

# CITY OF SANDPOINT

FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

**CITY OF SANDPOINT**  
**September 30, 2012**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT



## INDEPENDENT AUDITORS' REPORT

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

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 the City of Sandpoint, Idaho as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sandpoint, Idaho's management. Our responsibility is to express opinions on the basic financial statements based on our audit. We did not audit the financial statements of the component unit, Sandpoint Urban Renewal Agency for the year ended September 30, 2012. 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 component unit, is based on the report of 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of 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 the City of Sandpoint, Idaho as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of the City of Sandpoint, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in assessing the results of our audit.

## INDEPENDENT AUDITORS' REPORT (CONCLUDED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 18 and 52 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandpoint's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Magnuson, McHugh & Company, P.A.*

MAGNUSON, MCHUGH & CO., P.A.

Coeur d'Alene, Idaho  
January 31, 2013

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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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, 2012. 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 of the City of Sandpoint exceeded its liabilities at the close of the most recent fiscal year by \$53,138,267. Of this amount \$9,125,456 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total unrestricted net assets increased by \$1,639,004 of which only .1% (\$1,767) is related to the activity of the governmental funds.
- As of the close of the current fiscal year, the City of Sandpoint's governmental funds balance sheet reports a combined ending fund balance of \$5,675,996, an increase of \$39,214 over the prior fiscal year. While the non-major governmental funds increased \$322,419 we see a decrease in the general fund of \$(283,205).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,335,324 or 43% of the total general fund expenditures.
- Construction is almost complete for the City's water treatment facility expansion and enhancement project. It is currently expected to be completed on schedule. The City closed on one bond for \$9,000,000 obtaining an interest rate of 2.75% during the year and expects to close the second bond in February 2013. The project includes a \$1,000,000 grant awarded from USDA.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to 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 assets* presents information on all of the City of Sandpoint's assets and liabilities, with the difference between the two reported as *net assets*. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sandpoint is improving or deteriorating.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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).

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, 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.

**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 activities* in the government-wide financial statements. By doing so, readers 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 separately maintains eleven governmental funds, including a fund per city ordinance, to track the revenues and expenditures for City impact fees. 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 ten 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* elsewhere in this report.

The City of Sandpoint adopts an annual appropriated budget for its general fund and special revenue funds. 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 19 – 21 of this report.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

**Proprietary funds** – *Enterprise funds* report the same functions presented as the *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. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements elsewhere in this report. The internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 26 – 31 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 reflected 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 32 of this report.

**Notes to Financial Statements** – The notes provide additional information that is essential to 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 33 – 51 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds and internal service funds. They are presented immediately following the required supplementary information. Combining and individual fund statements and schedules for non-major funds can be found on pages 53 – 65 of this report.

### Governmental-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Sandpoint, assets exceeded liabilities by \$53,138,267 at the close of the most recent fiscal year.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

By far the largest portion of the City of Sandpoint's net assets (58%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City of Sandpoint uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Sandpoint's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**

### STATEMENTS OF NET ASSETS September 30, 2012 and 2011

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$6,870,231	\$7,281,433	\$16,738,982	\$13,717,869	\$23,609,213	\$20,999,302
Capital assets	7,899,249	7,511,175	46,897,648	36,048,072	54,796,897	43,559,247
Total assets	<u>14,769,480</u>	<u>14,792,608</u>	<u>63,636,630</u>	<u>49,765,941</u>	<u>78,406,110</u>	<u>64,558,549</u>
Long-term liabilities outstanding	585,899	663,211	22,611,787	12,209,188	23,197,686	12,872,399
Other liabilities	811,329	1,231,341	1,258,828	1,145,428	2,070,157	2,376,769
Total liabilities	<u>1,397,228</u>	<u>1,894,552</u>	<u>23,870,615</u>	<u>13,354,616</u>	<u>25,267,843</u>	<u>15,249,168</u>
Net assets:						
Invested in capital assets, net of related debt	7,599,264	7,126,835	23,476,011	23,213,998	31,075,275	30,340,833
Restricted	3,138,796	3,138,796	9,798,740	8,343,300	12,937,536	11,482,096
Unrestricted	2,634,192	2,632,425	6,491,264	4,854,027	9,125,456	7,486,452
Total net assets	<u>\$13,372,252</u>	<u>\$12,898,056</u>	<u>\$39,766,015</u>	<u>\$36,411,325</u>	<u>\$53,138,267</u>	<u>\$49,309,381</u>

A portion of the City of Sandpoint's net assets (24.3%) represents resources that are subject to external restrictions on how they can be used. *Unrestricted net assets* represent 17% or \$9,125,456 and may be used to meet the government's ongoing obligations to 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 assets, 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, 2012

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### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

The government's investment of capital assets, net of related debt increased \$734,442 over prior fiscal year. This change is the result of an increase of \$472,429 in the governmental funds and an increase of \$262,013 to the business-type funds. The increase in the governmental funds is related to the purchase of the land designated as the Pend Oreille Bay Trail. The increase in capital assets, net of related debt in the business-type activities is directly related to the purchase of additional land for the City's watershed.

The City's net assets increased \$3,828,886 during the current fiscal year compared to prior fiscal year's increase of \$1,972,990. This is a reflection in part due to the increase in capital assets listed in prior paragraph and in part due to an increase in current assets related to the business-type (water and sewer) activities of the City.

**Component Unit** – The Sandpoint Urban Renewal Agency's total net assets are \$1,041,153, an increase of \$24,200 from prior fiscal year end reflected in the balance of their restricted cash and investments.

The agency works to enhance economic and community improvements within two defined districts (Northern and Downtown). Revenues are collected through property tax dollars from each taxing district located within the agency boundaries.

Complete financial statements for the Agency can either be obtained at the city clerk's office or at the following location:

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

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# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

**Table 2**

#### CHANGES IN NET ASSETS September 30, 2012 and 2011

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,436,320	\$ 936,258	\$ 6,844,466	\$ 6,412,149	\$ 8,280,786	\$ 7,348,407
Capital Grants	345,635	703,207	1,587,288	571,840	1,932,923	1,275,047
General revenues:						
Property taxes & special assessments	3,736,513	3,633,945	-	-	3,736,513	3,633,945
Investment Earnings	11,116	18,115	45,198	53,110	56,314	71,225
Miscellaneous	21,248	448,221	-	-	21,248	448,221
Intergovernmental	1,745,679	1,740,384	-	-	1,745,679	1,740,384
Gain on disposal of assets	883	516	600	5200	1,483	5,716
Total revenues	<u>7,297,394</u>	<u>7,480,646</u>	<u>8,477,552</u>	<u>7,042,299</u>	<u>15,774,946</u>	<u>14,522,945</u>
Expenses:						
General government	1,793,929	1,591,662	-	-	1,793,929	1,591,662
Public safety	3,234,857	3,204,793	-	-	3,234,857	3,204,793
Highways & streets	1,718,017	1,827,089	-	-	1,718,017	1,827,089
Culture & recreation	1,172,553	1,304,464	-	-	1,172,553	1,304,464
Interest on long-term debt	18,758	22,780	-	-	18,758	22,780
Water	-	-	1,575,969	1,264,598	1,575,969	1,264,598
Sewer	-	-	1,509,665	1,494,721	1,509,665	1,494,721
Bond payment fund	-	-	500,386	413,892	500,386	413,892
Bond construction fund	-	-	600	200	600	200
Other proprietary funds	-	-	421,326	404,197	421,326	404,197
Total expenses	<u>7,938,114</u>	<u>7,950,788</u>	<u>4,007,946</u>	<u>3,577,608</u>	<u>11,946,060</u>	<u>11,528,396</u>
Increases in net assets before transfers	(640,720)	-470,142	4,469,606	3,464,691	3,828,886	2,994,549
Transfers	1,114,916	1,105,436	(1,114,916)	(1,105,436)	-	-
Increase in net assets	<u>474,196</u>	<u>635,294</u>	<u>3,354,690</u>	<u>2,359,255</u>	<u>3,828,886</u>	<u>2,994,549</u>
Net assets – beginning	<u>12,898,056</u>	<u>12,262,762</u>	<u>36,411,325</u>	<u>34,052,070</u>	<u>49,309,381</u>	<u>46,314,832</u>
Net assets – ending	<u>\$13,372,252</u>	<u>\$12,898,056</u>	<u>\$39,766,015</u>	<u>\$36,411,325</u>	<u>\$53,138,267</u>	<u>\$49,309,381</u>

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

**Governmental Activities** – Governmental activities increased the City of Sandpoint's net assets by \$474,196, thereby accounting for 12% of the total growth in the net assets of the City of Sandpoint compared to prior fiscal year's 21%. Key elements of this increase are as follows:

- At year end revenues for the City of Sandpoint's governmental activities reflects a decrease in total revenues of \$(183,252) from prior fiscal year. This decrease largely related to the decline in grants and investment earnings.
- Taxes and special assessments account for the largest program revenue category for governmental activities, generating about 51% of total governmental revenue compared to last year's 49%. Included are property tax, franchise fees, resort bed tax, and local improvement district assessments.
- Intergovernmental Revenues reflect an increase of .3% or \$5,295 compared to prior year's increase of 10%.
- Grants show a decrease from the prior fiscal year of (51) %. During this time of economic recovery for the nation, most granting agencies have limited resources allotted for granting programs. The City was able to garner several grants for public safety programs, including assistance in paying for a new fire apparatus, an energy efficiency grant for new HVAC's at City Hall and an existing grant for the continued engineering of the Schweitzer Cutoff.
- Governmental activity expenditures reflects an overall decrease of (.16)% or \$(12,674) from last year while expenditures for general government reflects an increase of 202,267 or 13%, culture and recreation reflects a decrease of \$(131,911) or (10)%. This is largely due to the completion of a multi-year moorage project at Sandpoint's City Beach.

**Business-type activities** – Business-type activities increased the City of Sandpoint's net assets by \$3,354,690 accounting for 88% of the total growth in the government's net assets. Key elements of this increase are as follows:

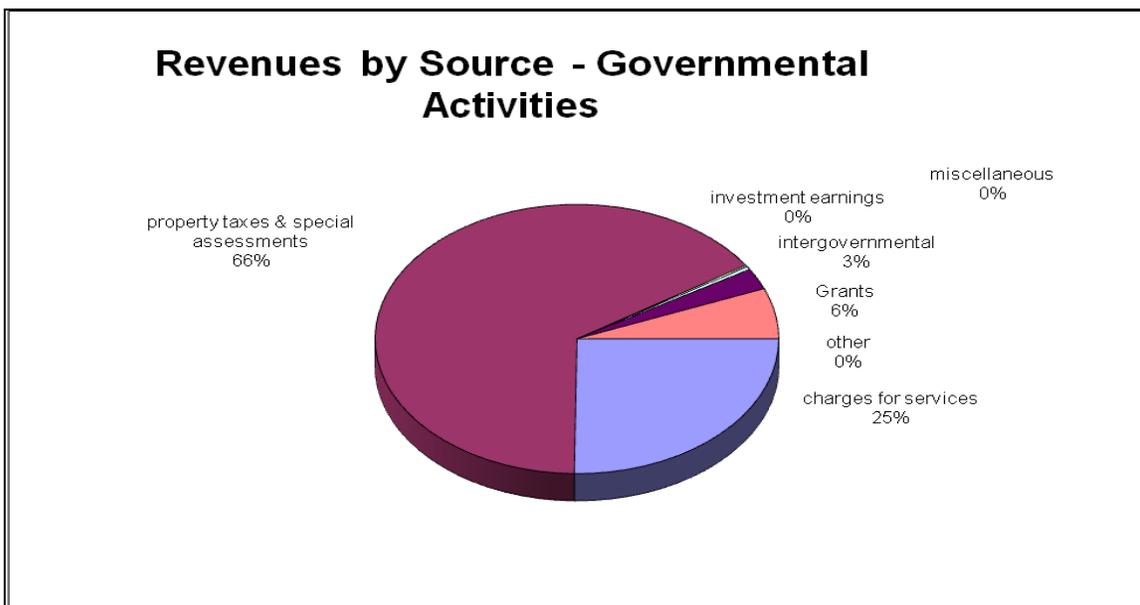
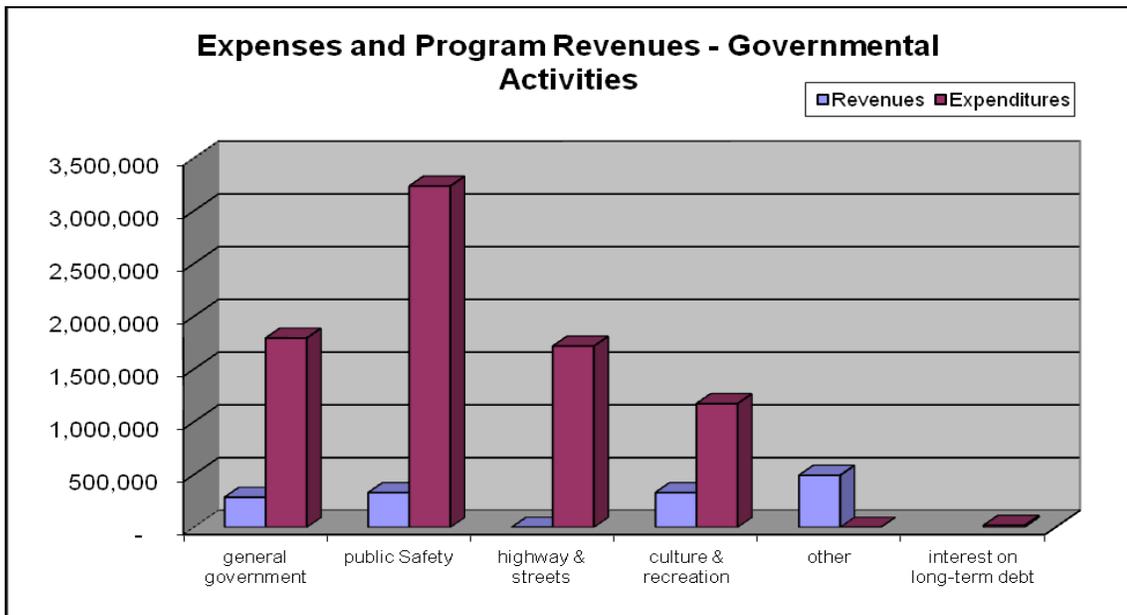
- Grants received by the business-type activities account for a majority of the increase in revenues. \$1,587,288 in grant revenue compared to prior year's revenue of \$571,840; an increase of \$1,015,448 or 42% of the fiscal year's increase.
- Charges for services account for the second largest portion of program revenue. Utility customers are charged for services received for water, sewer, garbage and street lights. This revenue accounts for 82% of total business-type activity revenues.
- The City of Sandpoint utility rates for water and sewer were increased during this fiscal year to provide additional revenue to meet the inflationary expenses of providing the service to its customers and to provide additional revenue to meet debt requirements for system upgrades within the water and sewer enterprises while focusing on rates that would promote conservation.
- Investment earnings for business type activities decreased 15% or \$(7,912) from prior fiscal year. This is largely due to the outlay of cash for the upgrade to the water treatment facilities.
- The City acquired interim financing from Panhandle State Bank for the water treatment upgrade project approved by the voters of Sandpoint. Terms for the interim financing include a variable rate of 1 year Libor + 1.84% adjusted annually with an initial interest rate of 2.6% and a floor of 2.5%. Interest payments are made monthly.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

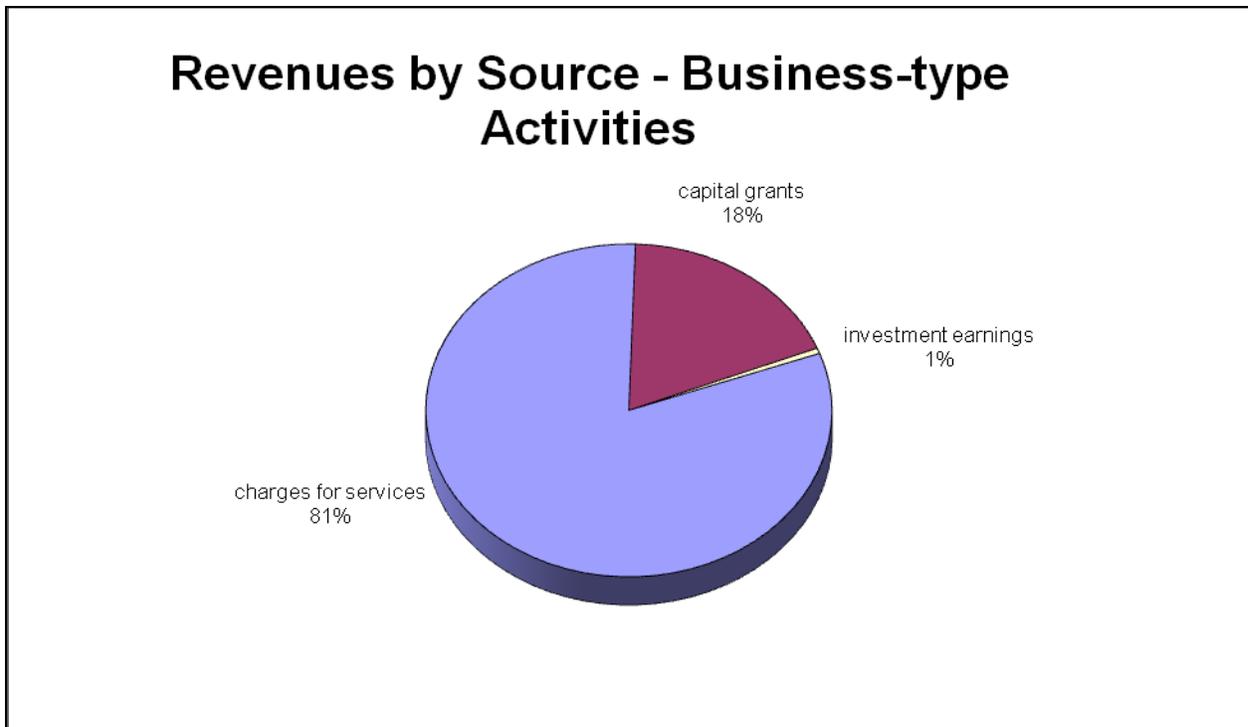
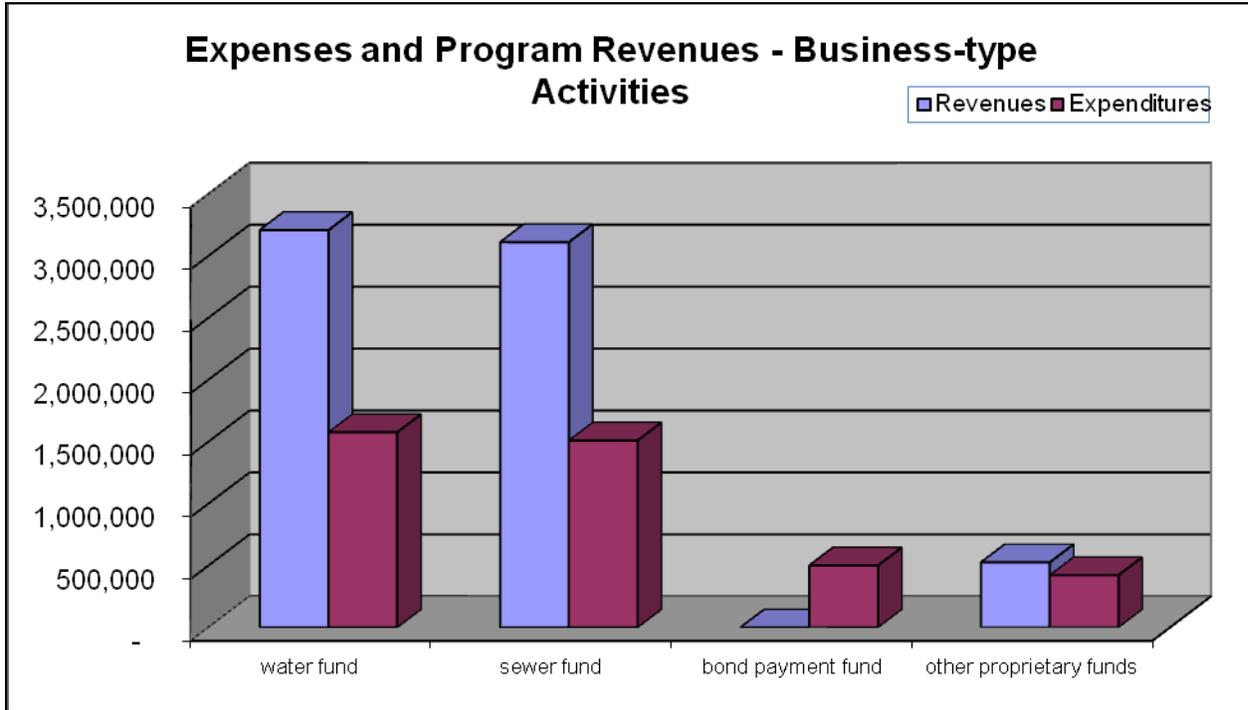
- The City closed on a \$9,000,000 bond with USDA for the partial construction costs of the water treatment facility. The bond carries an interest rate of 2.75%. Construction is expected to be completed in May of 2013 and the final bond is projected to close sometime in the early spring.
- Operating expenditures reflect an increase for the sewer utility. This is due to the increase in depreciation expense for the enhancement and expansion of the sewer treatment facilities that was completed and capitalized.
- The increase reflected in the water department is related to the accounting of resale items and fiscal year inventory.



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2012

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)



# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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### 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 spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Sandpoint's governmental funds reported combined ending balances of \$5,675,996, reflecting a decrease of (.6)% from last year. Approximately 59% of this total amount or \$3,335,324 constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

The remainder of governmental fund balance is limited in some manner by one of the following designations.

*Nonspendable* – resources which cannot be spent because they are either: a) not in spendable form or; b) legally or contractually required to be maintained intact:

*Restricted* – resources with constraints placed on the use of resources are either: a) externally imposed by creditors (such as through debt) covenants), grantors, contributors, or laws or regulation of other governments; or b) imposed by law through constitutional provisions or enabling legislation;

*Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner;

*Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the City Council or a body of official to which the City Council has delegated the authority to assign amounts for specific purposes; and

*Unassigned* – resources which cannot be properly classified in one of the other four categories. The general fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted from specific programs.

The general fund is the chief operating fund of the City of Sandpoint. At the end of the current fiscal year, spendable, unassigned fund balance of the general fund was \$ 3,335,324 while the total fund balance reached \$3,643,452. 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 44% of the total general fund expenditures, while total fund balance represents 48% of that same amount.

Resort city tax collections received were in excess of the amount budgeted by \$35,549.30. This amount, per city code and state statute is placed in a restricted property tax relief fund and will be used to offset property taxes for the next budget year 2013/2014.

## City of Sandpoint

### MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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#### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The fund balance of the City of Sandpoint's general fund decreased by \$(283,205) or (7.2%) during the current fiscal year compared to a decrease of \$(156,647) or (3.8%) during the prior fiscal year. Key factors in this decrease are as follows:

- Fine revenue decreased (17.4%) to \$71,850 from prior year's revenue of \$87,010. The decrease of \$(15,0160) is 63% related to fine revenue from Bonner County and 37% related to parking fines.
- Revenue derived from Police Services reflected a decline of 22% (18,254) in breathalyzer testing and traffic school registrations.
- Interest income also shows a decline of 44% or \$(6,082) from prior year. This is a result of the low interest rates and the lowered cash balances in investments due to the City's choice to use reserves to maintain operations during this time of economic struggles and declining revenues.
- The GIS Department expenditures saw the greatest increase from prior year 73% or \$14,360. This increase is related to the change in the GIS Manager from part-time to full-time.
- Parks Structures Maintenance also saw a large increase in expenses 76% or \$15,535 over prior year's expenses. This increase is related to a 40% increase for electricity costs and additional improvements for ADA accessibility to our park structures.
- The Police Department also experienced a 22% increase in expenditures this fiscal year of \$38,439. The increase is directly related to salaries and overtime.

Non-major governmental funds consist of the debt service funds (local improvement districts) and the special revenue funds (parks, recreation and capital projects). These funds are used where specific revenues are set aside for a specific purpose. The City of Sandpoint's debt service fund restrictions are imposed by Idaho Statute while the restrictions for parks, recreation and capital projects are imposed internally by the governing body.

Special revenues fund balance reflects an increase of \$326,259. There were several factors related to this change in fund balance and they are identified individually below.

- The impact fee fund reflects a large increase of \$374,953 in the fund balance for this fiscal year. This is directly related to revenue received as a result of the issuance of building permits. Expenditures are restricted for specific projects identified in a capital project plan adopted by the City Council.
- The fund balance of the parks capital improvement also experienced an increase in fund balance of \$94,083. This increase is related to a reduction in capital projects expended during the fiscal year.
- The recreation fund saw a decrease in fund balance of \$131,098 from the prior year. This is a result of the using the reserves to assist in the purchase of the Pend Oreille Bay Trail.
- BBC fund or Bonner Business Center also saw a decrease in fund balance due to expenditures related to the repair and maintenance of the building and equipment.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The debt service fund reflects a total fund balance of \$307,559, a decrease of (\$3,838) from the prior year. This decrease is a direct result of using beginning cash to fund annual bond payments for LID this year. Since the revenue was received in a prior year it is not recognized as current revenue but used in the expense of the bond payment. The fund balance is restricted for the payment of debt service. No new LID's were formed during this 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 assets of the water fund at the end of the year amounted to \$5,108,881. This increase is directly related to the expenses for the enhancements and expansion of the water treatment facilities being paid from restricted cash set aside for this purpose.

A large increase to the City's water utility is due to the above mention enhancement and expansion project. Expenses towards this project to date has increased our non-current assets by \$10,899,239.

Water fund restricted net assets also includes those funds set aside for capital improvements (funded through NUFF fees and depreciation), Kootenai & Ponderay (funds collected for improvements restricted to specific area) and the Watershed Protection Fund (revenue collected through timber sales and allocated to the purchase of additional land to protect our watershed).

Similarly the unrestricted net assets of the sewer fund increased by 62% to \$1,083,695. This is directly related to the increase in cash and receivables available for the utility after the completion of the \$14,000,000 enhancement and expansion project of the Sewage Treatment facilities. Other smaller projects were set aside during this major construction phase.

Sewer fund restricted net assets also includes those funds set aside for capital improvements (funded through NUFF fees and depreciation) and for inflow & infiltration (revenue collected through the rate structure allocated to fund I&I projects).

The total growth in net assets for water and sewer was \$10,913,707 and \$1,179,987 respectively.

The bond payment fund balance is restricted for payment of debt service. The City used water revenue bonds in 1997 and 2011 and sewer revenue bonds issued in 2007 for system improvements.

The 1997 Water Revenue Bonds were issued through USRDA for \$1,862,300 and \$525,700 at 4.5% interest. Similarly the 2011 Water Revenue Bonds were also issued through USRDA in the amount of \$9,000,000 with an interest rate of 2.75%. The water system rate revenues support the annual payments (\$591,134). Terms end in December 2027 and 2042.

The 2007 Sewer Revenue Bonds were issued for \$8,700,000 at an average interest rate of 4.09% through Idaho State Treasurer's Office. Revenues of the sewer system support annual average payments of \$645,149. Term ends September 2027.

The City continued to use interim financing for the Water Construction Project during this fiscal year. With a \$9,000,000 bond closing in April of 2012 the utility expects to close a bond on the remaining balance in March of 2013.

A fund was created as a result of the ordinance for securing the interim financing for the construction project of the City's Water Treatment facilities. The fund is used to account for the expenditures of the project and interim financing proceeds are deposited to the fund on a month basis as expenditures are made. The fund balance as of fiscal year end reflects (\$4,558,229) a result of the liability of accounts payable and interim financing loan.

## City of Sandpoint

### MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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#### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

Sanitation and street light enterprise funds reflect unrestricted net assets of \$113,419 and \$185,269 respectively.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

The City of Sandpoint's general fund budget shows large variances in many of the revenue and expenditures categories.

- Grant revenue was budgeted at \$2,372,625 with actual revenue received from grants totaling \$341,135. The variance of \$(2,031,490) is directly related to the unsuccessful attempts to obtain grant funding for various projects in the Fire Department totaling \$1,708,225 and smaller grants in the Police Department and the delay of Idaho Safe Routes to School project.
- The other large variable in revenue was the category Miscellaneous Revenue, budgeted at \$1,355,768 with actual being 5,288. The variance of \$1,350,480 is directly related to the budgeting of beginning cash of \$1,331,968 to offset the expected expenditures for the year. Actual beginning cash used was \$283,205.
- Expenditures for capital projects was budgeted at \$2,242,290 with the actual being only \$472,509. The variance is directly related to the lack of grant funding for budgeted projects.
- Public safety also reflects a variance of \$753,289 as a result the projected budget requested at \$3,840,696 and actual expenditures ending at \$3,087,407.
- The City of Sandpoint did not amend its budget during the current fiscal year.

#### 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, 2012 amounts to \$67,772,488 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, machinery and equipment. The total increase to the City of Sandpoint's investment in capital assets for the current fiscal year was 23% (7% of increase is related to governmental activities and a 93% of the increase related to business-type activities).

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

- Construction in progress for the business type activities reflects a net increase of \$8,772,841 which is largely due to the new enhancements and expansion of the water treatment facility and the hydroelectric project at Sand Creek.
- Governmental activities capital assets (net of depreciation) reflect additions totaling \$895,065 or 7.7%.
- Additions to governmental activities asset category Land of \$418,676 is directly related to the purchase of land for the Pend Oreille Bay Trail.
- Governmental activities asset category equipment reflects additions of \$375,427 largely due to the purchase of police cars and a fire apparatus.
- Additional land in the City's Watershed was purchased increasing the assets of the business type activities by 11%.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

### CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

**Table 3**

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

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$1,871,232	\$1,452,566	\$6,029,767	\$5,433,188	\$7,900,999	\$6,885,754
Construction in progress	46,653	7,820	15,206,445	6,472,437	15,253,098	6,480,257
Buildings	1,211,719	1,238,569	371,874	382,037	1,583,593	1,620,606
Other Improvements	3,678,302	3,911,440	24,533,174	23,138,508	28,211,476	27,049,948
Machinery and equipment	1,086,729	896,084	612,252	464,571	1,698,981	1,360,655
Infrastructure	4,614	4,696	144,136	157,331	148,750	162,027
Total	<u>\$7,899,249</u>	<u>\$7,511,175</u>	<u>\$46,897,648</u>	<u>\$36,048,072</u>	<u>\$54,796,897</u>	<u>\$43,559,247</u>

**Long-term Debt** – At the end of the current fiscal year, the City of Sandpoint had an outstanding principal balance to their total bonded debt of \$18,087,300. Of this amount, \$285,757 is related to special assessment debt for which the government is liable to collect in the event of default by the property owners subject to the assessment. The remaining debt represents bonds secured by specified revenue sources (i.e. revenue bonds).

**Table 4**

#### CITY OF SANDPOINT'S OUTSTANDING DEBT Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Compensated absences	\$285,914	\$278,871	\$132,643	\$128,662	\$418,557	\$407,533
Special assessments	285,757	318,997	-	-	285,757	318,997
Lease purchase contracts	14,228	65,343	151,238	-	165,466	65,343
Interim construction LOC	-	-	4,526,363	2,869,577	4,526,363	2,869,577
Revenue bonds	-	-	17,801,543	9,210,949	17,801,543	9,210,949
Total	<u>\$585,899</u>	<u>\$663,211</u>	<u>\$22,611,787</u>	<u>\$12,209,188</u>	<u>\$23,197,686</u>	<u>\$12,872,399</u>

The City of Sandpoint's total bonded debt increased by \$8,557,354 during the current fiscal year due to the Water Revenue Bond. The lease purchase contracts also increased to \$165,466 from last year's total of \$65,343. Compensated absences increased slightly from \$407,533 to \$418,557.

Additional information of the City of Sandpoint's long term debt can be found within the audit section of this report.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The State of Idaho, in a recent article, reports that the recession stripped 69,000 jobs in the Idaho economy between the expansion's peak – mid-2007 through early 2008 – and the recession's bottom in 2011. Government, having to cope with declining receipts in income, sales and other taxes, cut 1,100 jobs since 2010, wiping out nearly all those they added before. The net impact on the private sector since 2010 has been recovery of only 4,200 of the 57,000 jobs lost during the two years before that. Currently, it is unlikely the Idaho Economy will generate enough new jobs to regain its pre-recession high before late 2014 or early 2015. *Idaho Employment October 2012 Issue.*

The report also states that there has been a slight rebound in home construction recently, but it may only be masking even further loss of construction employment across Idaho. From 1990 through 2005 Idaho averaged 35 construction worker per monthly building permit issued. The high point was reached in November 2008 when the worker to permit ratio, for the State was 133. From January to July 2012 the ratio averages around 60. *Idaho Employment October 2012 Issue.*

City of Sandpoint building permits for single family residence by year are listed below:

Year	Single-family	Duplex/condos/ townhouse	MFG Home	Triplex	Multi-family	ADU	Totals
2004	48	55	0	0	0	0	103
2005	28	17	0	13	16	0	74
2006	20	146	0	0	0	0	166
2007	34	34	2	0	1	0	71
2008	26	0	0	0	62	0	88
2009	22	4	2	0	15	2	45
2010	16	0	1	0	0	1	18
2011	22	0	1	0	50	2	75
2012	18	0	0	0	58	4	80

Nearly half of the people working in construction in Idaho lost their jobs in the recession. Only heavy and civil engineering construction escaped with the assistance of the many stimulus-funded projects. Residential construction took the brunt of the recession with total residential building permits declining 66 percent in Idaho since 2007 to 2010 *Idaho Employment March 2012 Issue.* The City of Sandpoint residential building permits reflect a 75% drop during those same years.

Since the recession began, Idaho and its neighboring states have shown stronger growth than the nation as a whole according to the Federal Reserve Bank of Philadelphia Coincidence Index. *Idaho Employment March 2012 Issue.*

The good news for the year in Bonner County included the following business announcements:

Schweitzer Mountain is investing \$1 million in capital improvements for the 2012/2013 winter season.

White Water Creek began construction of a 50 unit affordable housing complex near Super 1 Foods.

Oregon based medical transport service to locate in Sandpoint expecting to hire 15 highly skilled employees.

The Kodiak, manufactured Quest Aircraft is now certified in eight countries with additional certifications in process. The additional certifications will help sales and allow more variation in market segments.

Rand McNally named Sandpoint as the top ski town of the season.

# City of Sandpoint

## MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012

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### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

Translucence locates to Sandpoint area and gears up for production hiring 15 employees to start with hopes to increase to as many as 130 people.

North Idaho College signed a five-year lease at the Sandpoint Event Center in the heart of downtown Sandpoint.

The SilverWing 44 lot fly-in community has been cleared for development in Sandpoint by the Federal Aviation Administration.

The Bonner County Economic Development Corp, the City of Sandpoint and the Panhandle Area Council are working together towards establishing a fiber optic network.

#### Budget Highlights

- The City's total budget for 2012/2013 reflects a (32) % decrease lowering the budget by \$(18,722,795). This decrease is largely due the Water Revenue Bond projects which show a decrease of \$(19,160,673).
- The City continues to budget for the second piece of the Hall property (\$400,000) in an effort to preserve the Pend Oreille Bay Trail for generations to come. The funding source for this purchase is from Impact Fees. The first piece was purchased during the 2011/2012 fiscal year.
- The general fund budget decreased (16) % or \$(1,698,125) which is in part largely due to the elimination of staffing and capital projects to respond to the declining revenues of the past few years.
- Next year's property taxes were levied at \$3,410,339 an increase of \$91,041 compared to the prior year's increase of \$110,153.
- The last three years the City has used its reserves to finance not only, the public safety and general operations of the general fund and BBC fund, but also used reserves from the recreation fund for a capital purchase. Those amounts totaled \$604,878.

#### 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 ASSETS**  
**September 30, 2012**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Sandpoint Urban Renewal Agency</u>
<b>ASSETS</b>				
Cash and investments	\$ 4,128,171	\$ 8,349,004	\$ 12,477,175	\$ 1,725,050
Receivables	794,650	1,344,574	2,139,224	28,839
Due from other funds	-	11,605	11,605	-
Inventory	-	120,713	120,713	-
Other assets	360	-	360	-
Debt issue cost (net of amortization)	-	80,793	80,793	26,146
Restricted assets:				
Cash and investments	1,947,050	6,832,293	8,779,343	1,146,449
Capital assets not being depreciated:				
Land	1,871,232	6,029,767	7,900,999	-
Construction in progress	46,653	15,206,445	15,253,098	-
Fixed assets, net of depreciation	5,981,364	25,661,436	31,642,800	-
Total assets	<u>14,769,480</u>	<u>63,636,630</u>	<u>78,406,110</u>	<u>2,926,484</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	788,607	1,065,805	1,854,412	58,333
Due to other funds	-	11,605	11,605	-
Payable from restricted assets:				
Customer deposits	22,445	4,321	26,766	-
Accrued interest payable	277	177,097	177,374	-
Noncurrent liabilities:				
Compensated absences - due within one year	164,840	59,044	223,884	-
Compensated absences - due in more than one year	121,074	73,599	194,673	-
Due within one year	84,407	699,045	783,452	187,707
Due in more than one year	215,578	21,780,099	21,995,677	1,639,291
Total liabilities	<u>1,397,228</u>	<u>23,870,615</u>	<u>25,267,843</u>	<u>1,885,331</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,599,264	23,476,011	31,075,275	-
Restricted for:				
Contributions	29,374	-	29,374	-
Debt	311,399	4,107,788	4,419,187	-
Capital improvements	1,098,987	3,256,233	4,355,220	-
Inflow and infiltration	-	1,322,893	1,322,893	-
Kootenai/Ponderay	-	82,332	82,332	-
RCT Property tax relief fund	28,135	-	28,135	-
Watershed protection	-	-	-	-
Other	1,670,901	1,029,494	2,700,395	-
Downtown district	-	-	-	18,602
Northern district	-	-	-	1,022,551
Unrestricted	2,634,192	6,491,264	9,125,456	-
Total net assets	<u>\$ 13,372,252</u>	<u>\$ 39,766,015</u>	<u>\$ 53,138,267</u>	<u>\$ 1,041,153</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, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Governmental activities:			
General government	\$ 1,793,929	\$ 284,901	\$ -
Public safety	3,234,857	328,839	341,135
Highways and streets	1,718,017	-	-
Culture and recreation	1,172,553	329,405	4,500
Other	-	493,175	-
Interest on long-term debt	18,758	-	-
Total governmental activities	7,938,114	1,436,320	345,635
Business-type activities:			
Water	1,575,969	3,208,308	720,183
Sewer	1,509,665	3,110,637	867,105
Bond payment fund	500,386	-	-
Bond construction fund	600	-	-
Other proprietary funds	421,326	525,521	-
Total business-type activities	4,007,946	6,844,466	1,587,288
Total primary government	\$ 11,946,060	\$ 8,280,786	\$ 1,932,923
<b>Component units:</b>			
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 assets

Net assets - beginning

Net assets - ending

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

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			<b>Component Units</b>
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Sandpoint Urban Renewal Agency</b>
\$ (1,509,028)	\$ -	\$ (1,509,028)	\$ -
(2,564,883)	-	(2,564,883)	-
(1,718,017)	-	(1,718,017)	-
(838,648)	-	(838,648)	-
493,175	-	493,175	-
(18,758)	-	(18,758)	-
<u>(6,156,159)</u>	<u>-</u>	<u>(6,156,159)</u>	<u>-</u>
-	2,352,522	2,352,522	-
-	2,468,077	2,468,077	-
-	(500,386)	(500,386)	-
-	(600)	(600)	-
-	104,195	104,195	-
-	<u>4,423,808</u>	<u>4,423,808</u>	<u>-</u>
<u>(6,156,159)</u>	<u>4,423,808</u>	<u>(1,732,351)</u>	<u>-</u>
			739,280
			80,945
			<u>820,225</u>
3,736,513	-	3,736,513	839,096
11,116	45,198	56,314	-
21,248	-	21,248	5,329
1,745,679	-	1,745,679	-
883	600	1,483	-
1,114,916	(1,114,916)	-	-
<u>6,630,355</u>	<u>(1,069,118)</u>	<u>5,561,237</u>	<u>844,425</u>
474,196	3,354,690	3,828,886	24,200
<u>12,898,056</u>	<u>36,411,325</u>	<u>49,309,381</u>	<u>1,016,953</u>
<u>\$ 13,372,252</u>	<u>\$ 39,766,015</u>	<u>\$ 53,138,267</u>	<u>\$ 1,041,153</u>

**City of Sandpoint**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
September 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 3,425,470	\$ 223,261	\$ 3,648,731
Receivables	349,764	224,004	573,768
Prepaid items	360	-	360
Due from other governments	220,882	-	220,882
Restricted assets:			
Cash and investments	107,111	1,839,939	1,947,050
Total assets	<u>\$ 4,103,587</u>	<u>\$ 2,287,204</u>	<u>\$ 6,390,791</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Vouchers payable	\$ 272,548	\$ 36,619	\$ 309,167
Payable from restricted assets:			
Customer deposits	16,397	6,048	22,445
Deferred revenue	171,190	211,993	383,183
Total liabilities	<u>460,135</u>	<u>254,660</u>	<u>714,795</u>
Fund balances:			
Restricted for			
Art contributions	2,344	-	2,344
Citizen's pride contributions	100	-	100
Debt	-	307,559	307,559
Economic development contributions	25,500	-	25,500
Police contributions	4,357	-	4,357
RCT Property tax relief fund	35,549	-	35,549
URA	2,058	-	2,058
Committed to:			
Downtown parking dedicated funds	31,882	-	31,882
In lieu of sidewalk dedicated funds	5,460	-	5,460
FY 13 Recreation fund budget	-	5,945	5,945
FY 13 Capital improvement fund (impact fees)	-	366,500	366,500
FY 13 Parks improvement fund budget	-	236,155	236,155
FY 13 General fund budget	200,878	-	200,878
Assigned to			
Bonner business center	-	(3,404)	(3,404)
Recreation fund	-	193,915	193,915
Capital improvement fund (impact fees)	-	461,959	461,959
Parks capital improvement fund	-	463,915	463,915
Unassigned			
General fund	3,335,324	-	3,335,324
Total fund balances	<u>3,643,452</u>	<u>2,032,544</u>	<u>5,675,996</u>
Total liabilities and fund balances	<u>\$ 4,103,587</u>	<u>\$ 2,287,204</u>	<u>\$ 6,390,791</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 ASSETS September 30, 2012

Total fund balance at September 30, 2012 - Governmental Funds		\$ 5,675,996
Cost of capital assets at September 30, 2012	\$ 12,478,542	
Less: Accumulated depreciation as of September 30, 2012		
Buildings and structures	(855,826)	
Improvements other than buildings	(1,414,167)	
Equipment	(2,307,784)	
Infrastructure	<u>(1,516)</u>	7,899,249
Elimination of deferred revenue		383,183
Long-term liabilities at September 30, 2012		
Accrued interest	(277)	
Capital leases payable	(14,228)	
Compensated absences	(285,914)	
Special assessments	<u>(285,757)</u>	<u>(586,176)</u>
Net assets at September 30, 2012		<u>\$ 13,372,252</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, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>REVENUES</b>			
Taxes and special assessments	\$ 3,571,412	\$ 196,501	\$ 3,767,913
Licenses and permits	191,295	-	191,295
Grants	341,135	4,500	345,635
Intergovernmental revenue	1,745,679	-	1,745,679
Interest	7,609	3,507	11,116
Impact fees	-	493,175	493,175
Charges for services	226,418	453,584	680,002
Fines and forfeits	71,850	-	71,850
Miscellaneous revenues	5,288	15,960	21,248
Total revenues	<u>6,160,686</u>	<u>1,167,227</u>	<u>7,327,913</u>
<b>EXPENDITURES</b>			
General government	1,639,040	112,376	1,751,416
Public safety	3,087,407	-	3,087,407
Highways and streets	1,556,864	-	1,556,864
Culture and recreation	660,396	303,419	963,815
Capital projects	472,509	476,993	949,502
Debt service:			
Principal retirement	51,135	33,240	84,375
Interest expense	3,251	16,483	19,734
Total expenditures	<u>7,470,602</u>	<u>942,511</u>	<u>8,413,113</u>
(Deficiency) excess of revenues over (under) expenditures	<u>(1,309,916)</u>	<u>224,716</u>	<u>(1,085,200)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of assets	9,500	-	9,500
Capital leases	-	-	-
Bond proceeds	-	-	-
Transfers in	1,152,245	296,434	1,448,679
Transfers (out)	(135,034)	(198,729)	(333,763)
Total other financing sources (uses)	<u>1,026,711</u>	<u>97,705</u>	<u>1,124,416</u>
Change in fund balance	(283,205)	322,421	39,216
Fund balances - beginning	<u>3,926,657</u>	<u>1,710,123</u>	<u>5,636,780</u>
Fund balances - ending	<u>\$ 3,643,452</u>	<u>\$ 2,032,544</u>	<u>\$ 5,675,996</u>

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, 2012

Total net changes in fund balances for the year ended September 30, 2012	\$ 39,216
Add: Capital outlay which is considered expenditures	949,502
Less: Depreciation expense for the year ended September 30, 2012	(552,824)
Less: Net book gain on assets traded in	(8,617)
Add: Special assessment debt and lease principal payments considered as an expenditure	84,355
Add: Change in accrued interest expense	996
Less: Change in compensated absences	(7,043)
Add: Miscellaneous	11
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>(31,400)</u>
Change in net assets for year ended September 30, 2012	<u>\$ 474,196</u>

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

**City of Sandpoint**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
September 30, 2012**

	<b>Water</b>	<b>Sewer</b>
<b>ASSETS</b>		
Current assets:		
Cash/investments	\$ 5,570,192	\$ 1,903,988
Receivables	556,171	720,809
Due from other funds	-	-
Inventory	120,713	-
Debt issue cost (net of amortization)	-	-
Restricted cash/investments	722,487	3,943,292
Total current assets	6,969,563	6,568,089
Noncurrent assets:		
Land	5,121,649	908,118
Construction in progress	15,138,460	67,985
Capital assets, net of accumulated depreciation	9,863,641	15,667,634
Total noncurrent assets	30,123,750	16,643,737
Total assets	37,093,313	23,211,826
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	90,618	100,353
Due to other funds	11,605	
Payable from restricted assets:		
Customer deposits	4,321	-
Accrued interest payable	-	-
Compensated absences - current portion	33,434	25,610
Capital lease payable	-	74,505
Revenue bonds - current portion	-	-
Total current liabilities	139,978	200,468
Noncurrent:		
Revenue bonds - noncurrent portion	-	-
Capital lease payable	-	76,733
Interim construction LOC	-	-
Compensated absences	64,949	8,650
Total noncurrent liabilities	64,949	85,383
Total liabilities	204,927	285,851
<b>NET ASSETS</b>		
Invested in capital assets (net of related debt)	30,123,750	16,567,004
Restricted for:		
Debt	591,136	664,616
Capital improvements	635,834	2,620,399
Inflow & filtration	-	1,322,893
Kootenai/Ponderay	82,332	-
Watershed protection	-	-
Other	346,453	667,368
Unrestricted	5,108,881	1,083,695
Total net assets	\$ 36,888,386	\$ 22,925,975

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

<b>Bond Payment Fund</b>	<b>Bond Construction Fund</b>	<b>Other Proprietary Funds</b>	<b>Total</b>
\$ 591,536	\$ -	\$ 283,288	\$ 8,349,004
1,588	-	66,006	1,344,574
-	11,605	-	11,605
-	-	-	120,713
80,793	-	-	80,793
1,370,084	796,430	-	6,832,293
<u>2,044,001</u>	<u>808,035</u>	<u>349,294</u>	<u>16,738,982</u>
-	-	-	6,029,767
-	-	-	15,206,445
-	-	130,161	25,661,436
-	-	130,161	46,897,648
<u>2,044,001</u>	<u>808,035</u>	<u>479,455</u>	<u>63,636,630</u>
-	839,901	34,933	1,065,805
-	-	-	11,605
-	-	-	4,321
177,097	-	-	177,097
-	-	-	59,044
-	-	-	74,505
624,540	-	-	624,540
<u>801,637</u>	<u>839,901</u>	<u>34,933</u>	<u>2,016,917</u>
17,177,003	-	-	17,177,003
-	4,526,363	-	76,733
-	-	-	4,526,363
-	-	-	73,599
<u>17,177,003</u>	<u>4,526,363</u>	<u>-</u>	<u>21,853,698</u>
<u>17,978,640</u>	<u>5,366,264</u>	<u>34,933</u>	<u>23,870,615</u>
(17,978,640)	(5,366,264)	130,161	23,476,011
2,044,001	808,035	-	4,107,788
-	-	-	3,256,233
-	-	-	1,322,893
-	-	-	82,332
-	-	-	-
-	-	15,673	1,029,494
-	-	298,688	6,491,264
<u>\$ (15,934,639)</u>	<u>\$ (4,558,229)</u>	<u>\$ 444,522</u>	<u>\$ 39,766,015</u>

**City of Sandpoint**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
For the Year Ended September 30, 2012**

	<b>Water</b>	<b>Sewer</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 3,033,754	\$ 3,039,487
Equipment and meter sales	18,838	51,607
Miscellaneous	155,716	19,543
Total operating revenues	3,208,308	3,110,637
<b>OPERATING EXPENSES</b>		
Personal services	857,474	494,785
Contractual services	142,451	88,250
Other services and charges	310,027	110,563
Heat, lights, and power	44,278	151,333
Depreciation	221,739	664,719
Total operating expenses	1,575,969	1,509,650
Operating income	1,632,339	1,600,987
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	11,981	10,874
Grant income	35,272	264,275
Interest expense	-	(15)
Bond issuance costs	-	-
Gain on sale of capital assets	600	-
Total nonoperating revenues (expenses)	47,853	275,134
Income before contributions and transfers	1,680,192	1,876,121
Capital contributions - cap fees	627,411	602,830
Contributed water/sewer lines	57,500	-
Transfers in	10,574,657	-
Transfers out	(2,026,053)	(1,298,964)
Total transfers	8,548,604	(1,298,964)
Change in net assets	10,913,707	1,179,987
Total net assets - beginning	25,974,679	21,745,988
Total net assets - ending	\$ 36,888,386	\$ 22,925,975

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

<b>Bond Payment Fund</b>	<b>Bond Construction Fund</b>	<b>Other Proprietary Funds</b>	<b>Total</b>
\$ -	\$ -	\$ 525,521	\$ 6,598,762
-	-	-	70,445
-	-	-	175,259
-	-	525,521	6,844,466
-	-	-	1,352,259
-	-	296,011	526,712
-	-	3,762	424,352
-	-	108,883	304,494
-	-	12,670	899,128
-	-	421,326	3,506,945
-	-	104,195	3,337,521
20,316	1,455	572	45,198
-	-	-	299,547
(484,227)	-	-	(484,242)
(16,159)	(600)	-	(16,759)
-	-	-	600
(480,070)	855	572	(155,656)
(480,070)	855	104,767	3,181,865
-	-	-	1,230,241
-	-	-	57,500
1,985,974	9,186,439	-	21,747,070
(9,000,000)	(10,436,475)	(100,494)	(22,861,986)
(7,014,026)	(1,250,036)	(100,494)	(1,114,916)
(7,494,096)	(1,249,181)	4,273	3,354,690
(8,440,543)	(3,309,048)	440,249	36,411,325
<u>\$ (15,934,639)</u>	<u>\$ (4,558,229)</u>	<u>\$ 444,522</u>	<u>\$ 39,766,015</u>

**City of Sandpoint**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
For the Year Ended September 30, 2012**

	<u>Water</u>	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 3,286,163	\$ 2,827,373
Payments to employees	(857,474)	(489,180)
Payments to suppliers	(494,621)	(395,952)
Net cash provided by operating activities	<u>1,934,068</u>	<u>1,942,241</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Additional contributed capital	662,683	867,105
Operating transfers (out) in	8,548,604	(1,298,964)
Net cash (used) provided by noncapital financing activities	<u>9,211,287</u>	<u>(431,859)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of fixed assets	(11,063,478)	(444,931)
Proceeds from disposition of assets	600	-
Proceeds from Water Facility Improvement Bonds	-	-
Proceeds from interim financing	-	-
Principal paid on bonds and leases	-	(31,557)
Principal paid on interim financing	-	-
Interest paid	-	(15)
Net cash (used) provided by capital and related financing activities	<u>(11,062,878)</u>	<u>(476,503)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	11,981	10,874
Net cash provided by investing activities	<u>11,981</u>	<u>10,874</u>
Net increase in cash and investments	94,458	1,044,753
Cash and investments, October 1	<u>6,198,221</u>	<u>4,802,527</u>
Cash and investments, September 30	<u>\$ 6,292,679</u>	<u>\$ 5,847,280</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 1,632,339	\$ 1,600,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	221,739	664,719
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	77,953	(283,264)
Inventory	108,920	-
Prepaid expense	-	-
Increase (decrease) in:		
Vouchers payable	(106,785)	(40,201)
Customer deposits	(98)	-
Net cash provided by operating activities	<u>\$ 1,934,068</u>	<u>\$ 1,942,241</u>
<b>Reconciliation of cash to the balance sheet:</b>		
Cash/investments	\$ 5,570,192	\$ 1,903,988
Restricted cash/investments	722,487	3,943,292
	<u>\$ 6,292,679</u>	<u>\$ 5,847,280</u>

Non-cash capital and related financing activities:  
Developers during the year donated \$57,500 of water lines to the water fund.

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

<b>Bond Payment</b>	<b>Bond Construction Fund</b>	<b>Other Proprietary Funds</b>	<b>Total</b>
\$ -	\$ -	\$ 524,030	\$ 6,637,566
-	-	-	(1,346,654)
-	-	(407,641)	(1,298,214)
-	-	116,389	3,992,698
-	-	-	1,529,788
(7,014,026)	(1,098,146)	(100,494)	(963,026)
(7,014,026)	(1,098,146)	(100,494)	566,762
-	-	-	(11,508,409)
-	-	-	600
9,000,000	-	-	9,000,000
-	10,496,112	-	10,496,112
(409,406)	-	-	(440,963)
-	(8,839,326)	-	-
(384,272)	-	-	(384,287)
8,206,322	1,656,786	-	7,163,053
18,728	855	572	43,010
18,728	855	572	43,010
1,211,024	559,495	16,467	11,765,523
750,596	236,935	266,821	12,255,100
<u>\$ 1,961,620</u>	<u>\$ 796,430</u>	<u>\$ 283,288</u>	<u>\$ 24,020,623</u>
\$ -	\$ -	\$ 104,195	\$ 3,337,521
-	-	12,670	899,128
-	-	(1,491)	(206,802)
-	-	-	108,920
-	-	-	-
-	-	1,015	(145,971)
-	-	-	(98)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,389</u>	<u>\$ 3,992,698</u>
\$ 591,536	\$ -	\$ 283,288	\$ 8,349,004
1,370,084	796,430	-	6,832,293
<u>\$ 1,961,620</u>	<u>\$ 796,430</u>	<u>\$ 283,288</u>	<u>\$ 15,181,297</u>

**City of Sandpoint**

**AGENCY FUND  
STATEMENT OF NET ASSETS  
September 30, 2012**

	<b>Business Improvement District Agency Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,405
Accounts receivable	<u>34,593</u>
Total assets	<u><u>\$ 37,998</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 2,896
Due to Business Improvement District	<u>35,102</u>
Total liabilities	<u><u>\$ 37,998</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, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 standards.

The more significant of the City's accounting policies are described below.

#### A. Reporting Entity

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**

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### B. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the propriety fund financial statements. 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.

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 government 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Presentation, and Basis of Accounting (Continued)

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in lieu of taxes and other charges between the government's water, wastewater, and sanitation functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grant contributions, and (3) capital grants and contributions, including special assessments. Internally, dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### D. Assets, Liabilities, and Net Assets or Equity

##### 1. Deposits and Investments

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, 2012 meet the guidelines as set by regulations of the State of Idaho.

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Assets, Liabilities, and Net Assets or Equity (Continued)

##### 2. *Receivables and Payables*

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, 2012, which were collected and held by the county at September 30, 2012, but not yet remitted to the City until after September 30, 2012.

##### 3. *Inventories and Prepaid Items*

Inventory is stated using a base stock value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### 4. *Restricted Assets*

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

##### 5. *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.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Assets, Liabilities, and Net Assets or Equity (Continued)

##### 6. Capital Assets (Continued)

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

##### 7. 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.

##### 8. Long-term Obligations

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

##### 9. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories.

*Non-spendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact. The city did not have any non-spendable resources.

*Restricted* – resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt) covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

(Continued)

## City of Sandpoint

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### D. Assets, Liabilities, and Net Assets or Equity (Continued)

###### 9. Fund Equity (Continued)

*Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner.

*Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the City Council or a body or official to which the City Council has delegated the authority to assign amounts for specific purposes.

*Unassigned* – resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

##### E. Budgets and Budgetary Accounting

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.

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### F. Use of estimates

Preparation of the City's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenditures/expense during the reporting period. Actual results could differ from those estimates.

### NOTE 2: 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.

#### 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, 2012, the City's deposits and investments were exposed to custodial credit risk as follows:

Deposits without exposure to custodial credit risk:

Amount insured by FDIC	\$ 1,769,862
Amount collateralized with securities held in trust, but not to the City's name	<u>19,538,824</u>
Total deposits without exposure to custodial credit risk	<u>\$21,308,686</u>

The following is a recap of the carrying amount:

Cash and investments	\$12,477,175
Restricted cash	8,779,343
Fiduciary fund cash	<u>3,405</u>
	<u>\$21,259,923</u>

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 2: CASH AND INVESTMENTS (CONTINUED)

#### 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 and DBF are carried at cost which approximates fair market value. The District's portion of the State Investment Pool and DBF had an unrealized gain of \$52,558 and \$62,823 respectively as of September 30, 2012; 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.

### NOTE 3: ACCOUNTS RECEIVABLE

Enterprise accounts receivable consist of the following as of September 30, 2012:

Amounts due from customers	<u>\$1,344,574</u>
----------------------------	--------------------

### NOTE 4: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2012, and are recorded in the debt service fund:

Deferred principal amounts not currently due, but due at a future date	<u>\$203,980</u>
--	------------------

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 1,452,566	\$ 418,666	\$ -	\$ -	\$ 1,871,232
Construction in progress	7,820	46,653	(7,820)	-	46,653
Total capital assets, not being depreciated	<u>1,460,386</u>	<u>465,319</u>	<u>(7,820)</u>	<u>-</u>	<u>1,917,885</u>
Capital assets, being depreciated:					
Buildings	2,058,255	9,290	-	-	2,067,545
Improvements other than buildings	5,036,630	55,839	-	-	5,092,469
Machinery and equipment	3,019,086	426,887	(51,460)	-	3,394,513
Infrastructure	6,130	-	-	-	6,130
Total capital assets being depreciated	<u>10,120,101</u>	<u>492,016</u>	<u>(51,460)</u>	<u>-</u>	<u>10,560,657</u>
Less accumulated depreciation for:					
Buildings	(819,686)	(36,140)	-	-	(855,826)
Other improvements	(1,125,190)	(288,977)	-	-	(1,414,167)
Machinery and equipment	(2,123,002)	(227,625)	42,843	-	(2,307,784)
Infrastructure	(1,434)	(82)	-	-	(1,516)
Total accumulated depreciation	<u>(4,069,312)</u>	<u>(552,824)</u>	<u>42,843</u>	<u>-</u>	<u>(4,579,293)</u>
Total capital assets, being depreciated, net	<u>6,050,789</u>	<u>(60,808)</u>	<u>(8,617)</u>	<u>-</u>	<u>5,981,364</u>
Governmental activities capital assets, net	<u>\$ 7,511,175</u>	<u>\$ 404,511</u>	<u>\$ (16,437)</u>	<u>\$ -</u>	<u>\$ 7,899,249</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 5,433,188	\$ 596,579	\$ -	\$ -	\$ 6,029,767
Construction in progress	6,472,437	10,346,942	(1,612,945)	11	15,206,445
Total capital assets, not being depreciated	<u>11,905,625</u>	<u>10,943,521</u>	<u>(1,612,945)</u>	<u>11</u>	<u>21,236,212</u>
Capital assets, being depreciated:					
Buildings	527,400	-	-	-	527,400
Infrastructure	29,449,533	2,183,000	-	-	31,632,533
Machinery & equipment	1,411,975	235,130	(14,700)	-	1,632,405
Improvements other than buildings	268,396	-	-	-	268,396
Total capital assets, being depreciated	<u>31,657,304</u>	<u>2,418,130</u>	<u>(14,700)</u>	<u>-</u>	<u>34,060,734</u>
Less accumulated depreciation for:					
Buildings	(145,363)	(10,163)	-	-	(155,526)
Infrastructure	(6,311,025)	(788,321)	-	(13)	(7,099,359)
Machinery & equipment	(947,404)	(87,449)	14,700	-	(1,020,153)
Improvements	(111,065)	(13,195)	-	-	(124,260)
Total accumulated depreciation	<u>(7,514,857)</u>	<u>(899,128)</u>	<u>14,700</u>	<u>(13)</u>	<u>(8,399,298)</u>
Total capital assets, being depreciated, net	<u>24,142,447</u>	<u>1,519,002</u>	<u>-</u>	<u>(13)</u>	<u>25,661,436</u>
Business type activities capital assets net	<u>\$ 36,048,072</u>	<u>\$ 12,462,523</u>	<u>\$ (1,612,945)</u>	<u>\$ (2)</u>	<u>\$ 46,897,648</u>

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 5: CHANGES IN FIXED ASSETS (CONTINUED)

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

Governmental activities:	
General government	\$ 35,501
Public safety	147,450
Highways and streets, including depreciation of general infrastructure assets	161,153
Culture and recreation	208,720
Total depreciation expense - governmental activities	\$ 552,824
Business -type activities:	
Water	\$ 221,739
Sewer	664,719
Street lights	12,670
Total depreciation expense - business-type activities	\$ 899,128

### NOTE 6: BONDS PAYABLE

Bonds payable at September 30, 2012 are comprised of the following individual revenue bond issues:

<u>1997 Water Revenue Bonds</u>	
Payable in annual installments of \$146,624 including interest at 5%.	\$ 1,646,543
<u>2007 Sewer Revenue Bonds</u>	
Payable in annual installments ranging from \$646,850 to \$651,562 including interest ranging from 4.0% to 4.250%	\$7,155,000
<u>2012 Water Facility Improvement Bonds</u>	
Payable in annual installments of \$444,510 including 2.75% interest	\$9,000,000
	\$ 17,801,543

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 624,540	\$ 615,051
2014	648,221	592,169
2015	672,199	568,392
2016	696,483	543,226
2017	721,084	517,125
2018-2022	4,041,400	2,163,251
2023-2027	4,856,285	1,346,741
2028-2032	1,702,480	665,413
2033-2037	1,790,516	432,034
2038-2042	2,048,335	171,920
	\$ 17,801,543	\$ 7,615,322

(Continued)

## City of Sandpoint

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

#### NOTE 6: BONDS PAYABLE (CONTINUED)

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 \$146,626 and \$651,502. 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.

Interim construction line of credit:

The city of Sandpoint has entered into an agreement with Panhandle State Bank for interim construction financing for the Water System Improvement Project. The loan amount is \$16,500,000.00 with a variable interest rate of 1 year Libor + 1.84 % adjusted annually with an initial rate of 2.60% ; minimum interest amount is 2.50%. Loan term is 2 years with monthly interest payments. There is no collateral. Interest paid to date as of September 30, 2012 was \$192,554.93 which has been capitalized. Total amount owed on the interim financing as of September 30, 2012 was \$4,526,362.63.

Final funding will come from USDA, offering a 1-million dollar grant and guaranteed purchase of the voter approved bond.

#### NOTE 7: SPECIAL ASSESSMENT DEBT

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
LID #32	2013	4.75%	\$ 3,115	\$ 3,741	\$ 6,856
	2014	4.75%	3,263	3,593	6,856
	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
	2018-2022	4.75%	21,600	12,681	34,281
	2023-2027	4.75%	27,243	7,040	34,283
	2028-2029	4.75%	12,791	918	13,709
			<u>78,762</u>	<u>37,793</u>	<u>116,555</u>
LID #2002-01	2013	6.00%	6,216	768	6,984
	2014	6.00%	6,589	395	6,984
			<u>12,805</u>	<u>1,163</u>	<u>13,968</u>

CONTINUED

**City of Sandpoint**

**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 7: SPECIAL ASSESSMENT DEBT (CONTINUED)**

LID #2002-02	2013	6.00%	7,512	3,783	11,295
	2014	6.00%	7,963	3,332	11,295
	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
	2018-2019	6.00%	20,708	1,882	22,590
			<u>63,054</u>	<u>16,012</u>	<u>79,066</u>
LID #2006-01	2013	4.50%	12,296	3,717	16,013
	2014	4.50%	12,849	3,163	16,012
	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>82,591</u>	<u>13,485</u>	<u>96,076</u>
LID #2007-01	2013	5.50%	5,905	2,670	8,575
	2014	5.50%	6,230	2,345	8,575
	2015	5.50%	6,572	2,003	8,575
	2016	5.50%	6,934	1,641	8,575
	2017	5.50%	7,315	1,260	8,575
	2018-2019	5.50%	15,589	1,561	17,150
			<u>48,545</u>	<u>11,480</u>	<u>60,025</u>
Total special assessment bonds payable			<u>\$ 285,757</u>	<u>\$ 79,933</u>	<u>\$ 365,690</u>

**NOTE 8: CAPITAL LEASES**

The City has entered into a lease agreement as lessee for financing the acquisition of a 2012 Tymco Street Sweeper with a down payment of \$31,557.02. The lease qualifies as capital lease for accounting purposes. The city has other equipment under lease in the parks and street department that are still in use. Expected payoff on all leases is within two years.

(Continued)

## City of Sandpoint

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

**NOTE 8: CAPITAL LEASES (CONTINUED)**

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Machinery and equipment	\$ 223,689	\$ 182,795
Less: accumulated depreciation	(64,398)	(7,616)
Total	\$ 159,291	\$ 175,179
Future minimum lease payments are as follows:		
2013	\$ 7,746	\$ 117,028
2014	7,458	79,028
	15,204	196,056
Less amount representing interest	(1,005)	(44,818)
Total	\$ 14,199	\$ 151,238

**NOTE 9: CHANGES IN LONG-TERM DEBT**

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 278,871	\$ 7,043	\$ -	\$ 285,914	\$ 164,840
Special assessment bonds payable	318,997	-	33,240	285,757	35,044
Lease purchase contracts payable	65,343	-	51,115	14,228	51,115
Governmental activities long-term liabilities	\$ 663,211	\$ 7,043	\$ 84,355	\$ 585,899	\$ 250,999
<b>Business-type activities:</b>					
Revenue bonds payable	\$ 9,210,949	\$ 9,000,000	\$ 409,406	\$ 17,801,543	\$ 624,540
Interim construction LOC	2,869,577	10,496,112	8,839,326	4,526,363	-
Lease purchase contracts payable	-	182,795	31,557	151,238	74,505
Compensated absences	128,662	3,981	-	132,643	59,044
Business-type activities long-term liabilities	\$ 12,209,188	\$ 19,682,888	\$ 9,280,289	\$ 22,611,787	\$ 758,089

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 10: 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 assets:		
Assets:		
Current assets	\$ 6,247,076	\$ 2,624,797
Restricted assets - cash investments	722,487	3,943,292
Capital assets	30,123,750	16,643,737
Total assets	37,093,313	23,211,826
Liabilities:		
Current liabilities	139,978	200,468
Noncurrent liabilities	64,949	85,383
Total liabilities	204,927	285,851
Net assets:		
Invested in capital assets, net of related debt	30,123,750	16,567,004
Restricted	1,655,755	5,275,276
Unrestricted	5,108,881	1,083,695
Total Net assets	\$ 36,888,386	\$ 22,925,975
	Water Funds	Sewer Funds
Condensed statement of revenues, expenses and changes in net assets:		
Charges for services including sales and miscellaneous	\$ 3,208,308	\$ 3,110,637
Depreciation expense	(221,739)	(664,719)
Other operating expenses	(1,354,230)	(844,931)
Operating income	1,632,339	1,600,987
Nonoperating revenues (expenses):		
Investment earnings, net	11,981	10,859
Gain on sale of assets	600	-
Grant income	35,272	264,275
Capital contributions	627,411	602,830
Operating transfers in (out)	8,548,604	(1,298,964)
Contributed lines	57,500	-
Total nonoperating revenues (expenses)	9,281,368	(421,000)
Change in net assets	10,913,707	1,179,987
Beginning net assets	25,974,679	21,745,988
Ending net assets	\$ 36,888,386	\$ 22,925,975

(Continued)

**City of Sandpoint**

**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2012

**NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)**

Condensed statement of cash flows:

Net cash provided (used) by:

Operating activities	\$ 1,934,068	\$ 1,942,241
Noncapital financing activities	9,211,287	(431,859)
Capital and related financial activities	(11,062,878)	(476,503)
Investing activities	11,981	10,874
Net increase	<u>94,458</u>	<u>1,044,753</u>
Beginning cash and cash equivalents	<u>6,198,221</u>	<u>4,802,527</u>
Ending cash equivalents	<u>\$ 6,292,679</u>	<u>\$ 5,847,280</u>

**NOTE 11: INTERFUND TRANSACTIONS**

Due to or from other funds as of September 30, 2012:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Bond construction fund	Water fund	\$ 11,605
Total all funds		<u>\$ 11,605</u>

Interfund transfers (net) as of September 30, 2012:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 1,152,245	\$ 135,034
Nonmajor governmental funds	296,434	198,729
Enterprise funds	10,574,657	3,325,017
Bond payment fund	1,985,974	9,000,000
Bond construction fund	9,186,439	10,436,475
Nonmajor enterprise funds	-	100,494
	<u>\$ 23,195,749</u>	<u>\$ 23,195,749</u>

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.

## City of Sandpoint

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

#### NOTE 12: 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](http://www.persi.idaho.gov).

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, 2012, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.69% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The City of Sandpoint employer contributions required and paid were \$544,025, \$544,474 and \$491,209 for the three years ended September 30, 2012, 2011 and 2010, respectively.

#### NOTE 13: 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 14: 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.

(Continued)

# City of Sandpoint

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2012

### NOTE 14: DEFERRED COMPENSATION PLANS (CONTINUED)

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.

### NOTE 15: 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 16: DEFICIT FUND BALANCES

A deficit balance exists in the following individual fund:

	<u>Deficit Net Asset Balance</u>
Bond Payment Fund	\$(15,934,639)
Bond Construction Fund	\$(4,558,229)

### NOTE 17: 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, 2012, 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, 2012, totaled \$2,871,499 (including restricted cash and cash equivalents). A summary of the total insured and uninsured bank balances at September 30, 2012 is as follows:

Total bank balances	\$2,871,499
Portion insured by FDIC	<u>(250,000)</u>
Uninsured bank balances	<u>\$2,261,499</u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2012

NOTE 17: 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. The amounts are being amortized over the term of the note. During 2012, amortization of deferred expenses was recognized in the amount of \$3,076, which is included in interest expense in the Statement of Activities – Entity-Wide.

At September 30, 2012, the Agency had restricted cash of \$1,146,449. The restricted cash is represented by the unexpended proceeds of the revenue allocation note and a separate debt service payment account, totaling \$1,020,901 and \$125,548, respectively. The use of this cash is restricted to paying for the acquisition, construction and installation of public improvements within the Downtown District, and to pay 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>
2013	\$ 187,707	\$ 63,164	\$ 250,871
2014	194,427	56,444	250,871
2015	201,388	49,483	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	240,071	10,800	250,871
2021	<u>123,266</u>	<u>2,169</u>	<u>125,435</u>
Total	<u>\$1,826,998</u>	<u>\$305,405</u>	<u>\$2,132,403</u>

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2012 as follows:

	<u>Long-Term Obligations September 30, 2011</u>	<u>Long-Term Obligations Incurred</u>	<u>Long-Term Obligations Paid</u>	<u>Long-Term Obligations September 30, 2012</u>	<u>Due Within One Year</u>
Revenue allocation note	<u>\$2,000,000</u>	<u>\$ -</u>	<u>\$ 173,002</u>	<u>\$1,826,998</u>	<u>\$187,707</u>

**COMMITMENTS AND CONTINGENCIES (SURA)**

As of September 30, 2012, the Agency was working with several interested parties on future urban development projects. At September 30, 2012, none of these projects had been formalized and the Agency had not entered into any agreements to provide funding for these projects. It is anticipated that such projects will be funded through the Agency and tax increment financing in the future.

(Continued)

**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 17: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONTINUED)**

***COMMITMENTS AND CONTINGENCIES (CONTINUED)***

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 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, 2012, the Agency had provided funding-to-date totaling \$87,330 related to this project. The remaining commitment on this project as of September 30, 2012 was \$362,670.

During 2011, the Agency entered into an agreement with the City of Sandpoint, Idaho related to the improvements and developments for the Sand Creek Boat Dock and Boardwalk. The agreement calls for the Agency to provide funding of up to \$250,000, as work is completed. As of September 30, 2012, the Agency had provided funding-to-date totaling \$244,250 related to this project. The remaining commitment on this project as of September 30, 2012 was \$5,750.

During 2011, the Agency entered into an agreement with the City of Sandpoint, Idaho related to the improvements and development for the Dock Street and Windbag Marina. The agreement calls for the Agency to provide funding of up to \$475,000, as work is completed. As of September 30, 2012, the Agency had provided funding-to-date totaling \$474,340 related to this project. The remaining commitment on this project as of September 30, 2012 was \$660.

During 2011, the Agency entered into an agreement with the Downtown Sandpoint Business Administration (DSBA) to provide funding for approved economic vitalization projects. The agreement calls for the Agency to provide funding of up to \$44,210, as work is completed. As of September 30, 2012, the Agency had provided funding-to-date totaling \$37,690 related to these projects. The remaining commitment on these projects as of September 30, 2012 was \$6,520.

During 2012, the Agency entered into an agreement with the City of Sandpoint, Idaho related to the design and analysis of the downtown Sandpoint street district. The agreement calls for the Agency to provide funding of up to \$197,994, as work is completed. As of September 30, 2012, the Agency had provided funding-to-date totaling \$134,154 related to this project. The remaining commitment of this project at September 30, 2012 was \$63,840.

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, 2012**

	<b>Final Budgeted Amounts *</b>	<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
<b>REVENUES</b>			
Taxes and special assessments	\$ 3,515,930	\$ 3,571,412	\$ 55,482
Licenses and permits	168,160	191,295	23,135
Grants	2,372,625	341,135	(2,031,490)
Intergovernmental revenues	1,789,050	1,745,679	(43,371)
Interest	11,300	7,609	(3,691)
Charges for services	242,100	226,418	(15,682)
Fines and forfeits	94,100	71,850	(22,250)
Miscellaneous revenue	1,355,768	5,288	(1,350,480)
Total revenues	<u>9,549,033</u>	<u>6,160,686</u>	<u>(3,388,347)</u>
<b>EXPENDITURES</b>			
General government	1,893,501	1,639,040	254,461
Public safety	3,840,696	3,087,407	753,289
Highways and streets	1,794,294	1,556,864	237,430
Culture and recreation	749,753	660,396	89,357
Capital outlay	2,242,290	472,509	1,769,781
Debt service:			
Principal retirement	51,160	51,135	25
Interest expense	3,150	3,251	(101)
Total expenditures	<u>10,574,844</u>	<u>7,470,602</u>	<u>3,104,242</u>
(Deficiency) of revenues (under) expenditures	<u>(1,025,811)</u>	<u>(1,309,916)</u>	<u>(284,105)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of assets	5,000	9,500	4,500
Transfers in	1,152,245	1,152,245	-
Transfers (out)	(131,434)	(135,034)	(3,600)
Total other financing sources (uses)	<u>1,025,811</u>	<u>1,026,711</u>	<u>900</u>
Net change in fund balances	-	(283,205)	(283,205)
Fund balances - beginning	-	3,926,657	3,926,657
Fund balances - ending	<u>\$ -</u>	<u>\$ 3,643,452</u>	<u>\$ 3,643,452</u>

\* Final Budgeted amounts were not amended.

FINANCIAL SECTION

OTHER SUPPLEMENTARY INFORMATION

**City of Sandpoint  
Nonmajor Governmental Funds**

**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, 2012**

	<b>Debt Service Funds</b>	<b>Special Revenue Funds</b>	<b>Total Nonmajor Governmental Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and investments	\$ -	\$ 223,261	\$ 223,261
Receivables	210,136	13,868	224,004
Restricted assets:			
Cash and investments	301,401	1,538,538	1,839,939
Total assets	<u><u>\$ 511,537</u></u>	<u><u>\$ 1,775,667</u></u>	<u><u>\$ 2,287,204</u></u>
<b>LIABILITIES</b>			
Vouchers payable	\$ -	\$ 36,619	\$ 36,619
Customer deposits	-	6,048	6,048
Deferred revenue	203,978	8,015	211,993
Total liabilities	<u>203,978</u>	<u>50,682</u>	<u>254,660</u>
<b>FUND BALANCES</b>			
Restricted	307,559	-	307,559
Committed	-	608,600	608,600
Assigned	-	1,116,385	1,116,385
Total fund balance	<u>307,559</u>	<u>1,724,985</u>	<u>2,032,544</u>
Total liabilities and fund balance	<u><u>\$ 511,537</u></u>	<u><u>\$ 1,775,667</u></u>	<u><u>\$ 2,287,204</u></u>

**City of Sandpoint**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2012**

	<b>Debt Service Funds</b>	<b>Special Revenue Funds</b>	<b>Total Nonmajor Governmental Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes and special assessments	\$ 45,246	\$ 151,255	\$ 196,501
Impact fees	-	493,175	493,175
Interest	639	2,868	3,507
Charges for services	-	453,584	453,584
Grants	-	4,500	4,500
Miscellaneous revenues	-	15,960	15,960
Total revenues	<u>45,885</u>	<u>1,121,342</u>	<u>1,167,227</u>
 <b>EXPENDITURES</b>			
General government	-	112,376	112,376
Culture and recreation	-	303,419	303,419
Capital projects	-	476,993	476,993
Debt service:			
Principal retirement	33,240	-	33,240
Interest expense	16,483	-	16,483
Total expenditures	<u>49,723</u>	<u>892,788</u>	<u>942,511</u>
 (Deficiency) excess of revenues (under) over expenditures	 <u>(3,838)</u>	 <u>228,554</u>	 <u>224,716</u>
 <b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	296,434	296,434
Transfers (out)	-	(198,729)	(198,729)
Total other financing sources (uses)	<u>-</u>	<u>97,705</u>	<u>97,705</u>
 Net change in fund balances	 (3,838)	 326,259	 322,421
Fund balances - beginning	<u>311,397</u>	<u>1,398,726</u>	<u>1,710,123</u>
Fund balances - ending	<u>\$ 307,559</u>	<u>\$ 1,724,985</u>	<u>\$ 2,032,544</u>

**City of Sandpoint**

**COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS  
September 30, 2012**

	<u>LID #32</u>	<u>LID #2002-01</u>	<u>LID #2002-02</u>
<b>ASSETS</b>			
Receivables:			
Special assessments	\$ 29,517	\$ 8,207	\$ 50,929
Interest	460	1	2
Restricted assets:			
Cash and investments	217,196	6,967	8,803
Total assets	<u>\$ 247,173</u>	<u>\$ 15,175</u>	<u>\$ 59,734</u>
<b>LIABILITIES</b>			
Deferred revenue	<u>\$ 29,517</u>	<u>\$ 8,207</u>	<u>\$ 50,929</u>
Total liabilities	<u>29,517</u>	<u>8,207</u>	<u>50,929</u>
<b>FUND BALANCES</b>			
Restricted for debt service	<u>217,656</u>	<u>6,968</u>	<u>8,805</u>
Total liabilities and fund balances	<u>\$ 247,173</u>	<u>\$ 15,175</u>	<u>\$ 59,734</u>

<b>LID #2006-01</b>	<b>LID #2007-01</b>	<b>LID Guarantee</b>	<b>Total</b>
\$ 66,201	\$ 49,126	\$ -	\$ 203,980
5,686	-	7	6,156
20,728	9,356	38,351	301,401
<u>\$ 92,615</u>	<u>\$ 58,482</u>	<u>\$ 38,358</u>	<u>\$ 511,537</u>
\$ 66,201	\$ 49,124	\$ -	203,978
<u>66,201</u>	<u>49,124</u>	<u>-</u>	<u>203,978</u>
26,414	9,358	38,358	307,559
<u>\$ 92,615</u>	<u>\$ 58,482</u>	<u>\$ 38,358</u>	<u>\$ 511,537</u>

## City of Sandpoint

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS For the Year Ended September 30, 2012

	<u>LID #32</u>	<u>LID # 2002-01</u>	<u>LID # 2002-02</u>
<b>REVENUES</b>			
Special assessments	\$ 6,556	\$ 4,539	\$ 9,486
Interest	453	18	22
Total revenues	<u>7,009</u>	<u>4,557</u>	<u>9,508</u>
<b>EXPENDITURES</b>			
Debt service:			
Principal	2,974	5,864	7,087
Interest	3,882	1,120	4,208
Total expenditures	<u>6,856</u>	<u>6,984</u>	<u>11,295</u>
(Deficiency) excess of revenues (under) over expenditures	<u>153</u>	<u>(2,427)</u>	<u>(1,787)</u>
Net change in fund balances	153	(2,427)	(1,787)
Fund balances - beginning	<u>217,503</u>	<u>9,395</u>	<u>10,592</u>
Fund balances - ending	<u>\$ 217,656</u>	<u>\$ 6,968</u>	<u>\$ 8,805</u>

<b>LID # 2006-01</b>	<b>LID # 2007-01</b>	<b>LID Guarantee</b>	<b>Total</b>
\$ 15,708	\$ 8,957	\$ -	\$ 45,246
48	19	79	639
<u>15,756</u>	<u>8,976</u>	<u>79</u>	<u>45,885</u>
11,767	5,548	-	33,240
4,246	3,027	-	16,483
<u>16,013</u>	<u>8,575</u>	<u>-</u>	<u>49,723</u>
(257)	401	79	(3,838)
(257)	401	79	(3,838)
<u>26,671</u>	<u>8,957</u>	<u>38,279</u>	<u>311,397</u>
<u>\$ 26,414</u>	<u>\$ 9,358</u>	<u>\$ 38,358</u>	<u>\$ 307,559</u>

**City of Sandpoint**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
September 30, 2012**

	<u>Recreation</u>	<u>Impact Fees</u>	<u>Parks Improvement</u>	<u>Bonner Business Center</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and investments	\$ 211,599	\$ -	\$ -	\$ 11,662	\$ 223,261
Receivables:					
Taxes	8,450	-	-	-	8,450
Accounts	40	159	669	4,550	5,418
Restricted assets:					
Cash and investments, at cost	-	828,300	704,190	6,048	1,538,538
Total assets	<u>\$ 220,089</u>	<u>\$ 828,459</u>	<u>\$ 704,859</u>	<u>\$ 22,260</u>	<u>\$ 1,775,667</u>
<b>LIABILITIES</b>					
Vouchers payable	\$ 12,214	\$ -	\$ 4,789	\$ 19,616	\$ 36,619
Customer deposits	-	-	-	6,048	6,048
Deferred revenue	8,015	-	-	-	8,015
Total liabilities	<u>20,229</u>	<u>-</u>	<u>4,789</u>	<u>25,664</u>	<u>50,682</u>
<b>FUND BALANCES</b>					
Committed	5,945	366,500	236,155	-	608,600
Assigned	193,915	461,959	463,915	(3,404)	1,116,385
Total fund balances	<u>199,860</u>	<u>828,459</u>	<u>700,070</u>	<u>(3,404)</u>	<u>1,724,985</u>
Total liabilities and fund balances	<u>\$ 220,089</u>	<u>\$ 828,459</u>	<u>\$ 704,859</u>	<u>\$ 22,260</u>	<u>\$ 1,775,667</u>

**City of Sandpoint**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
For the Year Ended September 30, 2012**

	<u>Recreation</u>	<u>Impact Fees</u>	<u>Parks Improvement</u>	<u>Bonner Business Center</u>	<u>Total</u>
<b>REVENUES</b>					
Property taxes	\$ 151,255	\$ -	\$ -	\$ -	\$ 151,255
Impact fees	-	493,175	-	-	493,175
Interest	433	1,183	1,235	17	2,868
Services	79,607	-	244,583	129,394	453,584
Grants	4,500	-	-	-	4,500
Miscellaneous	1,500	-	11,993	2,467	15,960
Total revenues	<u>237,295</u>	<u>494,358</u>	<u>257,811</u>	<u>131,878</u>	<u>1,121,342</u>
<b>EXPENDITURES</b>					
General government	-	2,848	-	109,528	112,376
Culture and recreation	234,827	-	68,592	-	303,419
Capital outlay	-	116,857	360,136	-	476,993
Total expenditures	<u>234,827</u>	<u>119,705</u>	<u>428,728</u>	<u>109,528</u>	<u>892,788</u>
(Deficiency) excess of revenues (under) over expenditures	<u>2,468</u>	<u>374,653</u>	<u>(170,917)</u>	<u>22,350</u>	<u>228,554</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	31,434	-	265,000	-	296,434
Transfers (out)	(165,000)	-	-	(33,729)	(198,729)
Total other financing sources (uses)	<u>(133,566)</u>	<u>-</u>	<u>265,000</u>	<u>(33,729)</u>	<u>97,705</u>
Net change in fund balances	(131,098)	374,653	94,083	(11,379)	326,259
Fund balances - beginning	<u>330,958</u>	<u>453,806</u>	<u>605,987</u>	<u>7,975</u>	<u>1,398,726</u>
Fund balances - ending	<u>\$ 199,860</u>	<u>\$ 828,459</u>	<u>\$ 700,070</u>	<u>\$ (3,404)</u>	<u>\$ 1,724,985</u>

**City of Sandpoint**  
**Nonmajor Business-Type Funds**

**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 ASSETS  
NONMAJOR PROPRIETARY FUNDS  
September 30, 2012**

	<b>Street Lights</b>	<b>Sanitation</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 189,966	\$ 93,322	\$ 283,288
Receivables	20,587	45,419	66,006
Fixed assets, net of depreciation	130,161	-	130,161
Total assets	<u>340,714</u>	<u>138,741</u>	<u>479,455</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	<u>9,611</u>	<u>25,322</u>	<u>34,933</u>
Total liabilities	<u>9,611</u>	<u>25,322</u>	<u>34,933</u>
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	130,161	-	130,161
Restricted	15,673	-	15,673
Unrestricted	185,269	113,419	298,688
Total net assets	<u>\$ 331,103</u>	<u>\$ 113,419</u>	<u>\$ 444,522</u>

## City of Sandpoint

### COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS NONMAJOR PROPRIETARY FUNDS For the Year Ended September 30, 2012

	<u>Street Lights</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 160,094	\$ 365,427	\$ 525,521
Total operating revenues	<u>160,094</u>	<u>365,427</u>	<u>525,521</u>
Operating expenses:			
Contractual services	-	296,011	296,011
Heat, lights, and power	103,516	5,367	108,883
Maintenance	3,762	-	3,762
Depreciation	12,670	-	12,670
Total operating expenses	<u>119,948</u>	<u>301,378</u>	<u>421,326</u>
Operating income	<u>40,146</u>	<u>64,049</u>	<u>104,195</u>
Nonoperating revenues:			
Interest income	371	201	572
Total nonoperating revenues	<u>371</u>	<u>201</u>	<u>572</u>
Income before transfers	40,517	64,250	104,767
Transfers (out)	<u>(35,898)</u>	<u>(64,596)</u>	<u>(100,494)</u>
Change in net assets	4,619	(346)	4,273
Total net assets - beginning	<u>326,484</u>	<u>113,765</u>	<u>440,249</u>
Total net assets - ending	<u>\$ 331,103</u>	<u>\$ 113,419</u>	<u>\$ 444,522</u>

**City of Sandpoint**

**COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
For the Year Ended September 30, 2012**

	<b>Street Lights</b>	<b>Sanitation</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 159,933	\$ 364,097	\$ 524,030
Payments to suppliers	(106,771)	(300,870)	(407,641)
Net cash provided by operating activities	53,162	63,227	116,389
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers (out)	(35,898)	(64,596)	(100,494)
Net cash (used) by noncapital financing activities	(35,898)	(64,596)	(100,494)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income, net	371	201	572
Net cash provided by investing activities	371	201	572
Net increase (decrease) in cash and investments	17,635	(1,168)	16,467
Cash and investments - October 1, 2011	172,331	94,490	266,821
Cash and investments - September 30, 2012	\$ 189,966	\$ 93,322	\$ 283,288
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 40,146	\$ 64,049	\$ 104,195
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	(161)	(1,330)	(1,491)
Increase in vouchers payable	507	508	1,015
Net cash provided by operating activities	\$ 53,162	\$ 63,227	\$ 116,389

FINANCIAL SECTION

REPORT REQUIRED BY THE GAO



**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**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sandpoint, as of and for the year ended September 30, 2012, which collectively comprise the City of Sandpoint's basic financial statements and have issued our report thereon dated January 31, 2013. 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.

Internal Control Over Financial Reporting

Management of the City of Sandpoint, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Sandpoint's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sandpoint's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sandpoint's internal control over financial reporting.

*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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sandpoint's financial statements are free of 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 (CONTINUED)**

This report is intended solely for the information and use of Management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Magnuson, McHugh & Company, P.A.*

Magnuson, McHugh & Co., P.A.

January 31, 2013



**INDEPENDENT AUDITOR'S 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**

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

Compliance

We have audited the City of Sandpoint, Idaho'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 are applicable to each of its major federal programs for the year ended September 30, 2012. The City of Sandpoint, Idaho's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Sandpoint, Idaho's management. Our responsibility is to express an opinion on the City of Sandpoint, Idaho's compliance based on our audit.

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 identified in the accompanying schedule of findings and questioned costs 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. Our audit does not provide a legal determination of City of Sandpoint's compliance with those requirements.

In our opinion, the City of Sandpoint complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of City of Sandpoint, Idaho's is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered City of Sandpoint, Idaho's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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, Idaho's internal control over compliance.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)**

*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.

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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of Management, the City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Magnuson, McHugh & Company, P.A.*

Magnuson, McHugh & Company, P.A.

January 31, 2013

# City of Sandpoint

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the year ended September 30, 2012

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 ARRA - Highway planning and construction State and Community Highway Safety Alcohol Traffic Safety and Drunk Driving Prevention	20.205 20.600 20.601	826000258 00 826000258 00 826000258 00	46,505 4,764 <u>2,971</u>
Total U.S. Department of Transportation			<u>54,240</u>
U.S. Department of Energy ARRA - State Energy Program ARRA - Energy efficiency grant	81.041 81.128		264,275 <u>65,000</u>
Total U.S. Department of Energy			<u>329,275</u>
U.S. Department of Homeland Security FEMA - Assistance to Firefighters Grant	97.044		<u>266,000</u>
U.S. Department of Agriculture ARRA -Water and waste disposal systems for rural communities	10.760		<u>10,496,112</u>
Total Federal Awards			<u>\$ 11,149,627</u>

# City of Sandpoint

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the year ended September 30, 2012

### 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.

### NOTE 3: FEDERAL LOAN PROGRAMS

The City administers the following federal loan programs:

	<u>CFDA Number</u>	<u>Outstanding Balance at September 30, 2012</u>
DEQ Loan-Clean water revolving funds:		
Interim construction line of credit	10.760	\$ 4,526,363
2012 water facility improvement bond	10.760	<u>9,000,000</u>
		<u>\$13,526,363</u>

**City of Sandpoint**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
September 30, 2012**

**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:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.760	Water and waste disposal systems for rural communities

Dollar threshold used to distinguish between type A and type B programs: \$334,489

Auditee qualified as low-risk auditee?  Yes  No

## City of Sandpoint

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS September 30, 2012

#### **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.