

CITY OF SANDPOINT

FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

CITY OF SANDPOINT
September 30, 2011

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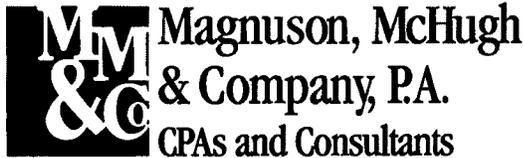
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FINANCIAL SECTION

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, 2011, 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, 2011. 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, 2011, 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 March 7, 2012, 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 20 and 50 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
March 7, 2012

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

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, 2011. 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 \$49,309,381. Of this amount \$7,486,452 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total unrestricted net assets increased by \$2,280,222. This is directly related to the City's increase in capital assets. 6.8%, or \$155,167, of this increase is accounted for in the City's governmental funds largely reflecting the new improvements to the moorage facilities at Sandpoint's City Beach and additional playground equipment. The remaining increase (93.2%) is accounted for in the City's business-type funds where new enhancements to the water treatment and sewer treatment facilities are on-going.
- 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 \$5,636,782, a decrease of \$148,701 or 2.57% from the prior fiscal year; 105% of this decrease is accounted for in the General Fund while the Non-major governmental funds, (Capital Improvement Fund, Recreation Fund, Parks Capital Improvement Fund and the Debt Fund) reflects a slight increase in fund balance of \$7,946.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,497,986 or 32% of the total general fund expenditures.
- The City of Sandpoint has completed the majority of the system improvements and infrastructure enhancements for the wastewater facility.
- Construction has begun on the City's water treatment facility expansion and enhancement project. It is currently expected to be completed on schedule. The project includes a \$1,000,000 grant awarded from USDA.
- July 1, 2011, the City did not renew the Bonner Business Center (BBC) management contract with the Economic Development Corporation. Management of this facility was brought in-house. The decision was made in part, due to the expansion of the planning department's duties to include economic development.

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, 2011

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 nonmajor 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 21 – 23 of this report.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

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 28 – 30 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 usually 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. However, the City's fiduciary fund is reflected in the government-wide financial statement as a discretely presented component unit immediately after the total column for the primary government. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City's component unit: Sandpoint Urban Renewal Agency is represented in the government-wide financial statements and notes section for the current year.

The basic fiduciary fund financial statements can be found on page 31 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 32 – 49 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 46 – 58 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 \$49,309,381 at the close of the most recent fiscal year.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

By far the largest portion of the City of Sandpoint's net assets (62%) 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

NET ASSETS September 30, 2011 and 2010

	Governmental		Business-type		Total	
	activities		activities			
	2011	2010	2011	2010	2011	2010
Current and other assets	\$7,281,433	\$7,145,836	\$13,717,869	\$12,680,234	\$20,999,302	\$19,826,070
Capital assets	7,511,175	6,776,973	36,048,072	31,445,359	43,559,247	38,222,332
Total assets	14,792,608	13,922,809	49,765,941	44,125,593	64,558,549	58,048,402
Long-term liabilities outstanding	663,211	703,840	12,209,188	9,773,011	12,872,399	10,476,851
Other liabilities	1,231,341	956,207	1,145,428	300,512	2,376,769	1,256,719
Total liabilities	1,894,552	1,660,047	13,354,616	10,073,523	15,249,168	11,733,570
Net assets:						
Invested in capital assets, net of related debt	7,126,835	6,662,787	23,213,998	21,705,056	30,340,833	28,367,843
Restricted	3,138,796	3,122,717	8,343,300	9,618,042	11,482,096	12,740,759
Unrestricted	2,632,425	2,477,258	4,854,027	2,728,972	7,486,452	5,206,230
Total net assets	\$12,898,056	\$12,262,762	\$36,411,325	\$34,052,070	\$49,309,381	\$46,314,832

A portion of the City of Sandpoint's net assets (23.3%) represents resources that are subject to external restrictions on how they can be used. *Unrestricted net assets* represent 15% or \$7,486,452 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, 2011

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

The government's investment of capital assets, net of related debt increased \$1,972,990 over prior fiscal year. This change is the result of an increase of \$464,048 in the governmental funds and an increase of \$1,508,942 to the business-type funds. The increase in the governmental funds is related to the additions with the parks that were funded by grants and contributions. Replacement occurred for only a portion of the assets sold and those assets had no accompanying debt. The increase in capital assets, net of related debt in the business-type activities is directly related to the water and sewer treatment facility projects.

The City's net assets increased \$2,994,549 during the current fiscal year compared to prior fiscal year's increase of \$1,781,764. This is a reflection of the completion of the sewer infrastructure project and the beginning of the water direct treatment facility enhancement and expansion project.

Component Unit. The Sandpoint Urban Renewal Agency's total net assets are \$1,016,953, a decrease of \$466,952 from prior fiscal year end. This is a result of their cash investment into the City of Sandpoint's infrastructure through projects on 2nd Avenue, Dock Street and the city's new round-a-bout.

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 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, 2011

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

Table 2
CHANGES IN NET ASSETS
September 30, 2011 and 2010

	Governmental		Business-type		Total	
	activities		activities			
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	\$936,258	\$968,911	\$6,412,149	\$5,790,702	\$7,348,406	\$6,759,613
Capital grants	703,207	573,333	571,840	312,207	1,275,047	885,540
General revenues:						
Property taxes & special assessments	3,633,945	3,507,403			3,633,945	3,507,403
Investment earnings	18,115	16,262	53,110	52,271	71,225	68,533
Miscellaneous	448,221	20,881			448,222	20,881
Intergovernmental	1,740,384	1,722,993			1,740,384	1,722,993
Gain on disposal of assets	516	0	5,200		5,716	
Total revenues	7,480,646	6,809,783	7,042,299	6,155,180	14,522,945	12,964,963
Expenses:						
General government	1,591,662	1,760,025			1,591,662	1,760,025
Public safety	3,204,793	3,158,158			3,204,793	3,158,158
Highways & streets	1,827,089	1,711,351			1,827,089	1,711,351
Culture & recreation	1,304,464	1,065,350			1,304,464	1,065,350
Other						
Interest on long-term debt	22,780	26,472			22,780	26,472
Water			1,264,598	1,328,477	1,264,598	1,328,477
Sewer			1,494,721	1,298,341	1,494,721	1,298,341
Bond payment fund			413,892	429,933	413,892	429,933
Bond construction fund			200		200	
Other proprietary funds			404,197	398,045	404,197	398,045
Total expenses	7,950,788	7,721,356	3,577,608	3,454,796	11,528,396	11,176,152
 Increases in net assets before transfers	 (470,142)	 (911,573)	 3,464,691	 2,700,384	 2,994,549	 1,788,811
Transfers	1,105,436	1,083,443	(1,105,436)	(1,083,443)		
Increase in net assets	635,294	171,870	2,359,255	1,616,941	2,994,549	1,788,811
Net assets – beginning	12,262,762	12,090,892	34,052,070	32,435,129	46,314,832	44,526,021
Net assets – ending	\$12,898,056	\$12,262,762	\$36,411,325	\$34,052,070	\$49,309,381	\$46,314,832

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities. Governmental activities increased the City of Sandpoint's net assets by \$635,294, thereby accounting for 21% of the total growth in the net assets of the City of Sandpoint compared to prior fiscal years 9.6%. Key elements of this increase are as follows:

- At year end revenues for the City of Sandpoint's governmental activities reflects an increase in total revenues of \$670,863 from prior fiscal year. This increase is a largely a result of the infusion of cash from Sandpoint Urban Renewal Downtown District into our revenue stream to pay for the recent moorage project at the city beach. Another area that impacted this increase is from Grants received by the city.
- Taxes and special assessments account for the largest program revenue category for governmental activities, generating about 49% of total governmental revenue compared to last year's 51%. Included are property tax, franchise fees, resort bed tax, and local improvement district assessments.
- Intergovernmental Revenues reflect an increase of 10% or \$17,931 compared to prior year's decrease of 12%.
- Grants show an increase of 23% from prior fiscal year. During the time of recovery for the nation, most granting agencies have limited resources allotted for granting programs. The City garnered several grants to construct several Safe Routes to School, public safety programs and engineering for Schweitzer Cutoff.
- Governmental activity expenditures reflect an overall increase of 3% or \$229,432 from last year while expenditures for general government reflect a decrease of \$168,363. This reflects philosophical decisions of the City Council in their budgeting practices. These philosophies resulted in maintaining current departmental budgets, freezing personnel wages and benefits for the second year in a row and making expenditure decisions on capital projects that prepare us for economic growth.
- Governmental activities reflect a gain on disposed assets of \$516.

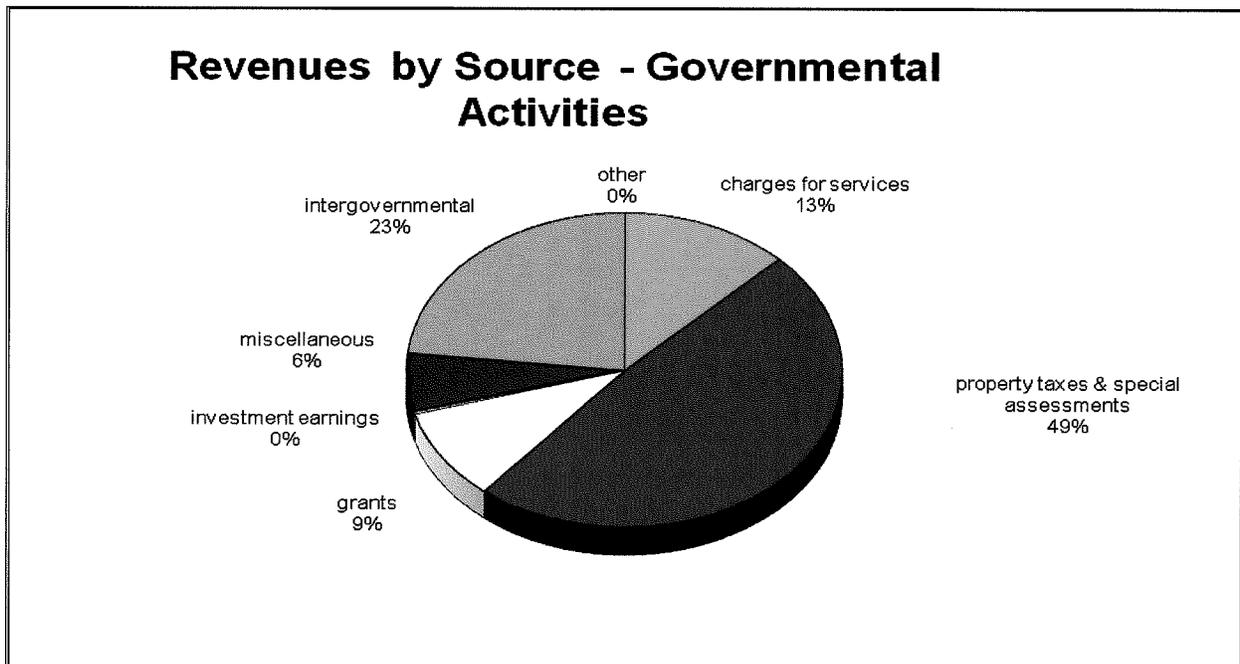
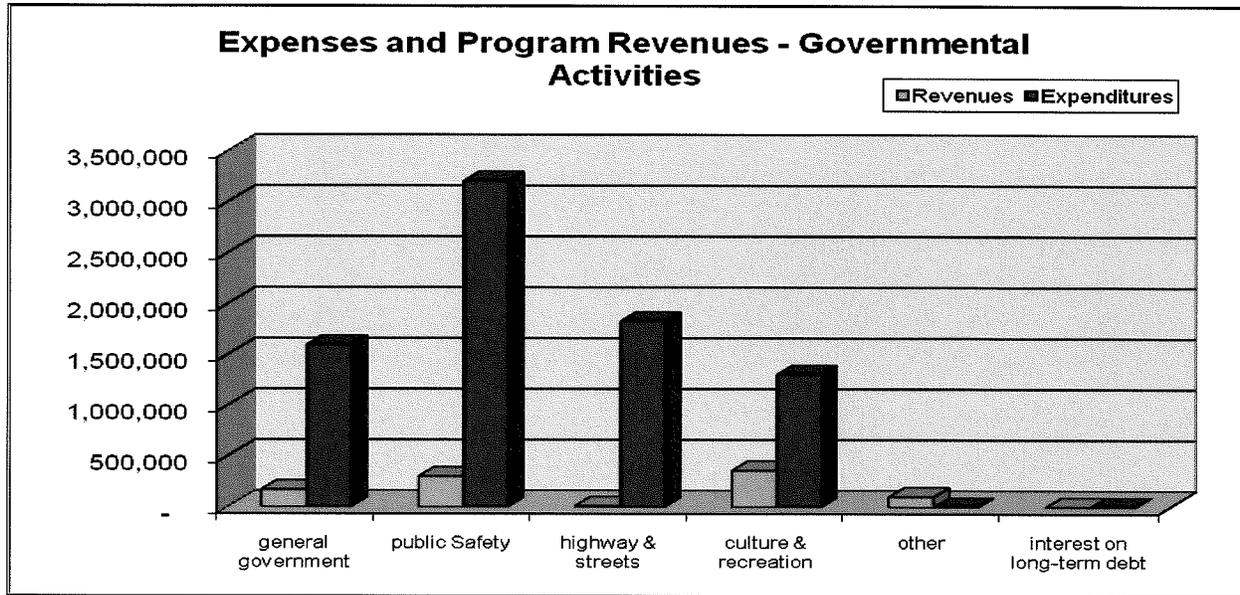
Business-type activities. Business-type activities increased the City of Sandpoint's net assets by \$2,395,255 accounting for 79% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for services account for the largest portion of program revenue. Utility customers are charged for services received for water, sewer, garbage and street lights.
- 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.
- Capital grants increased during the fiscal year 83% or \$259,633 compared to prior fiscal year.
- Investment earnings for business type activities increased slightly \$839 or 1.6%.
- Construction began on the water treatment facility upgrades that will eventually be funded by a bond through USDA. 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.
- Construction on the sewer treatment facility was concluded during the fiscal year. Financing was provided by a bond that will be paid in annual installments for 30 years.
- Operating expenditures reflects an increase for the sewer utility reflecting the increase in depreciation expense for the enhancement and expansion of the sewer treatment facilities. 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, 2011

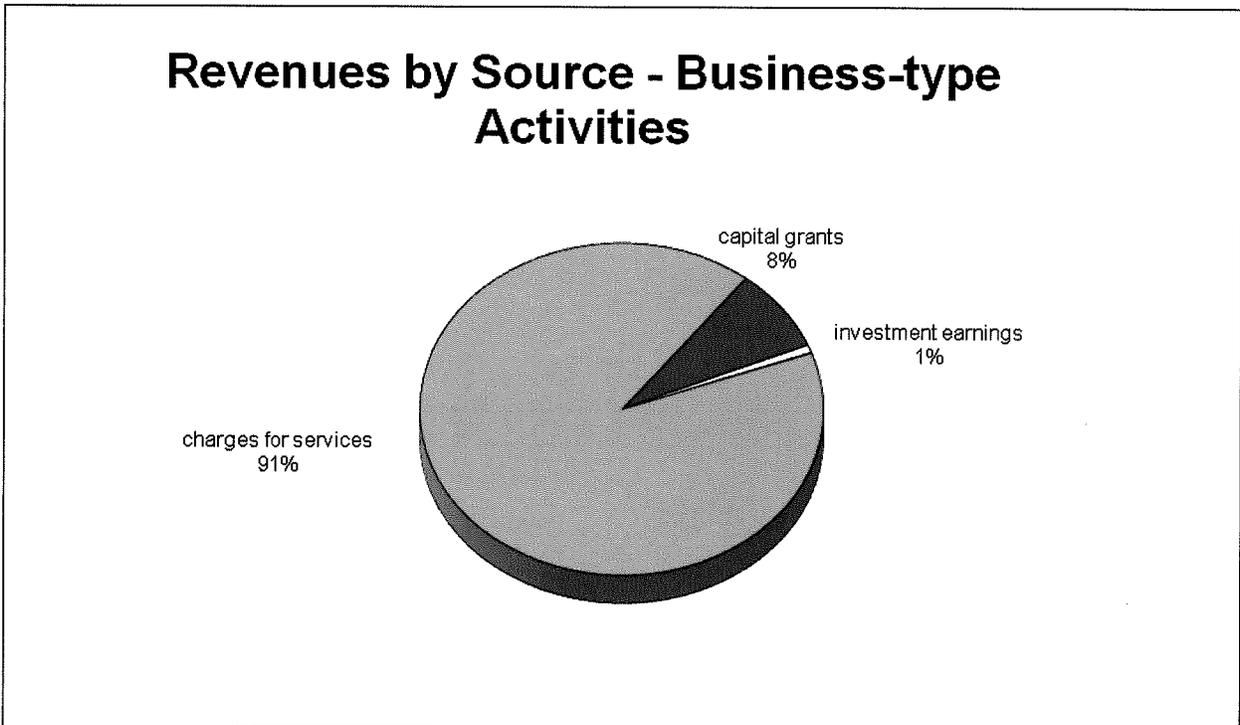
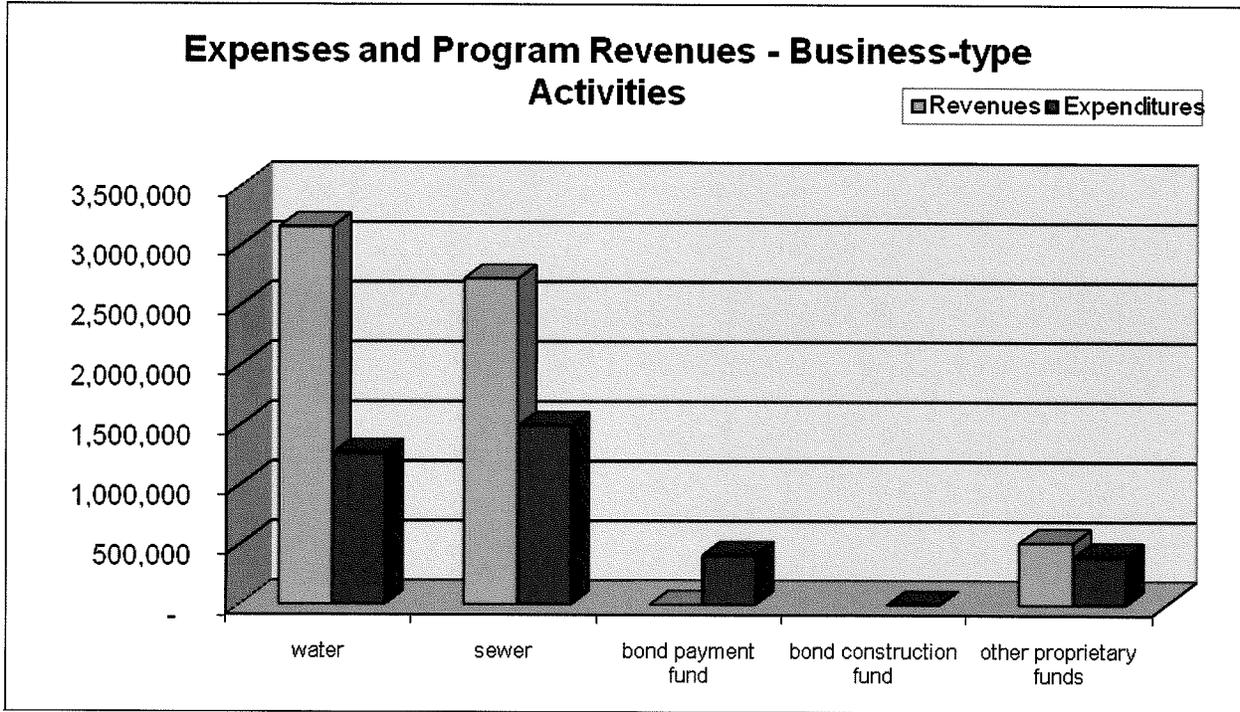
GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

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 \$5,636,782, reflecting a decrease of (2.8)% from last year. Approximately 44% of this total amount or \$2,497,986 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 \$ 2,497,986 while the total fund balance reached \$3,926,657. 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 32% of the total general fund expenditures, while total fund balance represents 51% of that same amount.

Resort city tax collections received were in excess of the amount budgeted by \$28,135. 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 2012/2013.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The fund balance of the City of Sandpoint's general fund decreased by \$156,647 (3.8%) during the current fiscal year compared to a decrease of \$22,549 (.52%) during the prior fiscal year. Key factors in this decrease are as follows:

- License and permit revenue decreased \$45,601 or 23% from prior year. Mirroring the decrease of license and permits is also a decrease of fines and forfeitures. Fine revenue decreased \$28,035 or 24% from prior fiscal year. Total decrease in this area of revenue is \$73,636.
- Public safety expenditures reflect an increase of \$36,521 or 1.2% from prior fiscal year. This is a result of the purchase of replacement vehicles for the police department. In the past, this was an annual appropriation with a revolving schedule for replacement. Due to the economy, replacement is sporadically budgeted.
- Highway and streets expenditures reflect an increase of \$136,804 or 8.9% from prior fiscal year. The increase is predominately related to snow. Overtime, part-time, accompanying employer costs, and snow hauling contracts. The remaining increase is related to R&M of streets.
- Capital projects category reflects the largest increase in expenditures to the City, \$651,144 from the prior fiscal year expenditures of \$59,198. This increase is a result of Idaho Safe Routes to School (Spruce Street), Downtown Revitalization Project, Schweitzer Cut-off Project, Sand Creek Pedestrian Boardwalk and Washington Street Reconstruction Project.

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 \$10,094. There were several factors related to this increase and they are identified individually below.

- The fund balance for the Recreation Fund increased \$32,940 or 11% compared to prior fiscal year's increase of \$35,107 or 13%. Historically, this particular fund balance increases each year an amount almost equal to the inter-fund transfers received from the general fund. The fund balance in 2005 was \$58,758 indicating a total growth of 463%. The City Council has budgeted to use \$165,000 of the Recreation Fund Balance, in fiscal year 2012 budget, to purchase the Hall Property in an effort to preserve the Pend Oreille Bay Trail for the future of Sandpoint's citizens.
- The Impact Fee Fund reflects a decrease of (\$103,805) in the fund balance for this fiscal year. This is directly related to capital expenditures and transfers to the general fund to cover capital expenditures budgeted. Decreases in this fund are reflective of expenditures exceeding incoming revenue for the fiscal year. It is a good reminder that this particular fund receives revenue from year to year for future specified projects.
- \$72,984 or 14% was the increase in the fund balance of the Parks Capital Improvement Fund. This fund receives revenue annually for services and fees for use of the park facilities. The fund balance of the Parks Capital Improvement Fund is restricted to capital improvement projects for the park system.
- The BBC Fund or Bonner Business Center is a newly created fund. This fund is used to account for the revenues and expenditures related to the Bonner Business Center that was formally managed by the Economic Development Corporation of Sandpoint. The City took over the management in July of 2011. The fund balance is \$7,975.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The debt service fund reflects a total fund balance of \$311,399, a decrease of (\$2,148) from prior year. This decrease is a direct result of using some 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 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 \$3,893,409, an increase of 80% from prior year. This increase is in part a result of using restricted cash towards the enhancements and expansion of the water treatment facilities that began this fiscal year. The construction project will ultimately be funded by a bond through USDA.

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 118% or \$669,369. This is directly related to 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 \$5,081,309 and \$564,207 respectively.

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

The 1997 Water Revenue Bonds were issued for \$1,862,300 and \$525,700 at 4.5% interest through USDA. The water system revenues support the annual payments (\$146,616). Term ends December 2027.

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 has secured interim financing for and has begun construction on the \$16,500,000 upgrades to the City's Water Treatment facilities. Projections for completion of this project is September 2013 at which time a Water Revenue Bond will be sold to USDA and revenues from the water system will be allocated for annual bond payments to USDA.

A new 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 (\$3,309,048) a result of the liability of accounts payable and interim financing loan.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

GENERAL FUND BUDGETARY HIGHLIGHTS

Sanitation and street lights reflect unrestricted net assets of \$113,765 and \$177,484 respectively.

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

Taxes and special assessment show a variance of \$35,444. This is largely due to the increase of \$28,134.99 in Resort City Taxes collected in excess of the amount budgeted. 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 budget for fiscal year 2012/2013.

Licenses and Permits reports a variance (\$72,873) which is reflective of the decrease shown in those permits related to building and construction such as building permits, gas permits,

Grant revenue was budgeted at \$1,242,837 with actual revenue received from grants totaling \$703,207. The variance of (\$539,630) is largely due grants budgeted but not awarded to the City of Sandpoint in their final selections; such as REEZ Woody Bio Mass and the DOD Training and Prevention Grant.

Intergovernmental Revenue variance of (\$110,816) is related to one specific area. Matching grant revenue budgeted as project participation from outside governmental agencies. This grant was not awarded to the city due to environmental issues in air quality.

Interest Income variance of (\$36,610) is reflective of lower interest rates being paid on the City's investments and is reflective of the decrease in the city's fund balance. Reserves were used to finance operations of the city during this fiscal year. .

Charges for services revenue reflected a variance of \$13,839. This is directly related to the participation in the Police Departments Traffic School. When citing the driver of a vehicle for specific violations, the driver has the option of attending traffic school instead of a citation that affects their driving record.

Fines and forfeits variance of (\$33,089) is a result of a loss in fines from Bonner county and parking.

Miscellaneous revenue was budgeted a \$1,395,999 and actual was \$4,043. The variance is related to beginning cash. The City did not need to use as much of their reserves as was anticipated.

General government, expenditures variance of \$221,698 is directly related to grant projects that postponed to the next fiscal year or were not awarded to the City.

Public safety was budgeted at \$3,469,658 and actual expenditures totaled \$3,066,881 leaving a variance of \$402,777. This variance is a result of unfunded grants and donation projects, fewer volunteer firefighter expenses than projected.

Highways and streets variance of (\$682,685) is due to projects for maintenance of the City streets. They were budgeted under the capital project classification but coded to non-capital accounts to avoid capitalization of non city assets.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Culture and recreation budgeting reflects a variance of \$84,143. This is due to decreased repair and maintenance costs of the various departments related to the park system.

The capital outlay expenditure budget reflects a variance of \$1,825,909. Original budget totaled \$2,536,251 with actual expenditures at \$710,342. This variance is in part related to the variance under highway streets where projects were originally budgeted as capital when in fact are booked as non-capital. Un-funded grants and delayed projects result in the remainder variance.

The City's general fund expenditures for operations (excluding capital) were \$28,205 less than budgeted for the fiscal year.

The City of Sandpoint amended its budget during the current fiscal year. Per City Ordinance 1255 the City amended its special revenue, capital improvement and debt service funds to accommodate the new bond construction project on the water treatment facility and to incorporate the Bonner Business Center revenue and expenditures into the City's budget.

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, 2011 amounts to \$43,559,247 (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 14% (2% of increase related to governmental activities and a 12% of the increase related to business-type activities).

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

- Construction in progress shows a net increase of \$4,223,210 increase largely due in part to the construction of 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 \$747,586 or 11%.
- Additions to governmental activities asset category other improvements \$1,160,205 is largely related the parks project for moorage at Sandpoint's City Beach and sidewalk projects for Safe Routes to School.
- Governmental activities asset category equipment reflects additions of \$101,499 due to the purchase of police cars and mobile data for the police department and a plow and sander addition for the street department.
- Contributed capital to the business-type activities added \$241,500 to the City's assets. This is substantially less than prior years but is indicative of the decrease in housing construction and development.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table 3
CITY OF SANDPOINT'S CAPITAL ASSETS
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$1,452,566	\$1,452,556	\$5,433,188	\$5,433,188	\$6,885,754	\$6,885,744
Construction in progress	7,820	7,820	6,472,437	2,249,227	6,480,257	2,257,047
Buildings	2,058,255	2,058,255	527,400	527,400	2,585,655	2,585,655
Other improvements	5,036,630	3,876,425	29,449,533	260,896	34,486,163	4,137,321
Machinery and equipment	3,019,086	2,975,526	1,411,975	1,327,886	4,431,061	4,303,412
Infrastructure	6,130	6,130	268,396	28,409,380	274,526	28,415,510
Total	\$11,580,487	\$10,376,712	\$43,562,929	\$38,207,977	\$55,143,416	\$48,584,689

Long-term Debt. At the end of the current fiscal year, the City of Sandpoint had total bonded debt outstanding principal balance of \$9,529,946. Of this amount, \$318,997 is 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	
	2011	2010	2011	2010	2011	2010
Compensated absences	\$278,871	\$239,078	\$128,662	\$119,958	\$407,533	\$359,036
Special assessments	318,997	350,576			318,997	350,576
Lease purchase contracts	65,343	114,186		45,686	65,343	159,872
Interim construction LOC			2,869,577		2,869,577	
Revenue bonds			9,210,949	9,607,367	9,210,949	9,607,367
Total	\$663,211	\$703,840	\$12,209,188	\$9,773,011	\$12,872,399	\$10,476,851

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

The City of Sandpoint's total bonded debt decreased by \$427,997 (4.3%) during the current fiscal year and the lease purchase contracts decreased \$94,529 (59%). Compensated absences increased \$48,497 or 13.5% from prior fiscal year.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Sandpoint began the fiscal year with Idaho reporting early signs that Idaho's economy was finally beginning to recover, albeit slowly, from the worst recession since World War II. October 2010 reported the percentage of labor force unemployed at 9.1%, up from last year's 9.0%. The US Rate was reported at 9.6%.

At this same time, news of Coldwater Creek, a local company who employees about 500 people, reported a fall in their stock of 35% and one of Sandpoint's leading employers, Litehouse Inc, announced the opening of a plant in Hurricane Utah. Litehouse corporate office and core job force will remain in Sandpoint. Their decision to expand to Utah was due to the area's positive economic and business conditions. *Idaho Employment November 2010 Issue, October Data.*

By January, Idaho's unemployment rate was reportedly 9.5%. Higher than the national rate (9.4%), this was the first time Idaho exceeded the national rate in over nine years. Projections of a recovery were now been replaced with projections that the economy will remain flat in 2011. Debt being one of the major contributing factors in the economic situation reports nationally, 5.3% of all mortgages are in foreclosure with Idaho reflecting a statewide average of 2.2% in September of 2010. Bonner County reflects a foreclosure rate of 1.6% of the 19,864 homes. *Idaho Employment January 2011 Issue, December Data.*

The U.S. Census information released during this fiscal year provided an abundance of statistical information. We found that Bonner County's annual average wage fell 1% from \$31,808 to \$31,483, while the state of Idaho's annual wage was reported at \$35,131. Sandpoint's population has grown 77% since 1970, when the population was reported at 4,144 and we were ranked as the 15th largest city in Idaho. Sandpoint is currently ranked as the 25th largest city in Idaho with a 2010 census reported population of 7,365. In comparison our closest Idaho cities in population are Payette, population 7,433 and Rathdrum with a population of 6,826.

Working towards economic recovery the City of Sandpoint agreed to make a refundable contribution, along with other area cities, to the Panhandle Regional Fiber-optic Infrastructure project in an effort to jump-start the fiber-to-the-premises project that will attract investors for the \$14 million regional fiber-optic network project. The funds (\$24,500) Sandpoint used for this project were specifically designated for economic development.

The City of Sandpoint also reported an \$18 million expansion project for one of Sandpoint's drinking water treatment plants nearly doubling the city's capacity to supply potable water. The Lake Pend Oreille plant expansion will include converting the treatment process at that plant to a pressurized microfiltration membrane system from the current gravity-fed sand filtration system. The new system will force water through tiny pores in the membrane, which will filter out contaminants. The project will expand the Lake Pend Oreille plant's capacity for treating drinking water to 10 million gallons a day and the City's total capacity to 15 million gallons a day. The Lake Pend Oreille plant west of the City Center was built in 1981. The expansion will be its first upgrade. Construction is expected to begin next spring with completion in late 2012. The water system serves 4,000 households and businesses. The project includes a \$1 million grant from USDA.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

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

The area cities, including the City of Sandpoint, joined forces to fund the Selkirk-Pend Oreille Transit system, otherwise known as '*SPOT*'. The bus system began with a \$147,000 federal stimulus grant awarded to the City of Dover and made its debut in June of this year. The system consists of a fixed-route system, free to its riders, providing transportation to from the residential sections of the cities to the major shopping areas and connects with the bus to Schweitzer Mtn Resort. Nine months into operations ridership has swelled to slightly more than 1,000 riders per week.

5% of Idaho's workforce earns minimum wage, a larger share than the national percentage. Calculated in real dollars, the 1968 minimum wage was \$7.23, with in two cents of the buying power of 2009 minimum wage at \$7.25. In Idaho, a minimum wage job of 40 hours a week generates an annual income of \$15,080. Federal guidelines place a family of two making \$14,570 a year or less in poverty. The poverty threshold for a family of three is an income of \$18,310 a year and a family of four, \$22,050 a year. *Idaho Employment January 2011, December Data*

The fiscal year ended with Idaho's unemployment rate at 9%, equal with the nation's unemployment rates. A report on the impact of the recession on Idaho businesses reflects businesses with 10 – 49 workers employed 31% of all workers and paid 28% of all wages. Those businesses suffered a disproportionate share of the losses – 35% of the workers and 43.5% of the wages, mostly construction related. Retail trade accounted for only 13% of the wage loss and 14% of the employment loss. By December 2011 the county's unemployment rate had dropped to 8.4% from 9.4% in December of 2010.

Major employers in Bonner County are Bonner General Hospital, Coldwater Creek, Litehouse, Panhandle State Bank, Quest Aircraft, Schweitzer Mountain Resort, Unicep Packaging and Wal-Mart. 13% of the non-farm jobs are currently held in the Leisure and Hospitality industry while Trade, Utilities and Transportation industries claim 21% of the jobs. Government jobs are 18%.

Most job vacancies in Northern Idaho by type of requirements shows a higher percentage of job openings in sectors requiring less education and training, a partial contributor to the region's lower per capita income compared to the state as a whole with 68% of the vacancies involving jobs that required no training or education. 24% were jobs requiring a high school diploma or GED and only 8% of the job openings required education or training beyond high school. Historically, northern Idaho's job vacancies requiring a college degree have been relatively low. *Idaho Employment December 2010 Issue, November Data.*

Budget Highlights

- The City's total budget for 2011/2012 reflects an increase of \$16,148,378 or 38% from the prior year. This increase is directly related to the \$17 million water treatment upgrade project, budgeted at \$34,000,000 to accommodate the revenues for interim financing and bonding.
- One of the largest governmental fund projects in next year's budget is the purchase of the first piece of the Hall property (\$410,000) in an effort to preserve the Pend Oreille Bay Trail for generations to come. The funding source for this purchase was \$165,000 from the recreation fund, \$100,000 from the general fund, \$60,000 from Impact Fees, and \$70,000 from the parks capital improvement fund.
- The general fund increased \$1,068,744 or 11% which is in part largely due to an increased amount budgeted for capital projects within the general fund that are related to grants
- Property taxes were levied at \$3,319,298, an increase of \$110,153 or 3% from the prior year. No increase was taken for new construction or annexations this year due to the amount of Recovered Homeowner's Exemption received from the County through tax collections.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2011

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

- The City secured interim financing from Panhandle State Bank for bond construction project to enhance and expand our water treatment facilities. Construction has commenced on the project with a completion date tentatively scheduled for November 2012. The budget includes a \$1,000,000 grant in support of this project.
- Subsequent purchases of land are being considered by the City of Ponderay and Friends of Pend Oreille Bay Trail to ensure the entire trail is available for public use. The City of Sandpoint will pay \$10,000 for the option of purchase a second piece of property adjacent to the Hall property budgeted for purchase. Costs for amenities and maintenance for this trail have yet to be determined.
- Another major purchase budgeted by the City is a new fire apparatus. With grant funding of \$266,000 from the Department of Homeland Security, the City of Sandpoint will pay a match of \$56,857 from the impact fee fund for a total purchase price of \$322,857.
- The fire department has budgeted to continue with its new progressive, yet stringent, "Volunteer Program", with a budget of \$30,000. The intended purpose of this program is to recruit and retain volunteers who are committed to the protection of life and property.
- The City has a new special revenue fund budgeted for the Bonner Business Center in this fiscal year. Operations of our facilities at the business center were managed by the Sandpoint Economic Development Corporation in the past. A decision was made to bring the management of the facility back in house to utilize the expertise of City staff. The fiscal year budget for the BBC is \$143,685.
- Parks capital improvement fund has had major projects over the last few years enhancing the City moorage facilities at City Beach. This year the only major expense was for the purchase of the Hall property.
- The street department has budgeted again the final phase of a large infrastructure project to pave Washington Avenue and add gutter, curb and sidewalk. This project is an enhancement to an area that has not had any improvement for many years.

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, 2011

	<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>
ASSETS				
Cash and investments	\$ 4,756,203	\$ 6,091,317	\$ 10,847,520	\$ 1,097,622
Receivables	1,032,189	1,136,184	2,168,373	27,872
Inventory	-	229,633	229,633	-
Debt issue cost (net of amortization)	-	96,952	96,952	29,222
Restricted assets:				
Cash and investments	1,493,041	6,163,783	7,656,824	1,917,208
Capital assets not being depreciated:				
Land	1,452,566	5,433,188	6,885,754	-
Construction in progress	7,820	6,472,437	6,480,257	-
Fixed assets, net of depreciation	6,050,789	24,142,447	30,193,236	-
Total assets	<u>14,792,608</u>	<u>49,765,941</u>	<u>64,558,549</u>	<u>3,071,924</u>
LIABILITIES				
Accounts payable and accrued expenses	1,208,648	1,063,867	2,272,515	54,971
Payable from restricted assets:				
Customer deposits	21,420	4,419	25,839	-
Accrued interest payable	1,273	77,142	78,415	-
Noncurrent liabilities:				
Compensated absences - due within one year	163,123	69,040	232,163	-
Compensated absences - due in more than one year	115,748	59,622	175,370	-
Due within one year	84,407	409,406	493,813	173,002
Due in more than one year	299,933	11,671,120	11,971,053	1,826,998
Total liabilities	<u>1,894,552</u>	<u>13,354,616</u>	<u>15,249,168</u>	<u>2,054,971</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,126,835	23,213,998	30,340,833	-
Restricted for:				
Contributions	29,374	-	29,374	-
Debt	311,399	2,479,323	2,790,722	-
Capital Improvements	1,098,987	3,200,719	4,299,706	-
Inflow and Infiltration	-	1,302,386	1,302,386	-
Kootenai / Ponderay	-	82,159	82,159	-
RCT Property tax relief fund	28,135	-	28,135	-
Watershed Protection	-	586,569	586,569	-
Other	1,670,901	692,144	2,363,045	-
Downtown district	-	-	-	292,712
Northern district	-	-	-	724,241
Unrestricted	2,632,425	4,854,027	7,486,452	-
Total net assets	<u>\$ 12,898,056</u>	<u>\$ 36,411,325</u>	<u>\$ 49,309,381</u>	<u>\$ 1,016,953</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, 2011**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Governmental activities:			
General government	\$ 1,591,662	\$ 169,040	\$ 28,108
Public safety	3,204,793	298,738	28,283
Highways and streets	1,827,089	8,602	646,816
Culture and recreation	1,304,464	358,348	-
Other	-	101,530	-
Interest on long-term debt	22,780	-	-
Total governmental activities	7,950,788	936,258	703,207
Business-type activities:			
Water	1,264,598	3,162,087	399,268
Sewer	1,494,721	2,726,314	172,572
Bond payment fund	413,892	-	-
Bond construction fund	200	-	-
Other proprietary funds	404,197	523,748	-
Total business-type activities	3,577,608	6,412,149	571,840
Total primary government	\$ 11,528,396	\$ 7,348,407	\$ 1,275,047
Component units:			
Community development			
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

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
\$ (1,394,514)	\$ -	\$ (1,394,514)	\$ -
(2,877,772)	-	(2,877,772)	-
(1,171,671)	-	(1,171,671)	-
(946,116)	-	(946,116)	-
101,530	-	101,530	-
(22,780)	-	(22,780)	-
<u>(6,311,323)</u>	<u>-</u>	<u>(6,311,323)</u>	<u>-</u>
-	2,296,757	2,296,757	-
-	1,404,165	1,404,165	-
-	(413,892)	(413,892)	-
-	(200)	(200)	-
-	119,551	119,551	-
<u>-</u>	<u>3,406,381</u>	<u>3,406,381</u>	<u>-</u>
<u>(6,311,323)</u>	<u>3,406,381</u>	<u>(2,904,942)</u>	<u>-</u>
			<u>1,206,187</u>
			<u>1,206,187</u>
3,633,945	-	3,633,945	734,137
18,115	53,110	71,225	4,906
448,221	-	448,221	192
1,740,384	-	1,740,384	-
516	5,200	5,716	-
1,105,436	(1,105,436)	-	-
<u>6,946,617</u>	<u>(1,047,126)</u>	<u>5,899,491</u>	<u>739,235</u>
635,294	2,359,255	2,994,549	(466,952)
<u>12,262,762</u>	<u>34,052,070</u>	<u>46,314,832</u>	<u>1,483,905</u>
<u>\$ 12,898,056</u>	<u>\$ 36,411,325</u>	<u>\$ 49,309,381</u>	<u>\$ 1,016,953</u>

City of Sandpoint

**GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2011**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 3,943,835	\$ 356,126	\$ 4,299,961
Receivables	515,872	296,503	812,375
Due from other governments	219,814	-	219,814
Restricted assets:			
Cash and investments	105,562	1,387,479	1,493,041
Total assets	<u>\$ 4,785,083</u>	<u>\$ 2,040,108</u>	<u>\$ 6,825,191</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	\$ 670,007	\$ 82,399	\$ 752,406
Payable from restricted assets:			
Customer deposits	16,397	5,023	21,420
Deferred revenue	172,022	242,561	414,583
Total liabilities	<u>858,426</u>	<u>329,983</u>	<u>1,188,409</u>
Fund balances:			
Restricted for			
Art contributions	3,253	-	3,253
Citizen's pride contributions	100	-	100
Debt	-	311,399	311,399
Economic development contributions	25,500	-	25,500
Police contributions	521	-	521
RCT Property tax relief fund	28,135	-	28,135
Committed to			
Downtown parking dedicated funds	31,814	-	31,814
In lieu of sidewalk dedicated funds	7,380	-	7,380
FY 12 Recreation fund budget	-	199,989	199,989
FY 12 Capital improvement fund (impact fees)	-	183,857	183,857
FY 12 Parks improvement fund budget	-	13,000	13,000
FY 12 General fund budget	1,331,968	-	1,331,968
Assigned to			
Bonner business center	-	7,975	7,975
Recreation fund	-	130,969	130,969
Capital improvement fund (impact fees)	-	269,949	269,949
Parks capital improvement fund	-	592,987	592,987
Unassigned			
General Fund	2,497,986	-	2,497,986
Total fund balances	<u>3,926,657</u>	<u>1,710,125</u>	<u>5,636,782</u>
Total liabilities and fund balances	<u>\$ 4,785,083</u>	<u>\$ 2,040,108</u>	<u>\$ 6,825,191</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, 2011

Total fund balance at September 30, 2011 - Governmental Funds		\$ 5,636,782
Cost of capital assets at September 30, 2011	\$ 11,580,487	
Less: Accumulated depreciation as of September 30, 2011		
Buildings and structures	(819,686)	
Improvements other than buildings	(1,125,190)	
Equipment	(2,123,002)	
Infrastructure	<u>(1,434)</u>	7,511,175
Elimination of deferred revenue		414,583
Long-term liabilities at September 30, 2011		
Accrued interest	(1,273)	
Capital leases payable	(65,343)	
Compensated absences	(278,871)	
Special assessments	<u>(318,997)</u>	<u>(664,484)</u>
Net assets at September 30, 2011		<u>\$ 12,898,056</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, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES			
Taxes and special assessments	\$ 3,434,176	\$ 191,557	\$ 3,625,733
Licenses and permits	153,206	-	153,206
Grants	703,207	-	703,207
Intergovernmental revenue	1,740,384	-	1,740,384
Interest	13,690	4,425	18,115
Impact fees	-	101,530	101,530
Charges for services	255,688	342,437	598,125
Fines and forfeits	87,011	-	87,011
Miscellaneous revenues	4,043	440,564	444,607
Total revenues	<u>6,391,405</u>	<u>1,080,513</u>	<u>7,471,918</u>
EXPENDITURES			
General government	1,431,610	88,928	1,520,538
Public safety	3,066,887	-	3,066,887
Highways and streets	1,675,552	-	1,675,552
Culture and recreation	805,081	306,039	1,111,120
Capital projects	710,342	551,568	1,261,910
Debt service:			
Principal retirement	48,843	31,579	80,422
Interest expense	5,383	18,143	23,526
Total expenditures	<u>7,743,698</u>	<u>996,257</u>	<u>8,739,955</u>
(Deficiency) excess of revenues over (under) expenditures	<u>(1,352,293)</u>	<u>84,256</u>	<u>(1,268,037)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	13,900	-	13,900
Transfers in	1,221,468	47,834	1,269,302
Transfers (out)	(39,722)	(124,144)	(163,866)
Total other financing sources (uses)	<u>1,195,646</u>	<u>(76,310)</u>	<u>1,119,336</u>
Change in fund balance	(156,647)	7,946	(148,701)
Fund balances - beginning	<u>4,083,304</u>	<u>1,702,179</u>	<u>5,785,483</u>
Fund balances - ending	<u>\$ 3,926,657</u>	<u>\$ 1,710,125</u>	<u>\$ 5,636,782</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, 2011

Total net changes in fund balances for the year ended September 30, 2011	\$ (148,701)
Add: Capital outlay which is considered expenditures	1,261,704
Less: Depreciation expense for the year ended September 30, 2011	(514,118)
Less: Net book gain on assets traded in	(13,384)
Add: Special assessment debt and lease principal payments considered as an expenditure	80,422
Add: Change in accrued interest expense	952
Less: Change in compensated absences	(39,793)
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>8,212</u>
Change in net assets for year ended September 30, 2011	<u>\$ 635,294</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, 2011

	Water	Sewer
ASSETS		
Current assets:		
Cash/investments	\$ 4,708,088	\$ 1,116,408
Receivables	634,124	437,545
Inventory	229,633	-
Debt issue cost (net of amortization)	-	-
Restricted cash/investments	1,490,133	3,686,119
Total current assets	7,061,978	5,240,072
Noncurrent assets:		
Land	4,525,070	908,118
Construction in progress	6,322,409	150,028
Capital assets, net of accumulated depreciation	8,377,032	15,622,584
Total noncurrent assets	19,224,511	16,680,730
Total assets	26,286,489	21,920,802
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	207,384	146,159
Payable from restricted assets:		
Customer deposits	4,419	-
Accrued interest payable	-	-
Compensated absences - current portion	50,202	18,838
Capital lease payable	-	-
Revenue bonds - current portion	-	-
Total current liabilities	262,005	164,997
Noncurrent:		
Revenue bonds - noncurrent portion	-	-
Interim construction LOC	-	-
Compensated absences	49,805	9,817
Total noncurrent liabilities	49,805	9,817
Total liabilities	311,810	174,814
NET ASSETS		
Invested in capital assets (net of related debt)	19,224,511	16,680,730
Restricted for:		
Debt	731,624	663,216
Capital improvements	816,986	2,383,733
Inflow & filtration	-	1,302,386
Kootenai/Ponderay	82,159	-
Watershed protection	586,569	-
Other	639,421	46,554
Unrestricted	3,893,409	669,369
Total net assets	\$ 25,974,679	\$ 21,745,988

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

Bond Payment Fund	Bond Construction Fund	Other Proprietary Funds	Total
\$ -	\$ -	\$ 266,821	\$ 6,091,317
-	-	64,515	1,136,184
-	-	-	229,633
96,952	-	-	96,952
750,596	236,935	-	6,163,783
<u>847,548</u>	<u>236,935</u>	<u>331,336</u>	<u>13,717,869</u>
-	-	-	5,433,188
-	-	-	6,472,437
-	-	142,831	24,142,447
-	-	142,831	36,048,072
<u>847,548</u>	<u>236,935</u>	<u>474,167</u>	<u>49,765,941</u>
-	676,406	33,918	1,063,867
-	-	-	4,419
77,142	-	-	77,142
-	-	-	69,040
-	-	-	-
409,406	-	-	409,406
<u>486,548</u>	<u>676,406</u>	<u>33,918</u>	<u>1,623,874</u>
8,801,543	-	-	8,801,543
-	2,869,577	-	2,869,577
-	-	-	59,622
<u>8,801,543</u>	<u>2,869,577</u>	<u>-</u>	<u>11,730,742</u>
<u>9,288,091</u>	<u>3,545,983</u>	<u>33,918</u>	<u>13,354,616</u>
(9,288,091)	(3,545,983)	142,831	23,213,998
847,548	236,935	-	2,479,323
-	-	-	3,200,719
-	-	-	1,302,386
-	-	-	82,159
-	-	-	586,569
-	-	6,169	692,144
-	-	291,249	4,854,027
<u>\$ (8,440,543)</u>	<u>\$ (3,309,048)</u>	<u>\$ 440,249</u>	<u>\$ 36,411,325</u>

City of Sandpoint

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS For the Year Ended September 30, 2011

	Water	Sewer
OPERATING REVENUES		
Charges for services	\$ 3,014,574	\$ 2,683,729
Equipment and meter sales	16,003	36,065
Miscellaneous	131,510	6,520
Total operating revenues	3,162,087	2,726,314
OPERATING EXPENSES		
Personal services	843,685	469,065
Contractual services	143,002	160,049
Other services and charges	60,150	98,946
Heat, lights, and power	32,734	122,469
Depreciation	185,027	642,187
Total operating expenses	1,264,598	1,492,716
Operating income	1,897,489	1,233,598
NONOPERATING REVENUES (EXPENSES)		
Interest income	16,333	13,787
Interest expense	-	(2,005)
Bond issuance costs	-	-
Gain on sale of capital assets	4,000	1,200
Total nonoperating revenues (expenses)	20,333	12,982
Income before contributions and transfers	1,917,822	1,246,580
Capital contributions - cap fees	157,768	172,572
Contributed water/sewer lines	241,500	-
Transfers in	3,680,795	402,014
Transfers out	(916,576)	(1,256,959)
Total transfers	2,764,219	(854,945)
Change in net assets	5,081,309	564,207
Total net assets - beginning	20,893,370	21,181,781
Total net assets - ending	\$ 25,974,679	\$ 21,745,988

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

Bond Payment Fund	Bond Construction Fund	Other Proprietary Funds	Total
\$ -	\$ -	\$ 523,748	\$ 6,222,051
-	-	-	52,068
-	-	-	138,030
-	-	523,748	6,412,149
-	-	-	1,312,750
-	-	285,640	588,691
-	-	796	159,892
-	-	105,091	260,294
-	-	12,670	839,884
-	-	404,197	3,161,511
-	-	119,551	3,250,638
22,211	135	644	53,110
(397,733)	-	-	(399,738)
(16,159)	(200)	-	(16,359)
-	-	-	5,200
(391,681)	(65)	644	(357,787)
(391,681)	(65)	120,195	2,892,851
-	-	-	330,340
-	-	-	241,500
797,261	267,721	-	5,147,791
(402,014)	(3,576,704)	(100,974)	(6,253,227)
395,247	(3,308,983)	(100,974)	(1,105,436)
3,566	(3,309,048)	19,221	2,359,255
(8,444,109)	-	421,028	34,052,070
<u>\$ (8,440,543)</u>	<u>\$ (3,309,048)</u>	<u>\$ 440,249</u>	<u>\$ 36,411,325</u>

City of Sandpoint

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2011**

	Water	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,075,687	\$ 2,598,198
Payments to employees	(843,685)	(440,410)
Payments to suppliers	(282,889)	(300,044)
Net cash provided by operating activities	1,949,113	1,857,744
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Additional contributed capital	157,768	172,572
Operating transfers (out) in	2,764,219	(854,945)
Net cash (used) provided by noncapital financing activities	2,921,987	(682,373)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of fixed assets	(4,407,826)	(793,272)
Proceeds from disposition of assets	4,000	1,200
Proceeds from interim financing	-	-
Principal paid on bonds and leases	-	(45,686)
Interest paid	-	(2,005)
Net cash (used) provided by capital and related financing activities	(4,403,826)	(839,763)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	16,333	13,787
Net cash provided by investing activities	16,333	13,787
Net increase (decrease) in cash and investments	483,607	349,395
Cash and investments, October 1	5,714,614	4,453,132
Cash and investments, September 30	\$ 6,198,221	\$ 4,802,527
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,897,489	\$ 1,233,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	185,027	642,187
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(85,989)	(128,116)
Inventory	(123,429)	-
Prepaid expense	-	-
Increase (decrease) in:		
Vouchers payable	76,426	110,075
Customer deposits	(411)	-
Net cash provided by operating activities	\$ 1,949,113	\$ 1,857,744
Reconciliation of cash to the balance sheet:		
Cash/investments	\$ 4,708,088	\$ 1,116,408
Restricted cash/investments	1,490,133	3,686,119
	\$ 6,198,221	\$ 4,802,527

Non-cash capital and related financing activities:
Developers during the year donated \$241,500 of water lines to the water fund.

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

<u>Bond Payment</u>	<u>Bond Construction Fund</u>	<u>Other Proprietary Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 522,231	\$ 6,196,116
-	-	-	(1,284,095)
-	-	(390,294)	(973,227)
-	-	131,937	3,938,794
-	-	-	330,340
388,197	(2,632,577)	(100,974)	(436,080)
388,197	(2,632,577)	(100,974)	(105,740)
-	-	-	(5,201,098)
-	-	-	5,200
-	2,869,577	-	2,869,577
(396,418)	-	-	(442,104)
(400,791)	(65)	-	(402,861)
(797,209)	2,869,512	-	(3,171,286)
24,231	-	644	54,995
24,231	-	644	54,995
(384,781)	236,935	31,607	716,763
1,135,377	-	235,214	11,538,337
<u>\$ 750,596</u>	<u>\$ 236,935</u>	<u>\$ 266,821</u>	<u>\$ 12,255,100</u>
\$ -	\$ -	\$ 119,551	\$ 3,250,638
-	-	12,670	839,884
-	-	(1,517)	(215,622)
-	-	-	(123,429)
-	-	-	-
-	-	1,233	187,734
-	-	-	(411)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,937</u>	<u>\$ 3,938,794</u>
\$ -	\$ -	\$ 266,821	\$ 6,091,317
750,596	236,935	-	6,163,783
<u>\$ 750,596</u>	<u>\$ 236,935</u>	<u>\$ 266,821</u>	<u>\$ 12,255,100</u>

City of Sandpoint

**AGENCY FUND
STATEMENT OF NET ASSETS
September 30, 2011**

	Business Improvement District Agency Fund
ASSETS	
Cash and cash equivalents	\$ 2,588
Accounts receivable	<u>22,642</u>
Total assets	<u>\$ 25,230</u>
LIABILITIES	
Accounts payable	\$ 2,465
Due to Business Improvement District	<u>22,765</u>
Total liabilities	<u>\$ 25,230</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, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sandpoint is an incorporated city of the State of Idaho. The City of Sandpoint, Idaho (the "City") 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, 2011

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 liabilities 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, 2011

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, 2011 meet the guidelines as set by regulations of the State of Idaho.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

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, 2011, which were collected and held by the county at September 30, 2011, but not yet remitted to the City until after September 30, 2011.

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, 2011

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, 2011

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.

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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. New Pronouncements

During the fiscal year ended September 30, 2011 the City adopted the provisions of Governmental Accounting Standards Board Statement No. 61.

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, 2011, 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	\$ 392,443
Amount collateralized with securities held in trust, but not to the City's name	<u>18,191,166</u>
Total deposits without exposure to custodial credit risk	<u>\$18,583,609</u>

The following is a recap of the carrying amount:

Cash and investments	\$ 10,847,520
Restricted cash	7,656,824
Fiduciary fund cash	<u>2,588</u>
	<u>\$18,506,932</u>

Fair value:

The City invests in two 2a7-like pools, the Idaho State Investment Pool and Diversified Bond Fund (DBF). The advisory board of the Idaho State Investment Pool and DBF is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool and DBF are duly chartered and administered by the State Treasurer's office and consists 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 \$48,834 and \$52,748 respectively as of September 30, 2011; 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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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, 2011:

Amounts due from customers \$1,136,184

NOTE 4: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2011, and are recorded in the debt service fund:

Deferred principal amounts not currently due, but due at a future date \$234,580

NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

Capital asset activity for the year ended September 30, 2011 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 1,452,566	\$ -	\$ -	\$ -	\$ 1,452,566
Construction in progress	7,820	-	-	-	7,820
Total capital assets, not being depreciated	1,460,386	-	-	-	1,460,386
Capital assets, being depreciated:					
Buildings	2,058,255	-	-	-	2,058,255
Improvements other than buildings	3,876,425	1,160,205	-	-	5,036,630
Machinery and equipment	2,975,526	101,499	(57,939)	-	3,019,086
Infrastructure	6,130	-	-	-	6,130
Total capital assets being depreciated	8,916,336	1,261,704	(57,939)	-	10,120,101
Less accumulated depreciation for:					
Buildings	(783,740)	(35,946)	-	-	(819,686)
Other improvements	(878,874.00)	(246,316.00)	-	-	(1,125,190.00)
Machinery and equipment	(1,935,783)	(231,774)	44,555	-	(2,123,002)
Infrastructure	(1,352)	(82)	-	-	(1,434)
Total accumulated depreciation	(3,599,749)	(514,118)	44,555	-	(4,069,312)
Total capital assets, being depreciated, net	5,316,587	747,586	(13,384)	-	6,050,789
Governmental activities capital assets, net	\$ 6,776,973	\$ 747,586	\$ (13,384)	-	\$ 7,511,175

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 5: CHANGES IN FIXED ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 5,433,188	\$ -	\$ -	\$ -	\$ 5,433,188
Construction in progress	<u>2,249,227</u>	<u>4,223,220</u>	<u>-</u>	<u>(10)</u>	<u>6,472,437</u>
Total capital assets, not being depreciated	<u>7,682,415</u>	<u>4,223,220</u>	<u>-</u>	<u>(10)</u>	<u>11,905,625</u>
Capital assets, being depreciated:					
Buildings	527,400	-	-	-	527,400
Infrastructure	28,409,380	1,040,154	-	(1)	29,449,533
Machinery & equipment	1,327,886	171,723	(87,634)	-	1,411,975
Improvements other than buildings	<u>260,896</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>268,396</u>
Total capital assets, being depreciated	<u>30,525,562</u>	<u>1,219,377</u>	<u>(87,634)</u>	<u>(1)</u>	<u>31,657,304</u>
Less accumulated depreciation for:					
Buildings	(135,200)	(10,163)	-	-	(145,363)
Infrastructure	(5,566,862)	(744,173)	-	10	(6,311,025)
Machinery & equipment	(962,436)	(72,602)	87,634	-	(947,404)
Improvements	<u>(98,120)</u>	<u>(12,945)</u>	<u>-</u>	<u>-</u>	<u>(111,065)</u>
Total accumulated depreciation	<u>(6,762,618)</u>	<u>(839,883)</u>	<u>87,634</u>	<u>10</u>	<u>(7,514,857)</u>
Total capital assets, being depreciated, net	<u>23,762,944</u>	<u>379,494</u>	<u>-</u>	<u>9</u>	<u>24,142,447</u>
Business type activities capital assets net	<u>\$ 31,445,359</u>	<u>\$ 4,602,714</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 36,048,072</u>

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

Governmental activities:	
General government	\$ 34,084
Public safety	137,906
Highways and streets, including depreciation of general infrastructure assets	151,537
Culture and recreation	<u>190,591</u>
Total depreciation expense - governmental activities	<u>\$ 514,118</u>
Business -type activities:	
Water	\$ 185,027
Sewer	642,187
Street Lights	12,669
Total depreciation expense - business-type activities	<u>\$ 839,883</u>

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 6: BONDS PAYABLE

Bonds payable at September 30, 2011 are comprised of the following individual revenue bond issues:

1997 Water Revenue Bonds

Payable in annual installments of \$146,624 including interest at 5%.

\$ 1,715,949

2007 Sewer Revenue Bonds

Payable in annual installments ranging from \$646,850 to \$651,562 including interest ranging from 4.0% to 4.250%

7,495,000

\$ 9,210,949

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 409,406	\$ 384,274
2013	427,530	367,551
2014	445,793	350,087
2015	464,204	331,876
2016	482,768	312,431
2017-2021	2,733,177	1,244,843
2022-2026	3,349,665	630,405
2027-2028	898,405	45,125
	<u>\$ 9,210,949</u>	<u>\$ 3,666,591</u>

The above outstanding bonds are secured by a first lien on net revenues earned by enterprise funds. Net revenues are defined in the bond agreements. The enterprise funds are required to establish bond reserves in the amounts of \$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 with a variable interest rate of 1 year Libor + 1.84% adjusted annually with an initial rate of 2.60%, minimum interest amounts is 2.50%. Loan term is two (2) years monthly interest payments. There is no collateral. Interest paid to date as of September 30, 2011 was \$17,721 which has been capitalized. Total amount drawn on the interim financing as of September 30, 2011 was \$2,869,577.

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 7: SPECIAL ASSESSMENT DEBT

	Maturity Date	Interest	Principal	Interest	Total
		Rate			
LID #32	2012	4.75%	\$ 2,974	\$ 3,882	\$ 6,856
	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
	2017-2021	4.75%	20,622	13,661	34,283
	2022-2026	4.75%	26,007	8,275	34,282
	2027-2029	4.75%	18,756	1,809	20,565
				<u>81,736</u>	<u>41,675</u>
LID #2002-01	2012	6.00%	5,864	1,120	6,984
	2013	6.00%	6,216	768	6,984
	2014	6.00%	6,589	395	6,984
	2014	6.00%	18,669	2,283	20,952
				<u>18,669</u>	<u>2,283</u>
LID #2002-02	2012	6.00%	7,087	4,208	11,295
	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
	2017-2019	6.00%	30,192	3,693	33,885
			<u>70,141</u>	<u>20,219</u>	<u>90,360</u>
LID #2006-01	2012	4.50%	11,767	4,246	16,013
	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
	2017-2018	4.50%	29,986	2,039	32,025
			<u>94,358</u>	<u>17,731</u>	<u>112,089</u>
LID #2007-01	2012	5.50%	5,600	2,975	8,575
	2013	5.50%	5,908	2,667	8,575
	2014	5.50%	6,233	2,342	8,575
	2015	5.50%	6,576	1,999	8,575
	2016	5.50%	6,937	1,638	8,575
	2017-2019	5.50%	22,839	2,886	25,725
			<u>54,093</u>	<u>14,507</u>	<u>68,600</u>
Total special assessment bonds payable			<u>\$ 318,997</u>	<u>\$ 96,415</u>	<u>\$ 415,412</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 8: CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of TV Sewer Van for the sewer collection department for \$137,234 in October of 2008. Final payment was in December 2010. The street department has financed a loader mounted snow blower with a down payment of \$42,378.25 and the Parks grounds department entered into a lease purchase agreement for a John Deere tractor with a down payment of \$15,000. These leases qualify as capital leases for accounting purposes.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Machinery and equipment	\$ 223,689	\$ 137,234
Less: accumulated depreciation	(64,398)	(28,590)
Total	\$ 159,291	\$ 108,644
Future minimum lease payments are as follows:		
2012	\$ 54,225	\$ -
2013	7,746	-
2014	7,458	-
	69,429	-
Less amount representing interest	(4,086)	-
Total	\$ 65,343	\$ -

NOTE 9: CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 239,078	\$ 39,793	\$ -	\$ 278,871	\$ 163,123
Special assessment bonds payable	350,576	-	31,579	318,997	33,292
Lease purchase contracts payable	114,186	-	48,843	65,343	51,115
Governmental activities long-term liabilities	\$ 703,840	\$ 39,793	\$ 80,422	\$ 663,211	\$ 247,530
Business-type activities:					
Revenue bonds payable	\$ 9,607,367	\$ -	\$ 396,418	\$ 9,210,949	\$ 409,406
Interim construction LOC	-	2,869,577	-	2,869,577	-
Lease purchase contracts payable	45,686	-	45,686	-	-
Compensated absences	119,958	8,704	-	128,662	69,040
Business-type activities long-term liabilities	\$ 9,773,011	\$ 2,878,281	\$ 442,104	\$ 12,209,188	\$ 478,446

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011**

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.

	<u>Water Funds</u>	<u>Sewer Funds</u>
Condensed Statement of net assets:		
Assets:		
Current assets	\$ 5,571,845	\$ 1,553,953
Restricted assets - cash investments	1,490,133	3,686,119
Capital assets	19,224,511	16,680,730
Total assets	<u>26,286,489</u>	<u>21,920,802</u>
Liabilities:		
Current liabilities	262,005	164,997
Noncurrent liabilities	49,805	9,817
Total liabilities	<u>311,810</u>	<u>174,814</u>
Net assets:		
Invested in capital assets, net of related debt	19,224,511	16,680,730
Restricted	2,856,759	4,395,889
Unrestricted	3,893,409	669,369
Total Net assets	<u>\$ 25,974,679</u>	<u>\$ 21,745,988</u>

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City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)

	Water Funds	Sewer Funds
Condensed statement of revenues, expenses and changes in net assets:		
Charges for services including sales and miscellaneous	\$ 3,162,087	\$ 2,726,314
Depreciation expense	(185,027)	(642,187)
Other operating expenses	(1,079,571)	(850,529)
Operating income	1,897,489	1,233,598
Nonoperating revenues (expenses):		
Investment earnings, net	16,333	11,782
Gain on sale of assets	4,000	1,200
Capital contributions	157,768	172,572
Operating transfers in (out)	2,764,219	(854,945)
Contributed lines	241,500	-
Total nonoperating revenues (expenses)	3,183,820	(669,391)
Change in net assets	5,081,309	564,207
Beginning net assets	20,893,370	21,181,781
Ending net assets	\$ 25,974,679	\$ 21,745,988
Condensed statement of cash flows:		
Net cash provided (used) by:		
Operating activities	\$ 1,949,113	\$ 1,857,744
Noncapital financing activities	2,921,987	(682,373)
Capital and related financial activities	(4,403,826)	(839,763)
Investing activities	16,333	13,787
Net increase	483,607	349,395
Beginning cash and cash equivalents	5,714,614	4,453,132
Ending cash equivalents	\$ 6,198,221	\$ 4,802,527

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

NOTE 11: INTERFUND TRANSACTIONS

Interfund Transfers as of September 30, 2011:

	Transfers In	Transfers Out
General Fund	\$ 1,221,468	\$ 39,722
Nonmajor Governmental funds	47,834	124,144
Enterprise Funds	4,082,809	2,173,535
Debt service fund	1,064,982	3,978,718
Nonmajor Enterprise funds	-	100,974
Total	\$ 6,417,093	\$ 6,417,093

The principal purposes for the transfer of funds from the enterprise funds to the general fund are to cover the administration costs of operating the City's utility division.

NOTE 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.

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, 2011, 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, 2011, 2010 and 2009, respectively.

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011**

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.

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	\$(8,440,543)
Bond Construction Fund	\$(3,309,048)

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011**

NOTE 17: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY

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 life of the note, beginning in the fiscal year ending September 30, 2012. During 2011, no amortization for deferred expenses was recognized.

September 30, 2011, the Agency had restricted cash of \$1,917,208. The restricted cash is represented by the unexpended proceeds of the revenue allocation note and a separate debt service payment account, totaling \$1,717,146 and \$200,062, 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>
2012	\$ 173,002	\$ 77,869	\$ 250,871
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>\$2,000,000</u>	<u>\$383,274</u>	<u>\$2,383,274</u>

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2011 as follows:

	<u>Long-Term Obligations September 30, 2010</u>	<u>Long-Term Obligations Incurred</u>	<u>Long-Term Obligations Paid</u>	<u>Long-Term Obligations September 30, 2011</u>	<u>Due Within One Year</u>
Revenue allocation note	\$ -	\$2,000,000	\$ -	\$2,000,000	\$173,002

(Continued)

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

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

COMMITMENTS AND CONTINGENCIES

As of September 30, 2011, the Agency was working with several interested parties on future urban development projects. At September 30, 2011, 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.

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, 2011, the Agency had provided funding-to-date totaling \$39,489 related to this project. The remaining commitment on this project as of September 30, 2011 was \$410,511.

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, 2011, the Agency had provided funding-to-date totaling \$13,339 related to this project. The remaining commitment on this project as of September 30, 2011 was \$236,601.

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 \$461,700, as work is completed. As of September 30, 2011, the Agency had provided funding-to-date totaling \$424,823 related to this project. The remaining commitment on this project as of September 30, 2011 was \$36,877.

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 \$44,250, as work is completed. As of September 30, 2011, the Agency had provided funding-to-date totaling \$15,009 related to these projects. The remaining commitment on these projects as of September 30, 2011 was \$29,241.

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, 2011

	Final Budgeted Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes and special assessments	\$ 3,398,733	\$ 3,434,176	\$ 35,443
Licenses and permits	226,080	153,206	(72,874)
Grants	1,242,837	703,207	(539,630)
Intergovernmental revenues	1,851,200	1,740,384	(110,816)
Interest	50,300	13,690	(36,610)
Charges for services	241,849	255,688	13,839
Fines and forfeits	120,100	87,011	(33,089)
Miscellaneous revenue	1,395,999	4,043	(1,391,956)
Total revenues	<u>8,527,098</u>	<u>6,391,405</u>	<u>(2,135,693)</u>
EXPENDITURES			
General government	1,653,308	1,431,610	221,698
Public safety	3,469,658	3,066,887	402,771
Highways and streets	992,867	1,675,552	(682,685)
Culture and recreation	889,224	805,081	84,143
Capital outlay	2,536,251	710,342	1,825,909
Debt service:			
Principal retirement	52,854	48,843	4,011
Interest expense	3,650	5,383	(1,733)
Total expenditures	<u>9,597,812</u>	<u>7,743,698</u>	<u>1,854,114</u>
(Deficiency) of revenues (under) expenditures	<u>(1,070,714)</u>	<u>(1,352,293)</u>	<u>(281,579)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	5,000	13,900	8,900
Transfers in	1,105,436	1,221,468	116,032
Transfers (out)	(39,722)	(39,722)	-
Total other financing sources (uses)	<u>1,070,714</u>	<u>1,195,646</u>	<u>124,932</u>
Net change in fund balances	-	(156,647)	(156,647)
Fund balances - beginning	-	4,083,304	4,083,304
Fund balances - ending	<u>\$ -</u>	<u>\$ 3,926,657</u>	<u>\$ 3,926,657</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 start up businesses.

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2011**

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ -	\$ 356,126	\$ 356,126
Receivables	241,932	54,571	296,503
Restricted assets:			
Cash and investments	304,047	1,083,432	1,387,479
Total assets	\$ 545,979	\$ 1,494,129	\$ 2,040,108
LIABILITIES			
Vouchers payable	\$ -	\$ 82,399	\$ 82,399
Customer Deposits	-	5,023	5,023
Deferred revenue	234,580	7,981	242,561
Total liabilities	234,580	95,403	329,983
FUND BALANCES			
Restricted	311,399	-	311,399
Committed	-	396,846	396,846
Assigned	-	1,001,880	1,001,880
Total fund balance	311,399	1,398,726	1,710,125
Total liabilities and fund balance	\$ 545,979	\$ 1,494,129	\$ 2,040,108

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2011

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES			
Taxes and special assessments	\$ 46,771	\$ 144,786	\$ 191,557
Impact fees	-	101,530	101,530
Interest	803	3,622	4,425
Charges for services	-	342,437	342,437
Grants	-	-	-
Miscellaneous revenues	-	440,564	440,564
Total revenues	<u>47,574</u>	<u>1,032,939</u>	<u>1,080,513</u>
EXPENDITURES			
General government	-	88,928	88,928
Culture and recreation	-	306,039	306,039
Capital projects	-	551,568	551,568
Debt service:			
Principal retirement	31,579	-	31,579
Interest expense	18,143	-	18,143
Total expenditures	<u>49,722</u>	<u>946,535</u>	<u>996,257</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,148)</u>	<u>86,404</u>	<u>84,256</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	8,112	39,722	47,834
Transfers (out)	(8,112)	(116,032)	(124,144)
Total other financing sources (uses)	-	(76,310)	(76,310)
Net change in fund balances	(2,148)	10,094	7,946
Fund balances - beginning	<u>313,547</u>	<u>1,388,632</u>	<u>1,702,179</u>
Fund balances - ending	<u>\$ 311,399</u>	<u>\$ 1,398,726</u>	<u>\$ 1,710,125</u>

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
September 30, 2011**

	<u>LID #32</u>	<u>LID #2002-01</u>
ASSETS		
Receivables:		
Special assessments	\$ 33,625	\$ 11,852
Interest	470	1
Restricted assets:		
Cash and investments	217,033	9,393
Total assets	<u>\$ 251,128</u>	<u>\$ 21,246</u>
LIABILITIES		
Deferred revenue	\$ 33,625	\$ 11,851
Total liabilities	<u>33,625</u>	<u>11,851</u>
FUND BALANCES		
Restricted for debt service	<u>217,503</u>	<u>9,395</u>
Total liabilities and fund balances	<u>\$ 251,128</u>	<u>\$ 21,246</u>

<u>LID #2002-02</u>	<u>LID #2006-01</u>	<u>LID #2007-01</u>	<u>LID Guarantee</u>	<u>Total</u>
\$ 56,463	\$ 78,105	\$ 54,540	\$ -	\$ 234,585
2	6,865	-	9	7,347
10,590	19,806	8,955	38,270	304,047
<u>\$ 67,055</u>	<u>\$ 104,776</u>	<u>\$ 63,495</u>	<u>\$ 38,279</u>	<u>\$ 545,979</u>
\$ 56,463	\$ 78,105	\$ 54,536	\$ -	234,580
56,463	78,105	54,536	-	234,580
10,592	26,671	8,959	38,279	311,399
<u>\$ 67,055</u>	<u>\$ 104,776</u>	<u>\$ 63,495</u>	<u>\$ 38,279</u>	<u>\$ 545,979</u>

City of Sandpoint
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2011

	LID #32	LID # 2002-01
REVENUES		
Special assessments	\$ 3,030	\$ 9,003
Interest	571	25
Total revenues	3,601	9,028
 EXPENDITURES		
Debt service:		
Principal	2,839	5,532
Interest	4,017	1,452
Total expenditures	6,856	6,984
 (Deficiency) excess of revenues (under) over expenditures	(3,255)	2,044
 OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers (out)	-	-
Total other financing sources	-	-
 Net change in fund balances	(3,255)	2,044
Fund balances - beginning	220,758	7,351
Fund balances - ending	\$ 217,503	\$ 9,395

<u>LID #</u> <u>2002-02</u>	<u>LID #</u> <u>2006-01</u>	<u>LID #</u> <u>2007-01</u>	<u>LID</u> <u>Guarantee</u>	<u>Total</u>
\$ 9,486	\$ 16,295	\$ 8,957	\$ -	\$ 46,771
32	60	1	114	803
<u>9,518</u>	<u>16,355</u>	<u>8,958</u>	<u>114</u>	<u>47,574</u>
6,686	11,260	5,262	-	31,579
<u>4,610</u>	<u>4,751</u>	<u>3,313</u>	<u>-</u>	<u>18,143</u>
<u>11,296</u>	<u>16,011</u>	<u>8,575</u>	<u>-</u>	<u>49,722</u>
<u>(1,778)</u>	<u>344</u>	<u>383</u>	<u>114</u>	<u>(2,148)</u>
-	-	8,112	-	8,112
-	-	-	(8,112)	(8,112)
-	-	<u>8,112</u>	<u>(8,112)</u>	<u>-</u>
<u>(1,778)</u>	<u>344</u>	<u>8,495</u>	<u>(7,998)</u>	<u>(2,148)</u>
<u>12,370</u>	<u>26,327</u>	<u>464</u>	<u>46,277</u>	<u>313,547</u>
<u>\$ 10,592</u>	<u>\$ 26,671</u>	<u>\$ 8,959</u>	<u>\$ 38,279</u>	<u>\$ 311,399</u>

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2011**

	<u>Recreation</u>	<u>Impact Fees</u>	<u>Parks Improvement</u>	<u>Bonner Business Center</u>	<u>Total</u>
ASSETS					
Cash and investments	\$ 341,174	\$ -	\$ -	\$ 14,952	\$ 356,126
Receivables:					
Taxes	9,326	-	-	-	9,326
Accounts	80	108	41,727	3,330	45,245
Restricted assets:					
Cash and investments, at cost	-	453,698	624,711	5,023	1,083,432
Total assets	<u>\$ 350,580</u>	<u>\$ 453,806</u>	<u>\$ 666,438</u>	<u>\$ 23,305</u>	<u>\$ 1,494,129</u>
LIABILITIES					
Vouchers payable	\$ 11,641	\$ -	\$ 60,451	\$ 10,307	\$ 82,399
Customer deposits	-	-	-	5,023	5,023
Deferred revenue	7,981	-	-	-	7,981
Total liabilities	<u>19,622</u>	<u>-</u>	<u>60,451</u>	<u>15,330</u>	<u>95,403</u>
FUND BALANCES					
Committed	199,989	183,857	13,000	-	396,846
Assigned	130,969	269,949	592,987	7,975	1,001,880
Total fund balances	<u>330,958</u>	<u>453,806</u>	<u>605,987</u>	<u>7,975</u>	<u>1,398,726</u>
Total liabilities and fund balances	<u>\$ 350,580</u>	<u>\$ 453,806</u>	<u>\$ 666,438</u>	<u>\$ 23,305</u>	<u>\$ 1,494,129</u>

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2011**

	<u>Recreation</u>	<u>Impact Fees</u>	<u>Parks Improvement</u>	<u>Bonner Business Center</u>	<u>Total</u>
REVENUES					
Property taxes	\$ 144,786	\$ -	\$ -	\$ -	\$ 144,786
Impact fees	-	101,530	-	-	101,530
Interest	889	1,305	1,423	5	3,622
Services	83,218	-	224,922	34,297	342,437
Grants	-	-	-	-	-
Miscellaneous	2,522	-	431,033	7,009	440,564
Total revenues	<u>231,415</u>	<u>102,835</u>	<u>657,378</u>	<u>41,311</u>	<u>1,032,939</u>
EXPENDITURES					
General government	-	55,592	-	33,336	88,928
Culture and recreation	238,197	-	67,842	-	306,039
Capital outlay	-	35,016	516,552	-	551,568
Total expenditures	<u>238,197</u>	<u>90,608</u>	<u>584,394</u>	<u>33,336</u>	<u>946,535</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(6,782)</u>	<u>12,227</u>	<u>72,984</u>	<u>7,975</u>	<u>86,404</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	39,722	-	-	-	39,722
Transfers (out)	-	(116,032)	-	-	(116,032)
Total other financing sources (uses)	<u>39,722</u>	<u>(116,032)</u>	<u>-</u>	<u>-</u>	<u>(76,310)</u>
Net change in fund balances	32,940	(103,805)	72,984	7,975	10,094
Fund balances - beginning	<u>298,018</u>	<u>557,611</u>	<u>533,003</u>	<u>-</u>	<u>1,388,632</u>
Fund balances - ending	<u>\$ 330,958</u>	<u>\$ 453,806</u>	<u>\$ 605,987</u>	<u>\$ 7,975</u>	<u>\$ 1,398,726</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, 2011

	Street Lights	Sanitation	Total
ASSETS			
Cash and investments	\$ 172,331	\$ 94,490	\$ 266,821
Receivables	20,426	44,089	64,515
Fixed assets, net of depreciation	142,831	-	142,831
Total assets	335,588	138,579	474,167
LIABILITIES			
Accounts payable and accrued expenses	9,104	24,814	33,918
Total liabilities	9,104	24,814	33,918
NET ASSETS			
Invested in capital assets (net of related debt)	142,831	-	142,831
Restricted	6,169	-	6,169
Unrestricted	177,484	113,765	291,249
Total net assets	\$ 326,484	\$ 113,765	\$ 440,249

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS NONMAJOR PROPRIETARY FUNDS For the Year Ended September 30, 2011

	<u>Street Lights</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 158,182	\$ 365,566	\$ 523,748
Total operating revenues	<u>158,182</u>	<u>365,566</u>	<u>523,748</u>
Operating expenses:			
Contractual services	-	285,640	285,640
Heat, lights, and power	99,670	5,421	105,091
Maintenance	796	-	796
Depreciation	12,670	-	12,670
Total operating expenses	<u>113,136</u>	<u>291,061</u>	<u>404,197</u>
Operating income	<u>45,046</u>	<u>74,505</u>	<u>119,551</u>
Nonoperating revenues:			
Interest income	416	228	644
Total nonoperating revenues	<u>416</u>	<u>228</u>	<u>644</u>
Income before transfers	45,462	74,733	120,195
Transfers (out)	<u>(34,678)</u>	<u>(66,296)</u>	<u>(100,974)</u>
Change in net assets	10,784	8,437	19,221
Total net assets - beginning	<u>315,700</u>	<u>105,328</u>	<u>421,028</u>
Total net assets - ending	<u>\$ 326,484</u>	<u>\$ 113,765</u>	<u>\$ 440,249</u>

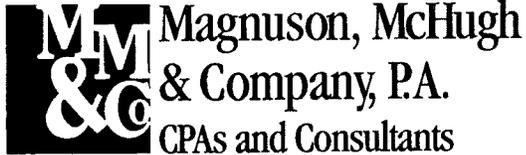
City of Sandpoint

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2011**

	Street Lights	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 156,924	\$ 365,307	\$ 522,231
Payments to suppliers	(99,913)	(290,381)	(390,294)
Net cash provided by operating activities	57,011	74,926	131,937
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers (out)	(34,678)	(66,296)	(100,974)
Net cash (used) by noncapital financing activities	(34,678)	(66,296)	(100,974)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income, net	416	228	644
Net cash provided by investing activities	416	228	644
Net increase in cash and investments	22,749	8,858	31,607
Cash and investments - October 1, 2010	149,582	85,632	235,214
Cash and investments - September 30, 2011	\$ 172,331	\$ 94,490	\$ 266,821
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 45,046	\$ 74,505	\$ 119,551
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	12,670	-	12,670
Changes in assets and liabilities:			
(Increase) decrease in receivables	(1,258)	(259)	(1,517)
(Decrease) increase in vouchers payable	553	680	1,233
Net cash provided by operating activities	\$ 57,011	\$ 74,926	\$ 131,937

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, 2011, which collectively comprise the City of Sandpoint's basic financial statements and have issued our report thereon dated March 7, 2012. 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

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*.

We noted certain other matters that we reported to management of the City of Sandpoint in a separate letter dated March 7, 2012.

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 & Co., P.A.

Magnuson, McHugh & Company, P.A.

Coeur d'Alene, Idaho
March 7, 2012



**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, 2011. 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, 2011.

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.

Coeur d'Alene, ID 83814
March 7, 2012

City of Sandpoint

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the year ended September 30, 2011

Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Ag Forest Service Pass Through Program from: Department of Lands ARRA - Wild land Fire Management	10.688	826000258 00	\$ <u>958</u>
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 Justice Bullet proof vest partnership	16.607		<u>3,245</u>
U.S. Department of Transportation Pass Through Program from: Department of transportation ARRA - Highway planning and construction	20.205	826000258 00	617,027
State and Community Highway Safety	20.500	826000258 00	707
State and Community Highway Safety	20.600	826000258 00	11,636
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	826000258 00	5,406
State Traffic Safety Information System Improvement	20.610	826000258 00	<u>1,628</u>
Total U.S. Department of Transportation			636,404
U.S. Department of Energy ARRA - State Energy Program	80.041		<u>10,775</u>
U.S. Department of Agriculture ARRA -Water and waste disposal systems for rural communities	10.760		<u>2,869,577</u>
Total Federal Awards			<u>\$ 3,524,959</u>

City of Sandpoint

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the year ended September 30, 2011

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, 2011</u>
DEQ Loan-Clean water revolving funds	10.760	\$2,869,577

City of Sandpoint

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2011

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: Qualified

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
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? Yes No

City of Sandpoint

SCHEDULE OF FINDINGS AND QUESTIONED COSTS September 30, 2011

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.