

CITY OF SANDPOINT

FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

CITY OF SANDPOINT
September 30, 2010

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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 units, each major fund, and the aggregate remaining fund information of the City of Sandpoint, Idaho as of and for the year ended September 30, 2010, 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sandpoint, Idaho as of September 30, 2010, 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 May 5, 2011, 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.

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 17 and 45 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.

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INDEPENDENT AUDITORS' REPORT (CONCLUDED)

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 combining and individual nonmajor fund financial statements 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

MAGNUSON, MCHUGH & Co., P.A.

Magnuson, McHugh & Company, P.A.

Coeur d'Alene, Idaho
May 5, 2011

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

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, 2010. 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 \$46,314,832. Of this amount \$5,206,230 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total unrestricted net assets decreased by \$2,589,666. This is in part due to reclassifying fund balances for implementation of GASB54 but should be noted that while the government's net assets increased \$1,788,811 or 4% from the prior fiscal year, the government's investment in capital assets, net of related debt increased by \$3,494,892.
- 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 \$5,785,483, a decrease of \$507,619 or 8% from the prior fiscal year. 3.6% of the decrease is accounted for in the General Fund while 96.4% of the decrease is from the Non-major governmental funds (Capital Improvement Fund, Recreation Fund, Parks Capital Improvement Fund and the Debt Fund).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,662,765 or 32% of the total general fund expenditures.
- The City of Sandpoint is close to completing the system improvements and infrastructure enhancements for the wastewater facility. Expected completion date is July 2011.
- The City held a Revenue Bond Election November 2009, where upgrades to the City's Water Treatment Facilities was proposed and then passed by the voters of Sandpoint. Within a few months of fiscal year end, the city hired bond counsel and obtained interim financing for the \$14,000,000 project. Construction is scheduled to begin April 2011 and is expected to be completed in October 2013. The project includes a \$1,000,000 grant awarded from USDA.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

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 – 24 of this report.

Proprietary funds. The City of Sandpoint maintains two different types of 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. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City of Sandpoint's internal service fund is currently a non-operating fund. The fund's debt and capital assets have all been re-allocated to the appropriate fund. The remaining cash balance was allocated to funds annually by the governing body to pay capital lease obligations for assets acquired through the internal service fund prior to re-allocation. The last allocation was made during the prior fiscal year and the fund was closed during this fiscal year.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 25 – 27 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 units, Downtown Sandpoint Business Association and the Sandpoint Urban Renewal Agency, are represented in the government-wide financial statements for the current year.

The basic fiduciary fund financial statements can be found on page 28 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 29 – 44 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 45 – 57 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 \$46,314,832 at the close of the most recent fiscal year.

By far the largest portion of the City of Sandpoint's net assets (61%) 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 and the unexpended bond proceeds dedicated to the completion of the sewer system upgrades. 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.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

Table 1

NET ASSETS September 30, 2010 and 2009

	Governmental		Business-type		Total	
	activities		activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 7,145,836	\$ 7,643,213	\$12,680,234	\$13,487,750	\$19,826,070	\$21,130,963
Capital assets	6,776,973	6,162,279	31,445,359	29,474,069	38,222,332	35,636,348
Total assets	<u>13,922,809</u>	<u>13,805,492</u>	<u>44,125,593</u>	<u>42,961,819</u>	<u>58,048,402</u>	<u>56,767,311</u>
Long-term liabilities outstanding	703,840	800,165	9,773,011	10,203,364	10,476,851	11,003,529
Other liabilities	956,207	907,388	300,512	323,326	1,256,719	1,230,714
Total liabilities	<u>1,660,047</u>	<u>1,707,553</u>	<u>10,073,523</u>	<u>10,526,690</u>	<u>11,733,570</u>	<u>12,234,243</u>
Net assets:						
Invested in capital assets, net of related debt	6,662,787	5,608,020	21,705,056	19,264,931	28,367,843	24,872,951
Restricted	3,122,717	2,925,181	9,618,042	8,939,040	12,740,759	11,864,221
Unrestricted	2,477,258	3,564,738	2,728,972	4,231,158	5,206,230	7,795,896
Total net assets	<u>\$12,262,762</u>	<u>\$12,097,939</u>	<u>\$34,052,070</u>	<u>\$32,435,129</u>	<u>\$46,314,832</u>	<u>\$44,533,068</u>

A portion of the City of Sandpoint's net assets (27.5%) represents resources that are subject to external restrictions on how they can be used. *Unrestricted net assets* represent 11% or \$5,206,230 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.

The government's investment of capital assets, net of related debt increased \$3,494,892. \$2,440,125, or 70%, of the increase is directly related to the Revenue Bond upgrades to the City's wastewater system. The remaining is largely due to the moorage project at Sandpoint's City Beach.

The City's net assets increased \$1,788,811 during the current fiscal year compared to prior fiscal year's increase of \$2,847,679, exhibiting the final construction stages of the Wastewater upgrades.

Component Units. Downtown Sandpoint Business Association's net assets total \$29,301, a decrease of \$17,465. The major revenue source for the Downtown Sandpoint Business Association is a Business Improvement District Assessments billed quarterly by the City of Sandpoint. Expenditures are projected through the annual budget process and presented to the City Council.

The Sandpoint Urban Renewal Agency's total net assets are \$1,446,976, an increase of \$656,895 or 84% from prior fiscal year end. 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.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

Table 2

CHANGES IN NET ASSETS September 30, 2010 and 2009

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$968,911	\$1,362,918	5,790,702	\$5,480,967	\$6,759,613	\$6,843,885
Capital Grants	573,333	205,293	312,207	817,440	885,540	1,022,733
General revenues:						
Property taxes & special assessments	3,507,403	3,409,022			3,507,403	3,409,022
Investment Earnings	16,262	69,984	52,271	173,189	68,533	243,173
Miscellaneous	20,881	23,048		4,749	20,881	27,797
Intergovernmental	1,722,993	1,743,640			1,722,993	1,743,640
Gain on disposal of assets		124,300		16,610		140,910
Total revenues	6,809,783	6,938,205	6,155,180	6,492,955	12,964,963	13,431,160
Expenses:						
General government	1,760,025	1,663,775			1,760,025	1,663,775
Public safety	3,158,158	3,024,030			3,158,158	3,024,030
Highways & streets	1,711,351	1,561,393			1,711,351	1,561,393
Culture & recreation	1,065,350	980,937			1,065,347	980,937
Other						
Interest on long-term debt	26,472	23,600			26,472	23,600
Water			1,328,477	1,440,814	1,328,477	1,440,814
Sewer			1,298,341	1,067,459	1,298,341	1,067,459
Bond payment fund			429,933	447,150	429,933	447,150
Other proprietary funds			398,045	374,323	398,045	374,323
Total expenses	7,721,356	7,253,735	3,454,796	3,329,746	11,176,152	10,583,481
 Increases in net assets before transfers	 (911,573)	 (315,530)	 2,700,384	 3,163,209	 1,788,811	 2,847,679
Transfers	1,083,443	1,090,097	(1,083,443)	(1,090,097)		
Increase in net assets	171,870	774,567	1,616,941	2,073,112	1,788,811	2,847,679
Net assets – beginning	12,090,892	11,323,372	32,435,129	30,362,017	44,526,021	41,685,389
Net assets – ending	\$12,262,762	\$12,097,939	\$34,052,070	\$32,435,129	\$46,314,832	\$44,533,068

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities. Governmental activities increased the City of Sandpoint's net assets by \$171,870, thereby accounting for 9.6% of the total growth in the net assets of the City of Sandpoint compared to prior fiscal years 27%. Key elements of this increase are as follows:

- At year end revenues for the City of Sandpoint's governmental activities reflects a decrease in revenues of \$128,422 from prior fiscal year. The decrease mirrors the current economic situation in Sandpoint and is reported generally in charges for services and investment earning, with the exception of property taxes and special assessments which reflect a slight increase.
- Taxes and special assessments account for the largest program revenue category for governmental activities, generating about 51% of total governmental revenue compared to last year's 49%. Included are property tax, franchise fees, resort bed tax, and local improvement district assessments.
- Intergovernmental Revenues reflect a decrease of 12% or \$20,647. This again, is due to the current economic slow-down that has affected the sales tax and highway user fees received from the State of Idaho.
- Grants show an unexpected increase (179%) 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 complete a moorage project at City Beach and public safety programs.
- Governmental activity expenditures reflect a decrease of 6.4% or \$467,621 from last year. This decrease is mostly related to a reduction in revenues requiring the city to make some philosophical decisions 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 reducing the levels of budgeting for capital projects and expenditures.
- Governmental activities reflect no revenue for the sale of assets this year compared to last year's revenue of \$124,300.

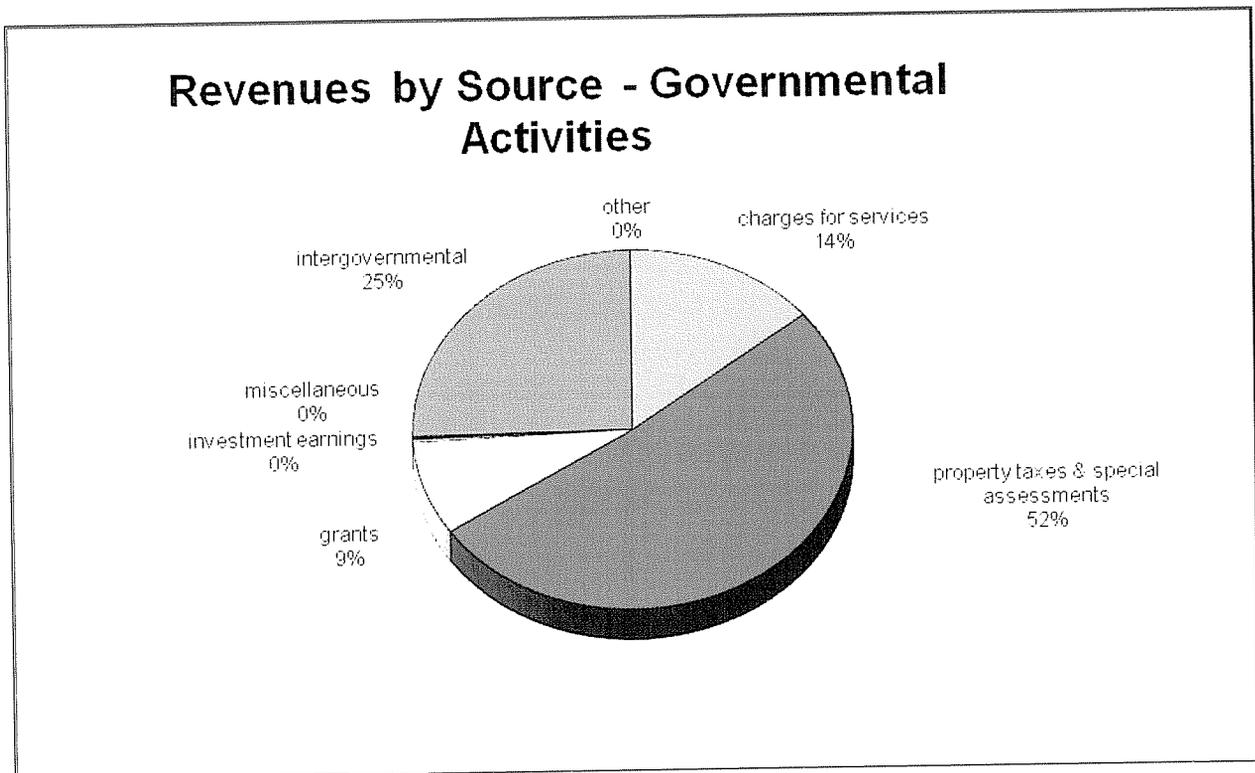
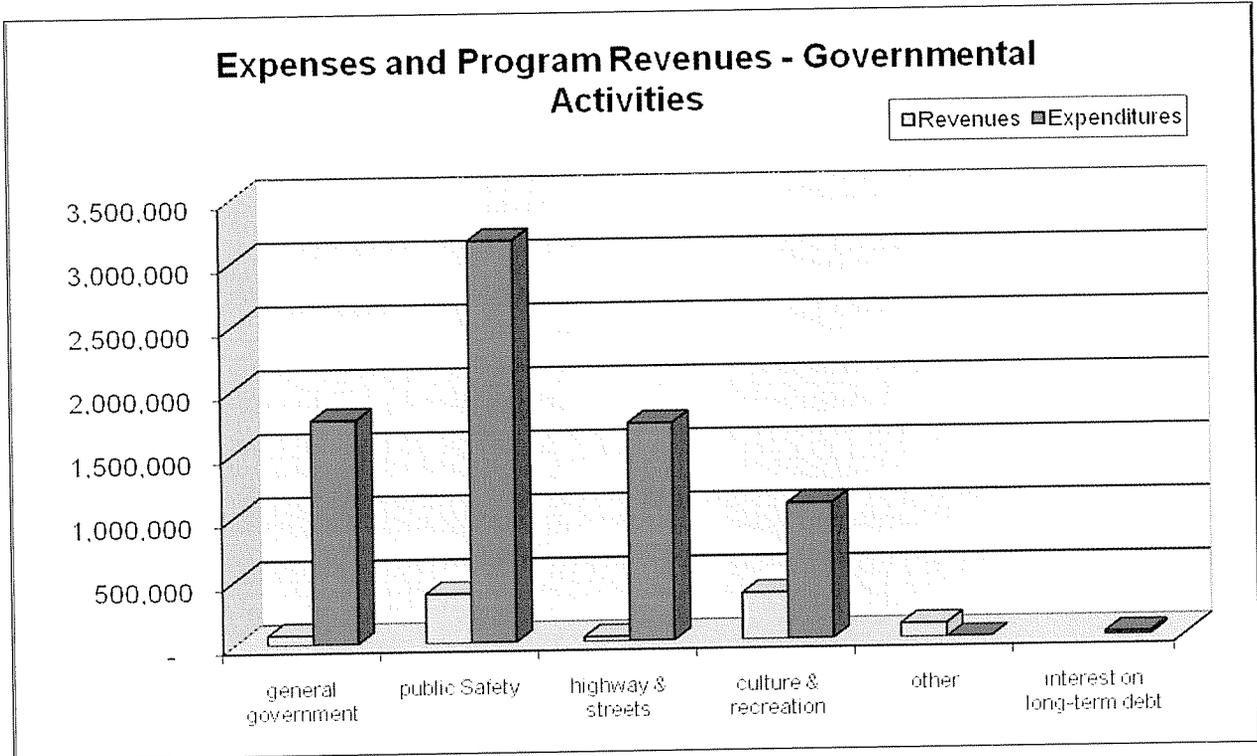
Business-type activities. Business-type activities increased the City of Sandpoint's net assets by \$1,616,941, accounting for 90.4% of the total growth in the government's net assets. Key elements of this increase are as follows:

- 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 decreased during the fiscal year -62% or \$505,233 compared to prior fiscal year.
- Investment earnings for business type activities decreased by -70% due to a decrease in the size of reserves and expending of the bond revenue for the wastewater system upgrade.
- Water infrastructure projects were delayed again during the fiscal year. Within a few months after the close of the fiscal year, the City hired a bond counsel and acquired interim financing for the water treatment upgrade project approved by the voters of Sandpoint. The project will begin in April 2011 and will ultimately be financed by USDA.
- The sewer infrastructure project \$8,700,000 is almost concluded with completion projected in July 2011.
- Operating expenditures reflects an increase (\$230,882) for the sewer utility, this is related to an increase in depreciation expense due to upgrades in the wastewater facilities.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

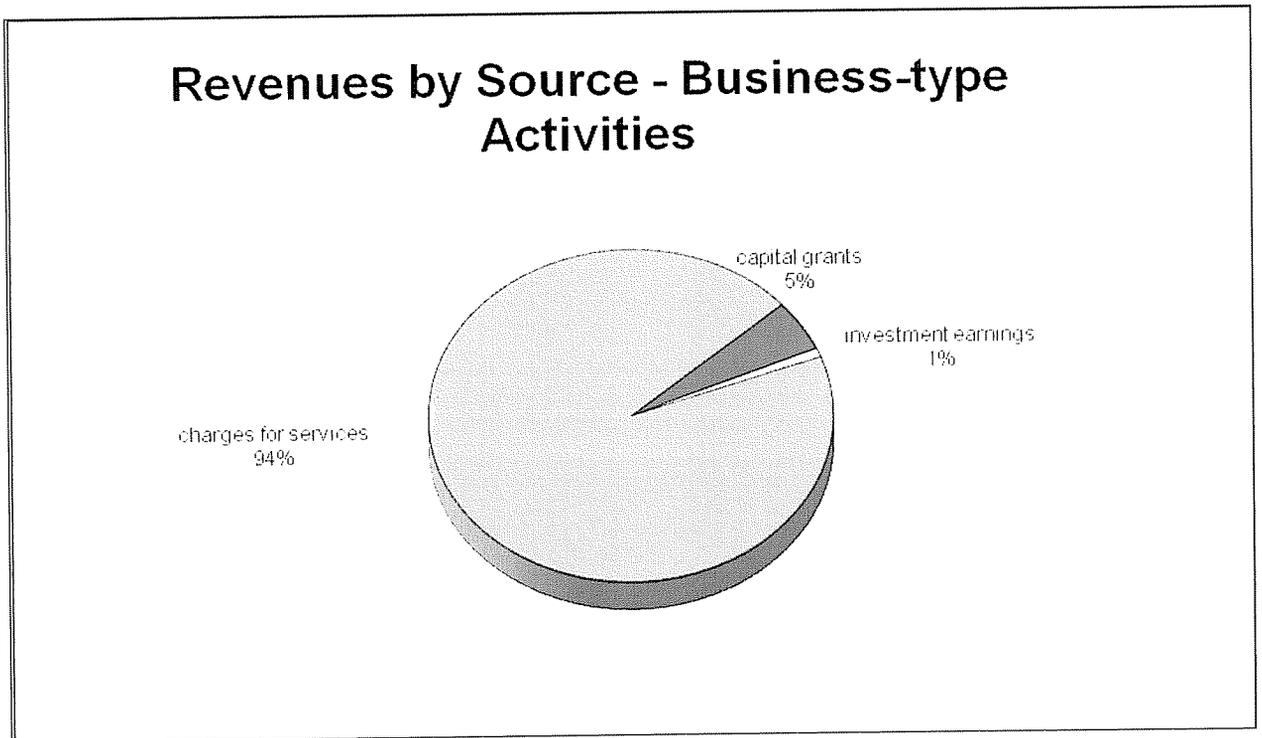
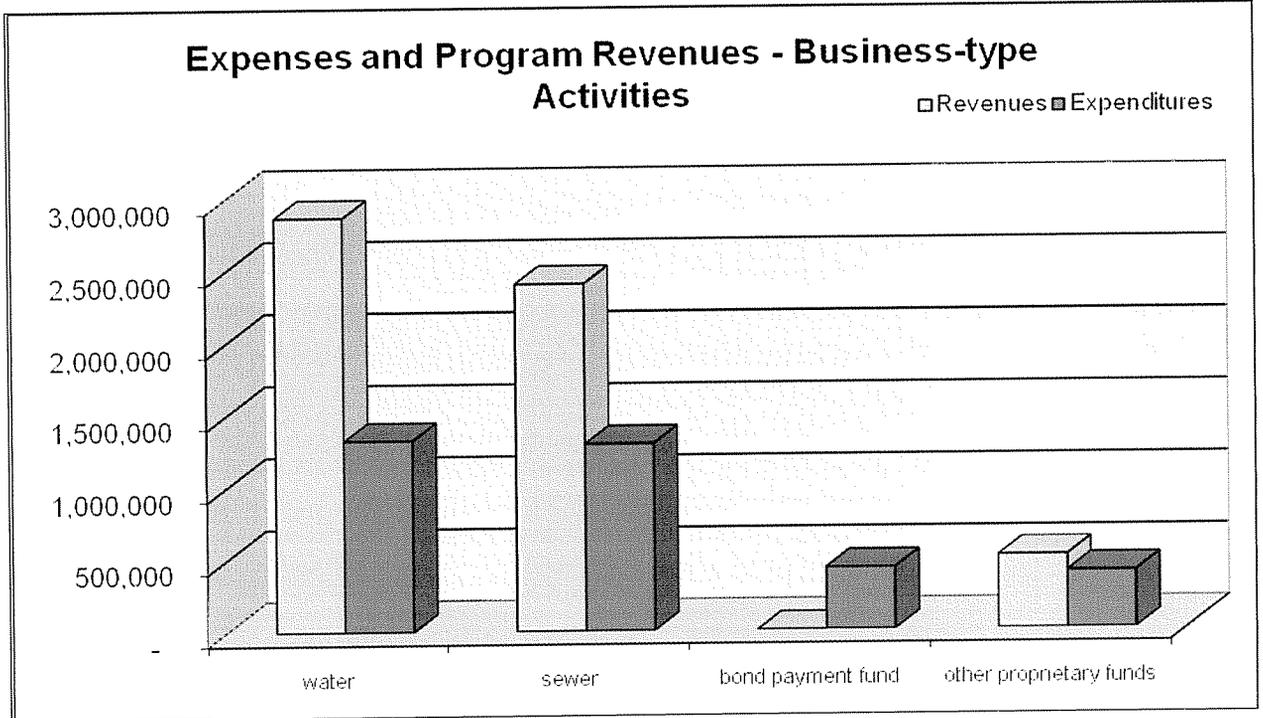
GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2010

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

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, *unreserved 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 \$5,785,483, reflecting a decrease of 8.7% from last year. Approximately 46% of this total amount or \$2,662,765 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 \$ 2,662,765 while the total fund balance reached \$4,083,304. 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 38% of the total general fund expenditures, while total fund balance represents 58% of that same amount.

The fund balance of the City of Sandpoint's general fund decreased by \$22,549 (.54%) during the current fiscal year compared to an increase of \$129,770 (3.3%) during the prior fiscal year. Key factors in this decrease are as follows:

- Intergovernmental revenues from State and local governments decreased another \$20,647 from prior fiscal year when we saw a 3.8% decrease (\$70,283). This year's total intergovernmental revenues total \$1,722,993.
- Sandpoint's bed tax decreased \$20,574 or 10% from prior fiscal year bringing the total to \$175,490 from \$196,064. The decrease is related to the sluggish economy. The use of this revenue is restricted by Idaho Statute and City Ordinance.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

- The city's property tax revenue increased \$232,640 or 7.9% over prior fiscal year with delinquent property taxes, penalty and interest accounting for 7.6% of the increase (up 3% from prior fiscal year).
- Building permit fees reflect a decline for the third year in a row, decreasing \$30,338 or -25% from prior year indicative of the decline in new housing starts.
- Charge for services reported a decrease of \$94,646 (-29%) from \$323,397 to \$228,754 another indicator of Sandpoint's slow economy. Prior fiscal years charge for services declined \$90,609.
- While incoming revenues decreased for the General Fund, expenditures increased \$75,557 (1.08%).

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.

The special revenue fund balances decreased by \$484,124 (26%) from the previous year. \$399,570 or 83% is directly related to expenditures of impact fees for public safety, parks and circulation reflected in the capital improvement fund. The parks capital improvement fund balance also decreased \$119,661. Decreases in these funds are reflective of expenses exceeding incoming revenue for the fiscal year. It is a good reminder that these particular funds receive revenue from year to year for future specified projects. The recreation fund increased their fund balance by \$35,107.

The debt service fund has a total fund balance of \$313,547, all of which 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 \$2,166,344, a decrease of 39% from prior year unrestricted net assets. This decrease is largely due to new classification requirements to reflect those dollars restricted for payment of the bond. In November 2009 the voters passed a bond election to fund system upgrades to Sandpoint's water treatment facilities. Construction will begin in April 2011.

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 decreased by 3.3% (\$150,894) due to the new classification requirements to restrict those dollars allocated to payment of bond indebtedness.

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).

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The total growth in net assets for water and sewer was \$1,249,514 and \$628,376 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 USRDA. 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.

Subsequent to the close of the fiscal year the city secured interim financing for 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.

Sanitation and street lights reflect unrestricted net assets of \$105,328 and \$150,320 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Taxes and special assessment show a variance of \$111,792. Budget projections anticipated a slower collection of current year property taxes due to the housing market and economy. Recovered Homeowner's Exemption efforts from the State of Idaho also netted unexpected revenues for the City this year, while Resort City taxes were lower than anticipated without the failure of a vote for 2% liquor by the drink tax.

Grant revenue was budgeted at \$1,413,630 with actual revenue received from grants totaling \$370,094. The variance of \$1,043,536 is largely due delays in the grant projects. Start dates for the Federal Enhancement grant for the Downtown project (\$495,000) will not be started until construction season of 2011. Other grants for Growth Management and Brownfield Assessment were not awarded to the City.

Licenses and Permits reports a variance \$54,773 which is reflective of those permits related to building and construction.

Intergovernmental Revenue variance of \$76,957 is related to one specific area. Matching grant revenue budgeted as project participation from outside governmental agencies. The largest being the Federal Enhancement Grant that is delayed until; 2011.

Interest Income variance of \$91,289 is reflective of lower interest rates being paid on the City's investments.

Charges for services revenue variance of \$74,902 reflects a decrease in the city's rental properties and those services associated with building and construction, such as; zoning fees and plan check fees.

Fines and forfeits variance of \$33,054 is a result of a loss in fines from Bonner county and parking.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Miscellaneous revenue was budgeted at \$953,112 with actual revenue totaling \$2,221. The large variance is due to the budgeted line items for donations and beginning cash. These line items were designated to facilitate the potential revenue from donations for art and public safety. Beginning cash used to fund the general fund was \$22,549.

General Government, expenditure variance of \$249,879 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 \$3,393,748 and actual expenditures totaled \$3,030,366 leaving a variance of \$363,382. This variance is a result of unfunded grants and donation projects, fewer volunteer firefighter expenses than projected.

Highways and Streets variance of (\$392,648) 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.

The Capital Outlay expenditure budget reflects a variance of \$1,915,302. Original budget totaled \$1,974,500 with actual expenditures at \$59,198. 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 \$275,759 less than budgeted for the fiscal year.

The City of Sandpoint did not amend its budget during the current fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Sandpoint's investment in capital assets for its governmental and business-type activities as of September 30, 2010 amounts to \$38,222,332 (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 25% (1.7% of increase related to governmental activities and a 23.3% 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 decrease of \$4,853,428 largely due in part to the completion of sewer upgrades that were put into service, moving these assets from construction in progress to infrastructure.
- Additions to construction in progress of \$1,518,855 are related to the pre-design and engineering costs associated with future water treatment facility upgrades.
- Governmental activities capital assets (net of depreciation) reflect additions totaling \$4,214,433 or 6.8%.
- Additions to Governmental Activities asset category Other Improvements \$1,547,431 is largely related the Parks project for moorage at Sandpoint's City Beach.
- Governmental Activities asset category Equipment \$1,760,223 increased due to enhanced E-Ticket and Mobile Data equipment acquired for the Police Department.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

- Contributed capital to the business-type activities added \$44,475 to the City's assets. This is substantially less than prior years but is indicative of the decrease in housing construction and development.
- The City of Sandpoint added \$7,399,502 to its business type activities infrastructure with 94% allocated to the sewer fund and 4% to the water fund.

**Table 3
CITY OF SANDPOINT'S CAPITAL ASSETS**

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$1,452,556	\$1,294,329	\$5,433,188	\$5,433,188	\$6,885,744	\$6,727,517
Construction in progress	7,820	7,820	2,249,227	7,102,655	2,257,047	7,110,475
Buildings	2,058,255	2,058,255	527,400	527,400	2,585,655	2,585,655
Other Improvements	3,876,425	3,037,202	260,896	260,896	4,137,321	3,298,098
Machinery and equipment	2,975,526	2,893,562	1,327,886	1,327,886	4,303,412	4,221,448
Infrastructure	6,130	6,130	28,409,380	21,009,878	28,415,510	21,016,008
Total	\$10,376,712	\$9,297,298	\$38,207,977	\$35,661,903	\$48,584,689	\$44,959,201

Long-term Debt. At the end of the current fiscal year, the City of Sandpoint had total bonded debt outstanding principal balance of \$9,957,943. Of this amount, \$350,576 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	
	2010	2009	2010	2009	2010	2009
Compensated absences	\$239,078	\$245,906	\$119,958	\$109,751	\$359,036	\$355,657
Special assessments	350,576	380,620			350,576	380,620
Lease purchase contracts	114,186	173,639	45,686	107,689	159,872	281,328
Revenue bonds			9,607,367	9,985,924	9,607,367	9,985,924
Total	\$703,840	\$800,165	\$9,773,011	\$10,203,364	\$10,476,851	\$11,003,529

The City of Sandpoint's total bonded debt decreased by \$378,557 (3.79%) during the current fiscal year and the lease purchase contracts decreased \$121,456 (43%). Compensated absences increased \$3,379 or .9% from prior fiscal year.

Additional information of the City of Sandpoint's long term debt can be found within the notes to the financial statements.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Sandpoint began the fiscal year with a seasonally adjusted unemployment rate of 12.2% which increased to 13.7% by November 2010. More than 69,000 people were out of work across the State of Idaho. *Bonner County Daily Bee Nov 26, 2010.*

While Bonner County, in the past, has had considerable success in diversifying and expanding its economy, the recession slammed on the brakes and many manufacturing and construction jobs have been lost. Quest Aircraft Co. went through its fourth round of layoffs and now has 120 employees, down from 345 and Coldwater Creek is expecting a drop in sales. The expansions at Schweitzer Mountain Resort have boosted winter employment and Sandpoint's reputation as a haven for the arts has contributed to tourist growth. *Bonner County Work Force Trends January 2011.*

Northern Idaho continues to draw a high level of interest due to its innate beauty and tourism opportunities. Laying a foundation for strong growth in the future is paramount to the leaders of Sandpoint and the surrounding area. Providing initial funding and support for a \$14 million regional fiber optic network project that will bring fiber-to-the-premises is moving ahead with U. S. MetroNets.

City of Sandpoint obtained a grant and voter approval to move ahead with a \$17 million expansion project for their water treatment plants. The project will double the city's capacity to supply potable water and will convert the treatment process at the 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 is expected to begin in April of 2011 and be completed within two-and-a-half years. This project will be budgeted through 2013.

Sandpoint leaders continue to make strategic budget decisions. Instead of being reactive to the market, making arbitrary cuts and layoffs, the council chose to focus on ways to help the economic recovery of Sandpoint. Employee's wages were frozen for the second year in a row, but all jobs were held intact and capital projects were scrutinized and expanded where low, long term operating costs were apparent or the project itself would put Sandpoint in a position to adapt and bounce back more quickly as the economy recovers.

Next year's budget includes enhancement projects for the local area. Washington Street Project will construct several blocks of new street, curb, gutter, sidewalk to a section of town that has been neglected in years past. While the enhancement will make a very visible change to the area, the project will also be addressing necessary storm water problems.

Downtown Revitalization has been in the forefront with projects phasing in every few years with the focus on rebuilding streets, sidewalks, curbs, gutter, and storm water issues. Many of these projects have been in conjunction with the Downtown Business Association and the Sandpoint Urban Renewal Agency.

Safe Routes to School grants continue to be prevalent, allowing the city to upgrade and/or build sidewalks and pedestrian enhancements that provides safe pathways. Next year's budget will include an opportunity to provide for a section of Spruce Street

One of the largest projects in next year's budget is for our Parks system. The project began last year with several grants awarded for major enhancements and expansion of our City Beach Marina. This project continues in next year's budget with Phase 2 of the project. Funding, in part, is being provided by the Sandpoint Urban Renewal Agency.

Necessary upgrades to Memorial Field lighting has been budgeted for this project with hopes of obtaining half of the necessary funding from the community and organizations to replace the old, decrepit lighting system currently in place.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES CONTINUED

- The City's total budget for 2010/2011 reflected an increase of \$21,981,894 or 109.17% from prior year. This increase is directly related to the \$17 million water treatment upgrade project.
- The General Fund increased \$332,537 or 3.57% which is reflective of the \$378,751 increase to capital projects within the General Fund.
- Even though employee wages were frozen again for the second year in a row, the budget still reflects an increase to salaries and benefits of \$158,482, which includes a \$24,199 increase in health care premiums with the remaining increase related to promotions, additional part-time employees and related employer costs.
- Property taxes were levied at \$3,209,145 of which \$74,740 is directly related to new construction and annexations.
- The city budgeted to secure interim financing and move ahead with the \$17 million water treatment facility upgrades and enhancements approved by the voters. Construction begins in April 2011 and is expected to be completed by the fall of 2013.
- The Fire Department has budgeted to continue with its new progressive, yet stringent, "Volunteer Program", with a budget of \$32,000.
- The Parks Department continues improving Sandpoint's parks and recreational areas with Phase 2 of a major enhancement at City Beach Marina. Phase 2 of the project is budgeted at \$520,000 with participated funding from the Sandpoint Urban Renewal Agency. Phase one (\$540,000) was funded in part by grants totaling \$186,000 with the remainder funded from impact fees. The project adds additional visitor moorage and a breakwater to protect the existing moorage and beach.
- The Street Department has budgeted \$800,000 for phase one of a large infrastructure project to pave Washington Avenue and add gutter, curb and sidewalk 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, 2010

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Sandpoint Business Association	Sandpoint Urban Renewal Agency
ASSETS					
Cash and investments	\$ 4,563,789	\$ 4,104,743	\$ 8,668,532	\$ 28,673	\$ 1,448,192
Receivables	1,124,092	922,583	2,046,675	712	
Inventory		106,204	106,204		
Debt issue cost (net of amortization)		113,110	113,110		
Restricted assets:					
Cash and investments	1,457,955	7,433,594	8,891,549		
Capital assets not being depreciated:					
Land	1,452,566	5,433,188	6,885,754		
Construction in progress	7,820	2,249,227	2,257,047		
Fixed assets, net of depreciation	5,316,587	23,762,944	29,079,531	1,402	
Total assets	13,922,809	44,125,593	58,048,402	30,787	1,448,192
LIABILITIES					
Accounts payable and accrued expenses	933,563	215,481	1,149,044	1,486	1,216
Payable from restricted assets:					
Customer deposits	20,419	4,831	25,250		
Accrued interest payable	2,225	80,200	82,425		
Noncurrent liabilities:					
Due within one year	80,470	442,104	522,574		
Due in more than one year	623,370	9,330,907	9,954,277		
Total liabilities	1,660,047	10,073,523	11,733,570	1,486	1,216
NET ASSETS					
Invested in capital assets, net of related debt	6,662,787	21,705,056	28,367,843		
Restricted for:					
Contributions	11,147		11,147		
Debt	313,546	2,906,222	3,219,768		
Capital Improvements	1,090,614	4,457,844	5,548,458		
Inflow and Infiltration		1,568,926	1,568,926		
Kootenai / Ponderay		85,767	85,767		
Watershed Protection		589,404	589,404		
Other	1,707,410	9,879	1,717,289		518,813
Unrestricted	2,477,258	2,728,972	5,206,230	29,301	928,163
Total net assets	\$ 12,262,762	\$ 34,052,070	\$ 46,314,832	\$ 29,301	\$ 1,446,976

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, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Governmental activities:			
General government	\$ 1,760,025	\$ 73,251	
Public safety	3,158,158	387,536	\$ 229,773
Highways and streets	1,711,351	35,000	140,321
Culture and recreation	1,065,350	364,720	203,239
Other		108,404	
Interest on long-term debt	26,472		
Total governmental activities	7,721,356	968,911	573,333
Business-type activities:			
Water	1,328,477	2,875,321	214,072
Sewer	1,298,341	2,407,557	98,135
Bond payment fund	429,933		
Other proprietary funds	398,045	507,824	
Total business-type activities	3,454,796	5,790,702	312,207
Total primary government	\$ 11,176,152	\$ 6,759,613	\$ 885,540
Component units:			
Downtown Sandpoint Business Association			
Sandpoint Urban Renewal Agency			
Total component unit			

General revenues:
 Property taxes and special assessments
 Investment earnings
 Miscellaneous
 Intergovernmental revenue
 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	Downtown Sandpoint Business Association	Sandpoint Urban Renewal Agency
\$ (1,686,774)		\$ (1,686,774)		
(2,540,849)		(2,540,849)		
(1,536,030)		(1,536,030)		
(497,391)		(497,391)		
108,404		108,404		
(26,472)		(26,472)		
<u>(6,179,112)</u>		<u>(6,179,112)</u>		
	\$ 1,760,916	1,760,916		
	1,207,351	1,207,351		
	(429,933)	(429,933)		
	109,779	109,779		
	<u>2,648,113</u>	<u>2,648,113</u>		
(6,179,112)	2,648,113	(3,530,999)		
			\$ 124,482	\$ 41,780
			<u>124,482</u>	<u>41,780</u>
3,507,403		3,507,403		691,960
16,262	52,271	68,533		6,715
20,881		20,881	107,017	
1,722,993		1,722,993		
1,083,443	(1,083,443)			
<u>6,350,982</u>	<u>(1,031,172)</u>	<u>5,319,810</u>	<u>107,017</u>	<u>698,675</u>
171,870	1,616,941	1,788,811	(17,465)	656,895
12,090,892	32,435,129	44,526,021	46,766	790,081
<u>\$ 12,262,762</u>	<u>\$ 34,052,070</u>	<u>\$ 46,314,832</u>	<u>\$ 29,301</u>	<u>\$ 1,446,976</u>

City of Sandpoint

**GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2010**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 3,839,922	\$ 307,979	\$ 4,147,901
Receivables	606,798	294,468	901,266
Due from other governments	222,826		222,826
Restricted assets:			
Cash and investments	52,590	1,405,365	1,457,955
Total assets	<u>\$ 4,722,136</u>	<u>\$ 2,007,812</u>	<u>\$ 6,729,948</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	\$ 477,928	\$ 39,747	\$ 517,675
Payable from restricted assets:			
Customer deposits	20,419		20,419
Deferred revenue	140,485	265,886	406,371
Total liabilities	<u>638,832</u>	<u>305,633</u>	<u>944,465</u>
Fund balances:			
Restricted for			
Art Contributions	3,742		3,742
Economic Dev Contributions	5,000		5,000
Citizen's Pride Contributions	100		100
Police Contributions	2,305		2,305
Debt		313,547	313,547
Committed to			
Downtown Parking Dedicated Funds	31,733		31,733
In Lieu of Sidewalk Dedicated Funds	5,460		5,460
FY 11 Recreation Fund Budget		23,361	23,361
FY 11 Capital Improvement Fund (impact fees)		190,000	190,000
FY 11 Parks Improvement Fund Budget		13,000	13,000
FY 11 General Fund Budget	1,372,199		1,372,199
Assigned to			
Recreation Fund		274,657	274,657
Capital Improvement Fund (impact fees)		367,611	367,611
Parks Capital Improvement Fund		520,003	520,003
Unassigned			
General Fund	2,662,765		2,662,765
Total fund balances	<u>4,083,304</u>	<u>1,702,179</u>	<u>5,785,483</u>
Total liabilities and fund balances	<u>\$ 4,722,136</u>	<u>\$ 2,007,812</u>	<u>\$ 6,729,948</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, 2010

Total fund balance at September 30, 2010 - Governmental Funds		\$ 5,785,483
Cost of capital assets at September 30, 2010	\$ 10,376,722	
Less: Accumulated depreciation as of September 30, 2010		
Buildings and structures	(783,740)	
Improvements other than buildings	(878,874)	
Equipment	(1,935,783)	
Infrastructure	<u>(1,352)</u>	6,776,973
Elimination of deferred revenue		406,371
Long-term liabilities at September 30, 2010		
Accrued interest	(2,225)	
Capital leases payable	(114,186)	
Compensated absences	(239,078)	
Special assessments	<u>(350,576)</u>	<u>(706,065)</u>
Net assets at September 30, 2010		<u>\$ 12,262,762</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, 2010

	General	Other Governmental Funds	Total
REVENUES			
Taxes and special assessments	\$ 3,357,618	\$ 182,785	\$ 3,540,403
Licenses and permits	198,807		198,807
Grants	370,094	203,239	573,333
Intergovernmental revenue	1,722,993		1,722,993
Interest	12,410	3,852	16,262
Impact fees		108,404	108,404
Charges for services	228,754	317,900	546,654
Fines and forfeits	115,046		115,046
Miscellaneous revenues	2,221	18,660	20,881
Total revenues	6,007,943	834,840	6,842,783
EXPENDITURES			
General government	1,727,848		1,727,848
Public safety	3,030,366		3,030,366
Highways and streets	1,538,748		1,538,748
Culture and recreation	641,577	298,389	939,966
Capital projects	59,198	1,020,281	1,079,479
Debt service:			
Principal retirement	59,453	30,044	89,497
Interest expense	8,264	19,678	27,942
Total expenditures	7,065,454	1,368,392	8,433,846
(Deficiency) excess of revenues over (under) expenditures	(1,057,511)	(533,552)	(1,591,063)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,083,444	48,482	1,131,926
Transfers out	(48,482)		(48,482)
Total other financing sources (uses)	1,034,962	48,482	1,083,444
Change in fund balance	(22,549)	(485,070)	(507,619)
Fund balances - beginning	4,105,853	2,187,249	6,293,102
Fund balances - ending	\$ 4,083,304	\$ 1,702,179	\$ 5,785,483

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, 2010

Total net changes in fund balances for the year ended September 30, 2010	\$ (507,619)
Add: Capital outlay which is considered expenditures	1,079,420
Less: Depreciation expense for the year ended September 30, 2010	(465,230)
Add: Special assessment debt and lease principal payments considered as an expenditure	89,497
Add: Change in accrued interest expense	1,470
Add: Change in compensated absences	6,828
Add: Miscellaneous	504
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>(33,000)</u>
Change in net assets for year ended September 30, 2010	<u>\$ 171,870</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, 2010

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
ASSETS					
Current assets:					
Cash/investments	\$ 2,748,015	\$ 712,959	\$ 408,555	\$ 235,214	\$ 4,104,743
Receivables	548,135	309,429	2,021	62,998	922,583
Inventory	106,204				106,204
Debt issue cost (net of amortization)			113,110		113,110
Restricted cash/investments	2,966,599	3,740,173	726,822		7,433,594
Total current assets	<u>6,368,953</u>	<u>4,762,561</u>	<u>1,250,508</u>	<u>298,212</u>	<u>12,680,234</u>
Noncurrent assets:					
Land	4,525,070	908,118			5,433,188
Construction in progress	2,146,615	102,612			2,249,227
Capital assets, net of accumulated depreciation	8,088,528	15,518,915		155,501	23,762,944
Total noncurrent assets	<u>14,760,213</u>	<u>16,529,645</u>		<u>155,501</u>	<u>31,445,359</u>
Total assets	<u>21,129,166</u>	<u>21,292,206</u>	<u>1,250,508</u>	<u>453,713</u>	<u>44,125,593</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	137,962	37,784	7,050	32,685	215,481
Payable from restricted assets:					
Customer deposits	4,831				4,831
Accrued interest payable			80,200		80,200
Capital lease payable		45,686			45,686
Revenue bonds - current portion			396,418		396,418
Total current liabilities	<u>142,793</u>	<u>83,470</u>	<u>483,668</u>	<u>32,685</u>	<u>742,616</u>
Noncurrent:					
Revenue bonds - noncurrent portion			9,210,949		9,210,949
Compensated absences	93,003	26,955			119,958
Total noncurrent liabilities	<u>93,003</u>	<u>26,955</u>	<u>9,210,949</u>		<u>9,330,907</u>
Total liabilities	<u>235,796</u>	<u>110,425</u>	<u>9,694,617</u>	<u>32,685</u>	<u>10,073,523</u>
NET ASSETS					
Invested in capital assets (net of related debt)	14,760,213	16,483,959	(9,694,617)	155,501	21,705,056
Restricted for:					
Debt	1,005,045	650,669	1,250,508		2,906,222
Capital improvements	2,286,597	2,171,247			4,457,844
Inflow & filtration		1,568,926			1,568,926
Kootenai/Ponderay	85,767				85,767
Watershed protection	589,404				589,404
Other				9,879	9,879
Unrestricted	<u>2,166,344</u>	<u>306,980</u>		<u>255,648</u>	<u>2,728,972</u>
Total net assets	<u>\$ 20,893,370</u>	<u>\$ 21,181,781</u>	<u>\$ (8,444,109)</u>	<u>\$ 421,028</u>	<u>\$ 34,052,070</u>

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

City of Sandpoint

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2010

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
OPERATING REVENUES					
Charges for services	\$ 2,717,889	\$ 2,260,872		\$ 507,824	\$ 5,486,585
Equipment and meter sales	13,090	28,071			41,161
Miscellaneous	144,342	118,614			262,956
Total operating revenues	<u>2,875,321</u>	<u>2,407,557</u>		<u>507,824</u>	<u>5,790,702</u>
OPERATING EXPENSES					
Personal services	825,345	485,152			1,310,497
Contractual services	124,493	126,880		280,876	532,249
Other services and charges	178,017	170,748		6,387	355,152
Heat, lights, and power	35,585	114,332		98,112	248,029
Depreciation	165,037	397,077		12,670	574,784
Total operating expenses	<u>1,328,477</u>	<u>1,294,189</u>		<u>398,045</u>	<u>3,020,711</u>
Operating income	<u>1,546,844</u>	<u>1,113,368</u>		<u>109,779</u>	<u>2,769,991</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	15,219	11,522	\$ 25,048	482	52,271
Interest expense		(4,152)	(413,774)		(417,926)
Bond issuance costs			(16,159)		(16,159)
Total nonoperating revenues (expenses)	<u>15,219</u>	<u>7,370</u>	<u>(404,885)</u>	<u>482</u>	<u>(381,814)</u>
Income before contributions and transfers	<u>1,562,063</u>	<u>1,120,738</u>	<u>(404,885)</u>	<u>110,261</u>	<u>2,388,177</u>
Capital contributions - cap fees	<u>169,599</u>	<u>98,135</u>			<u>267,734</u>
Contributed water/sewer lines	<u>44,473</u>				<u>44,473</u>
Transfers in	112,157	662,451	795,252		1,569,860
Transfers out	(638,778)	(1,252,948)	(662,451)	(99,126)	(2,653,303)
Total transfers	<u>(526,621)</u>	<u>(590,497)</u>	<u>132,801</u>	<u>(99,126)</u>	<u>(1,083,443)</u>
Change in net assets	1,249,514	628,376	(272,084)	11,135	1,616,941
Total net assets - beginning	<u>19,643,856</u>	<u>20,553,405</u>	<u>(8,172,025)</u>	<u>409,893</u>	<u>32,435,129</u>
Total net assets - ending	<u>\$ 20,893,370</u>	<u>\$ 21,181,781</u>	<u>\$ (8,444,109)</u>	<u>\$ 421,028</u>	<u>\$ 34,052,070</u>

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

City of Sandpoint
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2010

	Water	Sewer	Bond Payment	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 2,837,320	\$ 2,409,633		\$ 514,269	\$ 5,761,222
Payments to employees	(825,345)	(485,152)			(1,310,497)
Payments to suppliers	(279,439)	(435,131)		(385,493)	(1,100,063)
Net cash provided by operating activities	<u>1,732,536</u>	<u>1,489,350</u>		<u>128,776</u>	<u>3,350,662</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Additional contributed capital	169,599	98,135			267,734
Operating transfers (out) in	(526,621)	(590,497)	\$ 107,840	(99,126)	(1,108,404)
Net cash (used) provided by noncapital financing activities	<u>(357,022)</u>	<u>(492,362)</u>	<u>107,840</u>	<u>(99,126)</u>	<u>(840,670)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of fixed assets	(1,839,151)	(662,451)			(2,501,602)
Principal paid on bonds and leases		(43,690)	(378,557)		(422,247)
Interest paid			(416,699)		(416,699)
Net cash (used) provided by capital and related financing activities	<u>(1,839,151)</u>	<u>(706,141)</u>	<u>(795,256)</u>		<u>(3,340,548)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	15,219	7,370	25,048	482	48,119
Net cash provided by investing activities	<u>15,219</u>	<u>7,370</u>	<u>25,048</u>	<u>482</u>	<u>48,119</u>
Net increase (decrease) in cash and investments	(448,418)	298,217	(662,368)	30,132	(782,437)
Cash and investments, October 1	6,163,032	4,154,915	1,797,745	205,082	12,320,774
Cash and investments, September 30	<u>\$ 5,714,614</u>	<u>\$ 4,453,132</u>	<u>\$ 1,135,377</u>	<u>\$ 235,214</u>	<u>\$ 11,538,337</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 1,546,844	\$ 1,113,368		\$ 109,779	\$ 2,769,991
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	165,037	397,077		12,670	574,784
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(13,497)	2,076		6,445	(4,976)
Inventory	13,387				13,387
Prepaid expense		120			120
Increase (decrease) in:					
Vouchers payable	45,270	(23,291)		(118)	21,861
Customer deposits	(24,505)				(24,505)
Net cash provided by operating activities	<u>\$ 1,732,536</u>	<u>\$ 1,489,350</u>	<u>\$ -</u>	<u>\$ 128,776</u>	<u>\$ 3,350,662</u>
Reconciliation of cash to the balance sheet:					
Cash/investments	\$ 2,748,015	\$ 712,959	\$ 408,555	\$ 235,214	\$ 4,104,743
Restricted cash/investments	2,966,599	3,740,173	726,822		7,433,594
	<u>\$ 5,714,614</u>	<u>\$ 4,453,132</u>	<u>\$ 1,135,377</u>	<u>\$ 235,214</u>	<u>\$ 11,538,337</u>
Non-cash capital and related financing activities:					
Developers during the year donated \$44,473 of water lines to the water fund.					

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

City of Sandpoint

**AGENCY FUND
STATEMENT OF NET ASSETS
September 30, 2010**

	Business Improvement District Agency Fund
ASSETS	
Cash and cash equivalents	\$ 609
Accounts receivable	<u>44,338</u>
Total assets	<u><u>\$ 44,947</u></u>
LIABILITIES	
Accounts payable	\$ 609
Due to Business Improvement District	<u>44,338</u>
Total liabilities	<u><u>\$ 44,947</u></u>

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

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

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 City has entered into an agreement with the Downtown Sandpoint Business Association, Inc. to administer and manage the operation of the Business Improvement District. The association provides services almost entirely to the City. Based on this connection between the association and the City, the association's financial statements are presented as a component unit. The Sandpoint Urban Renewal Agency works to enhance economic and community improvements to the City. The agency's financial statements are presented as a component unit.

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.

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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

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.

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2010 meet the guidelines as set by regulations of the State of Idaho.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. *Receivables and Payables*

Due To and From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

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, 2010, which were collected and held by the county at September 30, 2010, but not yet remitted to the City until after September 30, 2010.

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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Capital Assets (Continued)

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.

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

6. 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.

7. 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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

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

8. Fund Equity

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

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. The city did not have any nonspendable 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.

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 Town Council or a body or official to which the Town Council has delegated the authority to assign amounts for specific purposes.

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

E. Budgets and Budgetary Accounting

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

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

The City does not use the encumbrance method of accounting.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

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.

G. New Pronouncements

During the fiscal year ended September 30, 2010 the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54.

NOTE 2: CASH AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The carrying amount of the City's deposits was \$17,560,690 and the bank balance was \$17,851,814 at September 30, 2010. The bank balance is on deposit with various financial institutions and is recorded at cost. The bank balance is categorized as follows:

Amount insured by FDIC or other agencies collateralized with securities held by the agency in the City's name	\$ 632,584
Amounts held by the State Diversified Bond Fund	726,822
Amounts held by the State Investment Pool	<u>16,492,408</u>
Total	<u>\$17,851,814</u>

The following is a recap of the carrying amount:

Cash and investments	\$ 8,668,532
Restricted cash	8,891,549
Fiduciary fund cash	<u>609</u>
	<u>\$17,560,690</u>

Idaho State Code allows the City to invest idle monies in certain categories. No violations of those categories have occurred during the year.

State statutes authorize the City's investments. The City of Sandpoint is authorized to invest in 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, government pool and money market funds consisting of any of these securities listed. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes investments that are uninsured and unregistered, or for which securities are held by the counter party's trust department or agent in the entity's name. The short-term investment pools are not evidenced by securities that exist in physical or book entry form and accordingly, are not categorized for credit risk.

Investments in 2a7-like pools are valued based upon the value of pool shares. 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 is 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. GASB Statement No. 3 as amended and 40 require the City to assign risk categories for its investments, except those in which securities are not used as evidence of the investment.

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The balances above that the City has in the State Investment Pool and DBF are carried at cost which approximates fair market value. The City's portion of the State Investment Pool and DBF had an unrealized gain of \$26,388 and \$1,162 respectively as of September 30, 2010; this unrealized gain has not been recorded by the City.

The City's investments have been classified into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty or by the counterparty's trust department or agent, but not in the City's name.

The following schedule classifies the investments of the City as of September 30, 2010, in the above noted categories:

	Category			Carrying Amount	Fair Market Value
	1	2	3		
Investment in Local					
Government Investment Pool	\$16,492,408	\$ 0	\$ 0	\$16,492,408	\$16,518,796
Diversified Bond Fond	\$726,822	\$ 0	\$ 0	\$726,822	\$727,985

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, 2010:

Amounts due from customers	<u>\$922,583</u>
----------------------------	------------------

NOTE 4: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2010, and are recorded in the debt service fund:

Deferred principal amounts not currently due, but due at a future date	<u>\$259,496</u>
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(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Government activities:					
Capital assets, not being depreciated:					
Land	\$1,294,329	\$158,236		\$ 1	\$1,452,566
Construction in progress	<u>7,820</u>				<u>7,820</u>
Total capital assets, not being depreciated:	<u>1,302,149</u>	<u>158,236</u>		<u>1</u>	<u>1,460,386</u>
Capital assets being depreciated:					
Buildings	2,058,255				2,058,255
Other Improvements	3,037,202	839,223			3,876,425
Machinery and equipment	2,893,562	81,961		3	2,975,526
Infrastructure	<u>6,130</u>				<u>6,130</u>
Total capital assets, being depreciated	<u>7,995,149</u>	<u>921,184</u>		<u>3</u>	<u>8,916,336</u>
Less accumulated depreciation for:					
Buildings	(747,282)	(36,458)			(783,740)
Other Improvements	(708,208)	(171,166)		500	(878,874)
Equipment	(1,678,259)	(257,524)			(1,935,783)
Infrastructure	<u>(1,270)</u>	<u>(82)</u>			<u>(1,352)</u>
Total accumulated depreciation	<u>(3,135,019)</u>	<u>(465,230)</u>		<u>500</u>	<u>(3,599,749)</u>
Total capital assets being depreciated, net	<u>4,860,130</u>	<u>455,954</u>		<u>503</u>	<u>5,316,587</u>
Governmental activities capital assets, net	<u>\$6,162,279</u>	<u>\$614,190</u>	<u>\$</u>	<u>\$504</u>	<u>\$6,776,973</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 5: CHANGES IN FIXED ASSETS (CONTINUED)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 5,433,188				\$ 5,433,188
Construction in progress	<u>7,102,655</u>	<u>\$1,518,855</u>	<u>\$(6,372,283)</u>	<u> </u>	<u>2,249,227</u>
Total capital assets not being depreciated	<u>12,535,843</u>	<u>1,518,855</u>	<u>(6,372,283)</u>	<u> </u>	<u>7,682,415</u>
Capital assets being depreciated:					
Buildings	527,400				527,400
Infrastructure	21,009,878	7,399,502			28,409,380
Machinery & Equipment	1,327,886				1,327,886
Other improvements	<u>260,896</u>	<u> </u>	<u> </u>	<u> </u>	<u>260,896</u>
Total capital assets being depreciated	<u>23,126,060</u>	<u>7,399,502</u>	<u> </u>	<u> </u>	<u>30,525,562</u>
Less accumulated depreciation for:					
Buildings	(125,037)	(10,163)			(125,037)
Infrastructure	(5,079,531)	(487,331)			(5,079,531)
Machinery and equipment	(897,966)	(64,470)			(897,966)
Other improvements	<u>(85,300)</u>	<u>(12,820)</u>	<u> </u>	<u> </u>	<u>(85,300)</u>
Total accumulated depreciation	<u>(6,187,834)</u>	<u>(574,784)</u>	<u> </u>	<u> </u>	<u>(6,762,618)</u>
Total capital assets being depreciated, net	<u>16,938,226</u>	<u>6,824,718</u>	<u> </u>	<u> </u>	<u>23,762,944</u>
Business-type activities capital assets, net	<u>\$29,474,069</u>	<u>\$8,343,573</u>	<u>\$(6,372,283)</u>	<u>\$ </u>	<u>\$31,445,359</u>

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

Governmental activities:	
General government	\$ 37,214
Public safety	127,792
Highway and streets, including depreciation of general infrastructure assets	172,603
Culture and recreation	<u>127,621</u>
Total depreciation expense – governmental activities	<u>\$465,230</u>
Business-type activities:	
Water	\$165,037
Sewer	397,077
Street lights	<u>12,670</u>
Total depreciation expense – business-type activities	<u>\$574,784</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 6: BONDS PAYABLE

Bonds payable at September 30, 2010, are comprised of the following individual revenue bond issues:

1997 Water Revenue Bonds

Payable in annual installments of \$146,624 including interest at 5%.	\$1,782,367
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2007 Sewer Revenue Bonds

Payable in annual installments ranging from \$646,850 to \$651,562 including interest ranging from 4.0% to 4.250%	7,825,000
	<u>\$9,607,367</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2011	396,418	400,875
2012	409,406	384,274
2013	427,530	367,551
2014	445,793	350,087
2015	464,204	331,876
2016 – 2020	2,622,801	1,353,037
2021 – 2025	3,219,273	764,704
2026 – 2027	<u>1,621,942</u>	<u>115,062</u>
	<u>\$9,607,367</u>	<u>\$4,067,466</u>

The above outstanding bonds are secured by a first lien on the net revenues earned by enterprise funds. Net revenues are defined in the bond agreements. The enterprise funds are required to establish bond reserve funds 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 fiscal year.

NOTE 7: SPECIAL ASSESSMENT DEBT

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
LID #32	2011	4.75%	\$ 2,839	\$ 4,017	\$ 6,857
	2012	4.75%	2,974	3,882	6,857
	2013	4.75%	3,115	3,741	6,857
	2014	4.75%	3,263	3,593	6,857
	2015	4.75%	3,418	3,438	6,857
	2016 - 2020	4.75%	19,687	14,596	34,283
	2021 - 2025	4.75%	24,828	9,455	34,283
	2026 - 2029	4.75%	<u>24,451</u>	<u>2,972</u>	<u>27,422</u>
			<u>84,576</u>	<u>45,694</u>	<u>130,273</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

NOTE 7: SPECIAL ASSESSMENT DEBT (CONTINUED)

LID #2002-1	2011	6.00%	\$ 5,532	\$ 1,452	\$ 6,984
	2012	6.00%	5,864	1,120	6,984
	2013	6.00%	6,216	768	6,984
	2014	6.00%	<u>6,590</u>	<u>396</u>	<u>6,984</u>
			<u>24,202</u>	<u>3,736</u>	<u>27,939</u>
LID #2002-2	2011	6.00%	6,686	4,610	11,295
	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	2,885	11,295
	2016 - 2019	6.00%	<u>39,137</u>	<u>6,042</u>	<u>45,180</u>
			<u>76,825</u>	<u>24,830</u>	<u>101,655</u>
LID #2006-01	2011	4.50%	11,260	4,753	16,013
	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	16,013
	2015	4.50%	13,428	2,585	16,013
	2016 - 2018	4.50%	<u>44,017</u>	<u>4,020</u>	<u>48,038</u>
			<u>105,617</u>	<u>22,484</u>	<u>128,103</u>
LID #2007-01	2011	5.50%	5,311	3,265	8,575
	2012	5.50%	5,603	2,972	8,575
	2013	5.50%	5,911	2,664	8,575
	2014	5.50%	6,236	2,339	8,575
	2015	5.50%	6,579	1,996	8,575
	2016 - 2019	5.50%	<u>29,717</u>	<u>4,163</u>	<u>33,879</u>
			<u>59,356</u>	<u>17,399</u>	<u>76,754</u>
Total special assessment bonds payable			<u>\$350,576</u>	<u>\$114,142</u>	<u>\$464,724</u>

NOTE 8: CAPITAL LEASES

The City has entered into three lease agreements as lessee for financing the acquisition of equipment. 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	<u>(42,029)</u>	<u>(14,867)</u>
Total	<u>\$181,660</u>	<u>\$122,367</u>

Future minimum lease payments are as follows:

2011	\$54,225	\$47,809
2012		54,204
2013	7,746	
2014	<u>7,458</u>	
	123,634	47,809
Less amount representing interest	<u>(9,448)</u>	<u>(2,123)</u>
Total	<u>\$114,186</u>	<u>\$ 45,686</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 9: CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$245,906		\$ 6,828	\$239,078	
Special assessment bonds payable	380,620		30,044	350,576	\$31,627
Lease purchase contracts payable	<u>173,639</u>		<u>59,453</u>	<u>114,186</u>	<u>48,843</u>
Governmental activities long-term liabilities	<u>\$800,165</u>		<u>\$96,385</u>	<u>\$703,840</u>	<u>\$80,470</u>
Business-type activities:					
Revenue bonds payable	\$ 9,985,924		\$378,557	\$9,607,367	\$396,418
Lease purchase contracts payable	107,689		62,003	45,686	45,686
Compensated absences	<u>109,751</u>	<u>\$10,207</u>		<u>119,958</u>	
Business-type activities long-term liabilities	<u>\$10,203,364</u>	<u>\$10,207</u>	<u>\$400,560</u>	<u>\$9,773,011</u>	<u>\$442,104</u>

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.

Condensed statement of net assets:

	<u>Water Funds</u>	<u>Sewer Funds</u>
Assets:		
Current assets	\$ 3,402,354	\$ 1,022,388
Restricted assets – cash investments	2,966,599	3,740,173
Capital assets	<u>14,760,213</u>	<u>16,529,645</u>
Total assets	<u>21,129,166</u>	<u>21,292,206</u>
Liabilities:		
Current liabilities	142,793	83,470
Non-current liabilities	<u>93,003</u>	<u>26,955</u>
Total liabilities	<u>235,796</u>	<u>110,425</u>
Net assets:		
Invested in capital assets, net of related debt	14,760,213	16,483,959
Unrestricted	1,988,678	306,980
Restricted	<u>4,144,479</u>	<u>4,390,842</u>
Total net assets	<u>\$20,893,370</u>	<u>\$21,181,781</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2010

NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)

Condensed statement of revenues, expenses and changes in net assets:

	<u>Water Funds</u>	<u>Sewer Fund</u>
Charges for services	\$ 2,717,889	\$ 2,260,872
Depreciation expense	(165,037)	(397,077)
Other operating expenses	<u>(1,006,008)</u>	<u>(750,427)</u>
Operating income	<u>1,546,844</u>	<u>1,113,368</u>
Nonoperating revenues (expenses):		
Investment earnings	15,219	7,370
Capital contributions	169,599	98,135
Operating transfer (out) in	(526,621)	(590,497)
Contributed lines	<u>44,473</u>	
Total nonoperating revenues (expenses)	<u>(297,330)</u>	<u>(484,992)</u>
Change in net assets	<u>1,249,514</u>	<u>628,376</u>
Beginning net assets	<u>19,643,856</u>	<u>20,553,405</u>
Ending net assets	<u>\$20,893,370</u>	<u>\$21,181,781</u>

Condensed statement of cash flows:

	<u>Water Funds</u>	<u>Sewer Funds</u>
Net cash provided (used) by:		
Operating activities	\$1,732,536	\$1,489,350
Noncapital financing activities	(357,022)	(492,362)
Capital and related financial activities	(1,839,151)	(706,141)
Investing activities	<u>15,219</u>	<u>7,370</u>
Net increase	(448,418)	298,217
Beginning cash and cash equivalents	<u>6,163,032</u>	<u>4,154,915</u>
Ending cash and cash equivalents	<u>\$5,714,614</u>	<u>\$4,453,132</u>

NOTE 11: INTERFUND TRANSACTIONS

Interfund transfers as of September 30, 2010:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	1,083,444	48,482
Nonmajor Governmental Funds	48,482	
Enterprise Funds	774,608	1,891,727
Debt service Funds	795,252	662,451
Nonmajor Enterprise Funds		<u>99,126</u>
Total	<u>2,701,786</u>	<u>2,701,786</u>

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2010

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, 2010, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.65% 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 \$544,474, \$491,209 and \$459,649 for the three years ended September 30, 2010, 2009 and 2008, respectively.

NOTE 13: CONTINGENCIES

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

(Continued)

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

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	\$(8,444,109)

NOTE 17: SUBSEQUENT EVENTS

The City of Sandpoint, having gained approval through an election held in November 2009, began the necessary steps to begin multi-million dollar upgrades to the city's water treatment facilities. Bids were solicited, awarded and interim financing has been secured to begin the 2 ½ year project. Final funding will come from USDA, offering a 1-million dollar grant and guaranteed purchase the voter approved bond.

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, 2010

	Final Budgeted Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes and special assessments	\$ 3,245,826	\$ 3,357,618	\$ 111,792
Licenses and permits	253,580	198,807	(54,773)
Grants	1,413,630	370,094	(1,043,536)
Intergovernmental revenues	1,799,950	1,722,993	(76,957)
Interest	103,699	12,410	(91,289)
Charges for services	303,656	228,754	(74,902)
Fines and forfeits	148,100	115,046	(33,054)
Miscellaneous revenue	953,112	2,221	(950,891)
Total revenues	<u>8,221,553</u>	<u>6,007,943</u>	<u>(2,213,610)</u>
EXPENDITURES			
General government	1,977,727	1,727,848	249,879
Public safety	3,393,748	3,030,366	363,382
Highways and streets	1,146,100	1,538,748	(392,648)
Culture and recreation	689,360	641,577	47,783
Capital outlay	1,974,500	59,198	1,915,302
Debt service:			
Principal retirement	66,743	59,453	7,290
Interest expense	8,337	8,264	73
Total expenditures	<u>9,256,515</u>	<u>7,065,454</u>	<u>2,191,061</u>
(Deficiency) of revenues (under) expenditures	<u>(1,034,962)</u>	<u>(1,057,511)</u>	<u>(22,549)</u>
OTHER FINANCING SOURCES			
Transfers in	1,083,444	1,083,444	
Transfers out	<u>(48,482)</u>	<u>(48,482)</u>	
Total other financing sources	<u>1,034,962</u>	<u>1,034,962</u>	
Net change in fund balances		(22,549)	(22,549)
Fund balances - beginning		<u>4,105,853</u>	<u>4,105,853</u>
Fund balances - ending	<u>\$</u>	<u>\$ 4,083,304</u>	<u>\$ 4,083,304</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”.

City of Sandpoint

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS September 30, 2010

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments		\$ 307,979	\$ 307,979
Receivables	\$ 259,572	34,896	294,468
Restricted assets:			
Cash and investments	313,470	1,091,895	1,405,365
Total assets	\$ 573,042	\$ 1,434,770	\$ 2,007,812
LIABILITIES			
Vouchers payable		\$ 39,747	\$ 39,747
Deferred revenue	\$ 259,495	6,391	265,886
Total liabilities	259,495	46,138	305,633
FUND BALANCES			
Restricted	313,547		313,547
Committed		226,361	226,361
Assigned		1,162,271	1,162,271
Total fund balance	313,547	1,388,632	1,702,179
Total liabilities and fund balance	\$ 573,042	\$ 1,434,770	\$ 2,007,812

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2010

	<u>Debt Service Funds</u>	<u>Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Taxes and special assessments	\$ 48,081	\$ 134,704	\$ 182,785
Impact fees		108,404	108,404
Interest	695	3,157	3,852
Charges for services		317,900	317,900
Grants		203,239	203,239
Miscellaneous revenues		18,660	18,660
Total revenues	<u>48,776</u>	<u>786,064</u>	<u>834,840</u>
EXPENDITURES			
Culture and recreation		298,389	298,389
Capital projects		1,020,281	1,020,281
Debt service:			
Principal retirement	30,044		30,044
Interest expense	19,678		19,678
Total expenditures	<u>49,722</u>	<u>1,318,670</u>	<u>1,368,392</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(946)</u>	<u>(532,606)</u>	<u>(533,552)</u>
OTHER FINANCING SOURCES			
Transfers in		48,482	48,482
Total other financing sources		<u>48,482</u>	<u>48,482</u>
Net change in fund balances	(946)	(484,124)	(485,070)
Fund balances - beginning	<u>314,493</u>	<u>1,872,756</u>	<u>2,187,249</u>
Fund balances - ending	<u>\$ 313,547</u>	<u>\$ 1,388,632</u>	<u>\$ 1,702,179</u>

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
September 30, 2010**

	<u>LID #32</u>	<u>LID #2002-01</u>
ASSETS		
Receivables:		
Special assessments	\$ 34,472	\$ 19,218
Interest	52	2
Restricted assets:		
Cash and investments	<u>220,706</u>	<u>7,349</u>
Total assets	<u>\$ 255,230</u>	<u>\$ 26,569</u>
LIABILITIES		
Deferred revenue	<u>\$ 34,472</u>	<u>\$ 19,218</u>
Total liabilities	<u>34,472</u>	<u>19,218</u>
FUND BALANCES		
Restricted for debt service	<u>220,758</u>	<u>7,351</u>
Total liabilities and fund balances	<u>\$ 255,230</u>	<u>\$ 26,569</u>

<u>LID #2002-02</u>	<u>LID #2006-01</u>	<u>LID #2007-01</u>	<u>LID Guarantee</u>	<u>Total</u>
\$ 61,635 3	\$ 84,553 6	\$ 59,618 2	\$ 11	\$ 259,496 76
12,366	26,321	462	46,266	313,470
<u>\$ 74,004</u>	<u>\$ 110,880</u>	<u>\$ 60,082</u>	<u>\$ 46,277</u>	<u>\$ 573,042</u>
<u>\$ 61,634</u>	<u>\$ 84,553</u>	<u>\$ 59,618</u>		<u>259,495</u>
61,634	84,553	59,618		259,495
12,370	26,327	464	\$ 46,277	313,547
<u>\$ 74,004</u>	<u>\$ 110,880</u>	<u>\$ 60,082</u>	<u>\$ 46,277</u>	<u>\$ 573,042</u>

City of Sandpoint
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2010

	LID #32	LID # 2002-01
REVENUES		
Special assessments	\$ 2,465	\$ 5,673
Interest	483	20
Total revenues	2,948	5,693
EXPENDITURES		
Debt service:		
Principal	2,710	5,219
Interest	4,146	1,765
Total expenditures	6,856	6,984
(Deficiency) excess of revenues (under) over expenditures	(3,908)	(1,291)
OTHER FINANCING SOURCES		
Net change in fund balances	(3,908)	(1,291)
Fund balances - beginning	224,666	8,642
Fund balances - ending	\$ 220,758	\$ 7,351

<u>LID # 2002-02</u>	<u>LID # 2006-01</u>	<u>LID # 2007-01</u>	<u>LID Guarantee</u>	<u>Total</u>
\$ 11,404	\$ 19,582	\$ 8,957		\$ 48,081
30	61	2	\$ 99	695
<u>11,434</u>	<u>19,643</u>	<u>8,959</u>	<u>99</u>	<u>48,776</u>
6,307	10,775	5,033		30,044
4,988	5,238	3,541		19,678
<u>11,295</u>	<u>16,013</u>	<u>8,574</u>		<u>49,722</u>
139	3,630	385	99	(946)
139	3,630	385	99	(946)
12,231	22,697	79	46,178	314,493
<u>\$ 12,370</u>	<u>\$ 26,327</u>	<u>\$ 464</u>	<u>\$ 46,277</u>	<u>\$ 313,547</u>

City of Sandpoint

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS September 30, 2010

	Recreation	Impact Fees	Parks Improvement	Total
ASSETS				
Cash and investments	\$ 307,979			\$ 307,979
Receivables:				
Taxes	8,040			8,040
Accounts	71	\$ 130	\$ 26,655	26,856
Restricted assets:				
Cash and investments, at cost		557,481	534,414	1,091,895
Total assets	\$ 316,090	\$ 557,611	\$ 561,069	\$ 1,434,770
 LIABILITIES				
Vouchers payable	\$ 11,681		\$ 28,066	\$ 39,747
Deferred revenue	6,391			6,391
Total liabilities	18,072		28,066	46,138
 FUND BALANCES				
Committed	23,361	\$ 190,000	13,000	226,361
Assigned	274,657	367,611	520,003	1,162,271
Total fund balances	298,018	557,611	533,003	1,388,632
 Total liabilities and fund balances	\$ 316,090	\$ 557,611	\$ 561,069	\$ 1,434,770

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS For the Year Ended September 30, 2010

	<u>Recreation</u>	<u>Impact Fees</u>	<u>Parks Improvement</u>	<u>Total</u>
REVENUES				
Property taxes	\$ 134,704			\$ 134,704
Impact fees		\$ 108,404		108,404
Interest	668	1,318	\$ 1,171	3,157
Services	88,379		229,521	317,900
Grants	3,000		200,239	203,239
Miscellaneous	1,122		17,538	18,660
Total revenues	<u>227,873</u>	<u>109,722</u>	<u>448,469</u>	<u>786,064</u>
EXPENDITURES				
Culture and recreation	241,248		57,141	298,389
Capital outlay		509,292	510,989	1,020,281
Total expenditures	<u>241,248</u>	<u>509,292</u>	<u>568,130</u>	<u>1,318,670</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(13,375)</u>	<u>(399,570)</u>	<u>(119,661)</u>	<u>(532,606)</u>
OTHER FINANCING SOURCES				
Transfers in	48,482			48,482
Total other financing sources	<u>48,482</u>			<u>48,482</u>
Net change in fund balances	35,107	(399,570)	(119,661)	(484,124)
Fund balances - beginning	<u>262,911</u>	<u>957,181</u>	<u>652,664</u>	<u>1,872,756</u>
Fund balances - ending	<u>\$ 298,018</u>	<u>\$ 557,611</u>	<u>\$ 533,003</u>	<u>\$ 1,388,632</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, 2010

	Street Lights	Sanitation	Total
ASSETS			
Cash and investments	\$ 149,582	\$ 85,632	\$ 235,214
Receivables	19,168	43,830	62,998
Fixed assets, net of depreciation	155,501		155,501
Total assets	324,251	129,462	453,713
 LIABILITIES			
Accounts payable and accrued expenses	8,551	24,134	32,685
Total liabilities	8,551	24,134	32,685
 NET ASSETS			
Invested in capital assets (net of related debt)	155,501		155,501
Restricted	9,879		9,879
Unrestricted	150,320	105,328	255,648
Total net assets	\$ 315,700	\$ 105,328	\$ 421,028

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS NONMAJOR PROPRIETARY FUNDS For the Year Ended September 30, 2010

	Street Lights	Sanitation	Total
Operating revenues:			
Charges for services	\$ 147,781	\$ 360,043	\$ 507,824
Total operating revenues	147,781	360,043	507,824
Operating expenses:			
Contractual services		280,876	280,876
Heat, lights, and power	91,913	6,199	98,112
Maintenance	6,387		6,387
Depreciation	12,670		12,670
Total operating expenses	110,970	287,075	398,045
Operating income	36,811	72,968	109,779
Nonoperating revenues:			
Interest income	305	177	482
Total nonoperating revenues	305	177	482
Income before transfers	37,116	73,145	110,261
Transfers out	(33,734)	(65,392)	(99,126)
Change in net assets	3,382	7,753	11,135
Total net assets - beginning	312,318	97,575	409,893
Total net assets - ending	\$ 315,700	\$ 105,328	\$ 421,028

City of Sandpoint

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2010**

	Street Lights	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 147,400	\$ 366,869	\$ 514,269
Payments to suppliers	(98,721)	(286,772)	(385,493)
Net cash provided by operating activities	48,679	80,097	128,776
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers (out)	(33,734)	(65,392)	(99,126)
Net cash (used) by noncapital financing activities	(33,734)	(65,392)	(99,126)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income net,	305	177	482
Net cash provided by investing activities	305	177	482
Net increase in cash and investments	15,250	14,882	30,132
Cash and investments - October 1	134,332	70,750	205,082
Cash and investments - September 30	\$ 149,582	\$ 85,632	\$ 235,214
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 36,811	\$ 72,968	\$ 109,779
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	(381)	6,826	6,445
(Decrease) increase in vouchers payable	(421)	303	(118)
Net cash provided by operating activities	\$ 48,679	\$ 80,097	\$ 128,776

FINANCIAL SECTION

REPORT REQUIRED BY THE GAO



Magnuson, McHugh
& Company, P.A.
CPAs and Consultants

**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, 2010, which collectively comprise the City of Sandpoint's basic financial statements and have issued our report thereon dated May 5, 2011. 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*.

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
May 5, 2011