-01 | LID # 2002-02 |
|--|-------------------|--------------------------|--------------------------|
| REVENUES | | | |
| Special assessments | \$ 2,890 | \$ 4,539 | \$ 9,487 |
| Interest | 185 | 2 | 8 |
| Total revenues | <u>3,075</u> | <u>4,541</u> | <u>9,495</u> |
| EXPENDITURES | | | |
| Debt service: | | | |
| Principal | 3,263 | 6,589 | 7,963 |
| Interest | 3,593 | 395 | 3,332 |
| Total expenditures | <u>6,856</u> | <u>6,984</u> | <u>11,295</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(3,781)</u> | <u>(2,443)</u> | <u>(1,800)</u> |
| Net change in fund balances | (3,781) | (2,443) | (1,800) |
| Fund balances - beginning | <u>213,910</u> | <u>4,533</u> | <u>7,010</u> |
| Fund balances - ending | <u>\$ 210,129</u> | <u>\$ 2,090</u> | <u>\$ 5,210</u> |

| LID # 2006-01 | LID # 2007-01 | LID Guarantee | Total |
|--------------------------|--------------------------|--------------------------|-------------------|
| \$ 10,391 | \$ 8,956 | \$ - | \$ 36,263 |
| 29 | 12 | 45 | 281 |
| <u>10,420</u> | <u>8,968</u> | <u>45</u> | <u>36,544</u> |
| 12,849 | 6,192 | - | 36,856 |
| 3,163 | 2,383 | - | 12,866 |
| <u>16,012</u> | <u>8,575</u> | <u>-</u> | <u>49,722</u> |
| <u>(5,592)</u> | <u>393</u> | <u>45</u> | <u>(13,178)</u> |
| (5,592) | 393 | 45 | (13,178) |
| <u>30,593</u> | <u>9,757</u> | <u>38,422</u> | <u>304,225</u> |
| <u>\$ 25,001</u> | <u>\$ 10,150</u> | <u>\$ 38,467</u> | <u>\$ 291,047</u> |

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2014**

| | <u>Recreation</u> | <u>Impact Fees</u> | <u>Parks Improvement</u> | <u>Bonner Business Center</u> | <u>Total</u> |
|--|-------------------|--------------------|------------------------------|-----------------------------------|---------------------|
| ASSETS | | | | | |
| Cash and investments | \$ 284,004 | \$ - | \$ - | \$ 204,096 | \$ 488,100 |
| Receivables: | | | | | |
| Taxes | 7,867 | - | - | - | 7,867 |
| Accounts | 2,221 | 54 | 1,097 | 16,734 | 20,106 |
| Restricted assets: | | | | | |
| Cash and investments, at cost | - | 606,479 | 910,845 | - | 1,517,324 |
| Total assets | <u>\$ 294,092</u> | <u>\$ 606,533</u> | <u>\$ 911,942</u> | <u>\$ 220,830</u> | <u>\$ 2,033,397</u> |
| LIABILITIES | | | | | |
| Vouchers payable | \$ 20,805 | \$ - | \$ 6,970 | \$ 29,351 | \$ 57,126 |
| Customer deposits | - | - | - | 7,941 | 7,941 |
| Due to other funds | - | 47,774 | - | - | 47,774 |
| Total liabilities | <u>20,805</u> | <u>47,774</u> | <u>6,970</u> | <u>37,292</u> | <u>112,841</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenue-property taxes | 6,021 | - | - | - | 6,021 |
| Total deferred inflows of resources | <u>6,021</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,021</u> |
| FUND BALANCES | | | | | |
| Committed | - | 522,000 | 40,000 | - | 562,000 |
| Assigned | 267,266 | 36,759 | 864,972 | 183,538 | 1,352,535 |
| Total fund balances | <u>267,266</u> | <u>558,759</u> | <u>904,972</u> | <u>183,538</u> | <u>1,914,535</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 294,092</u> | <u>\$ 606,533</u> | <u>\$ 911,942</u> | <u>\$ 220,830</u> | <u>\$ 2,033,397</u> |

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2014**

| | <u>Recreation</u> | <u>Impact Fees</u> | <u>Parks Improvement</u> | <u>Bonner Business Center</u> | <u>Total</u> |
|--|-------------------|--------------------|------------------------------|-----------------------------------|---------------------|
| REVENUES | | | | | |
| Property taxes | \$ 160,863 | \$ - | \$ - | \$ - | \$ 160,863 |
| Impact fees | - | 112,835 | - | - | 112,835 |
| Interest | 329 | 601 | 998 | - | 1,928 |
| Services | 81,177 | - | 242,652 | 328,439 | 652,268 |
| Miscellaneous | 2,475 | - | 15,832 | 5,258 | 23,565 |
| Total revenues | <u>244,844</u> | <u>113,436</u> | <u>259,482</u> | <u>333,697</u> | <u>951,459</u> |
| EXPENDITURES | | | | | |
| General government | - | - | - | 90,615 | 90,615 |
| Culture and recreation | 245,061 | - | 78,301 | - | 323,362 |
| Capital outlay | - | 69,920 | 79,492 | 26,113 | 175,525 |
| Total expenditures | <u>245,061</u> | <u>69,920</u> | <u>157,793</u> | <u>116,728</u> | <u>589,502</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(217)</u> | <u>43,516</u> | <u>101,689</u> | <u>216,969</u> | <u>361,957</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 36,952 | - | - | - | 36,952 |
| Transfers (out) | (2,625) | - | - | (32,179) | (34,804) |
| Total other financing sources (uses) | <u>34,327</u> | <u>-</u> | <u>-</u> | <u>(32,179)</u> | <u>2,148</u> |
| Net change in fund balances | 34,110 | 43,516 | 101,689 | 184,790 | 364,105 |
| Fund balances - beginning | <u>233,156</u> | <u>515,243</u> | <u>803,283</u> | <u>(1,252)</u> | <u>1,550,430</u> |
| Fund balances - ending | <u>\$ 267,266</u> | <u>\$ 558,759</u> | <u>\$ 904,972</u> | <u>\$ 183,538</u> | <u>\$ 1,914,535</u> |

City of Sandpoint

NONMAJOR BUSINESS-TYPE FUNDS September 30, 2014

Activities

The Enterprise Funds are used to account for the City's street lighting and sanitation. These operations are financed and operated in a manner similar to a private business enterprise. The intent of the City is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are descriptions of each nonmajor enterprise fund.

Street Lighting Fund - To account for the provision of street lighting services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations and maintenance.

Sanitation Fund - To account for the provision of sanitation services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations and maintenance.

City of Sandpoint

**COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
September 30, 2014**

| | Street Lights | Sanitation | Total |
|---------------------------------------|--------------------------|-------------------|-------------------|
| ASSETS | | | |
| Cash and investments | \$ 232,024 | \$ 121,029 | \$ 353,053 |
| Receivables | 21,157 | 47,602 | 68,759 |
| Fixed assets, net of depreciation | 104,822 | - | 104,822 |
| Total assets | <u>358,003</u> | <u>168,631</u> | <u>526,634</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 9,711 | 25,839 | 35,550 |
| Total liabilities | <u>9,711</u> | <u>25,839</u> | <u>35,550</u> |
| NET POSITION | | | |
| Net investment in capital assets | 104,822 | - | 104,822 |
| Restricted | 12,680 | - | 12,680 |
| Unrestricted | 230,790 | 142,792 | 373,582 |
| Total net position | <u>\$ 348,292</u> | <u>\$ 142,792</u> | <u>\$ 491,084</u> |

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION NONMAJOR PROPRIETARY FUNDS For the Year Ended September 30, 2014

| | <u>Street Lights</u> | <u>Sanitation</u> | <u>Total</u> |
|--------------------------------|--------------------------|-------------------|-------------------|
| Operating revenues: | | | |
| Charges for services | \$ 164,915 | \$ 391,494 | \$ 556,409 |
| Total operating revenues | <u>164,915</u> | <u>391,494</u> | <u>556,409</u> |
| Operating expenses: | | | |
| Contractual services | - | 298,384 | 298,384 |
| Heat, lights, and power | 106,849 | 5,353 | 112,202 |
| Maintenance | 3,075 | - | 3,075 |
| Depreciation | 12,670 | - | 12,670 |
| Total operating expenses | <u>122,594</u> | <u>303,737</u> | <u>426,331</u> |
| Operating income | <u>42,321</u> | <u>87,757</u> | <u>130,078</u> |
| Nonoperating revenues: | | | |
| Interest income | 261 | 130 | 391 |
| Total nonoperating revenues | <u>261</u> | <u>130</u> | <u>391</u> |
| Income before transfers | 42,582 | 87,887 | 130,469 |
| Transfers (out) | <u>(35,506)</u> | <u>(64,243)</u> | <u>(99,749)</u> |
| Change in net position | 7,076 | 23,644 | 30,720 |
| Total net position - beginning | <u>341,216</u> | <u>119,148</u> | <u>460,364</u> |
| Total net position - ending | <u>\$ 348,292</u> | <u>\$ 142,792</u> | <u>\$ 491,084</u> |

City of Sandpoint

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2014**

| | <u>Street Lights</u> | <u>Sanitation</u> | <u>Total</u> |
|--|--------------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers and users | \$ 164,589 | \$ 390,538 | \$ 555,127 |
| Payments to suppliers | (109,473) | (303,090) | (412,563) |
| Net cash provided by operating activities | <u>55,116</u> | <u>87,448</u> | <u>142,564</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating transfers (out) | (35,506) | (64,243) | (99,749) |
| Net cash (used) by noncapital financing activities | <u>(35,506)</u> | <u>(64,243)</u> | <u>(99,749)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest income, net | 261 | 130 | 391 |
| Net cash provided by investing activities | <u>261</u> | <u>130</u> | <u>391</u> |
| Net increase in cash and investments | 19,871 | 23,335 | 43,206 |
| Cash and investments - beginning | <u>212,153</u> | <u>97,694</u> | <u>309,847</u> |
| Cash and investments - ending | <u>\$ 232,024</u> | <u>\$ 121,029</u> | <u>\$ 353,053</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 42,321 | \$ 87,757 | \$ 130,078 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | |
| Depreciation | 12,670 | - | 12,670 |
| Changes in assets and liabilities: | | | |
| (Increase) in receivables | (326) | (956) | (1,282) |
| Increase in vouchers payable | 451 | 647 | 1,098 |
| Net cash provided by operating activities | <u>\$ 55,116</u> | <u>\$ 87,448</u> | <u>\$ 142,564</u> |

SINGLE AUDIT SECTION

**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***

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Sandpoint
Sandpoint, Idaho 83864

We have audited 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sandpoint as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Sandpoint's basic financial statements, and have issued our report thereon dated February 17, 2015. Our report includes a reference to other auditors who audited the financial statements of Sandpoint Urban Renewal Agency, as described in our report on City of Sandpoint's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Sandpoint'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 of Sandpoint's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Sandpoint'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 a 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 of Sandpoint'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*.

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 (CONCLUDED)

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.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Co., P.A.

February 17, 2015

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

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Sandpoint
Sandpoint, ID 83864

Report on Compliance for Each Major Federal Program

We have audited City of Sandpoint's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of City of Sandpoint's major federal programs for the year ended September 30, 2014. City of Sandpoint'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Sandpoint'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sandpoint'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 City of Sandpoint's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Sandpoint 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, 2014.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)

Report on Internal Control over Compliance

Management of City of Sandpoint 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 City of Sandpoint's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Sandpoint'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 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 not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Co., P.A.

February 17, 2015

City of Sandpoint

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
September 30, 2014**

| Program Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|------------------------|---|----------------------|
| U.S. Department of Interior Pass Through Program from: Historical Society Historic Preservation | 15.904 | 826000258 00 | \$ <u>4,000</u> |
| U.S. Department of Transportation Pass Through Program from: Department of transportation Highway planning and construction | 20.205 | 826000258 00 | 88,453 |
| Alcohol Traffic Safety and Drunk Driving Prevention | 20.601 | 826000258 00 | <u>4,500</u> |
| Total U.S. Department of Transportation | | | <u>92,953</u> |
| U.S. Department of Agriculture Water and waste disposal systems for rural communities | 10.760 | | <u>3,616,882</u> |
| Total Federal Awards | | | <u>\$ 3,713,835</u> |

City of Sandpoint

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2014

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sandpoint and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

City of Sandpoint

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
Significant deficiency(ies) identified that are not considered to be material weakness(es) Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

Table with 2 columns: CFDA Number(s), Name of Federal Program or Cluster. Row 1: 10.760 Water and waste disposal systems for rural communities

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

City of Sandpoint

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2014

Section II - Findings – Financial Statement Audit

We noted no findings relating to the financial statements, 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 no findings relating to the Federal Awards Programs, which are required to be reported in accordance with generally accepted *Government Auditing Standards*.

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

No prior year audit relating to Federal Awards.