

CITY OF SANDPOINT

FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

CITY OF SANDPOINT
September 30, 2015

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sandpoint, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Sandpoint's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Sandpoint's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Sandpoint Urban Renewal Agency which represent 100 percent, of the assets, net position and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sandpoint Urban Renewal Agency discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sandpoint, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sandpoint's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016 on our consideration of City of Sandpoint's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sandpoint's internal control over financial reporting and compliance.

Magnuson, McHugh & Company, P.A.

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

February 29, 2016

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the accompanying *Notes* which are a part of this audit report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Sandpoint exceeded its liabilities at the close of the most recent fiscal year by \$63,183,842. Of this amount \$13,835,972 represents the unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Sandpoint's total net position increased \$1,759,010; net of the prior period adjustment of \$2,337,802 related to the implementation of GASB 68.
- As of the close of the current fiscal year, the City of Sandpoint's governmental funds reported combined fund balance of \$8,155,921, an increase of \$592,908 in comparison with the prior fiscal year.
- The Parks Capital Improvement Fund is no longer being reported in the category of "Other Governmental Funds". It is now considered a Major Fund of the City and financial information of this fund is broken out and reported in a separate column. This is due to the fund's assets meeting or exceeding an established threshold in GASB reporting regulations.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$4,259,873, or approximately 70% of the total general fund expenditures.
- The Governmental Accounting Standards Board introduced a statement (GASB 68) that requires the City to reflect, on our financial statements, the City's proportionate share of the unfunded actuarial accrued liability of PERSI as a liability. While this directly affects the City's Net Position on our financial statements, it is merely a reporting number and does not directly affect our cash or debt load.
- The City of Sandpoint's total outstanding long-term debt decreased from the prior fiscal year by \$969,959. This is due to regularly scheduled payments to reduce the city's bond indebtedness.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

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

The basic governmental fund financial statements can be found on pages 19 – 22 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 23 – 25 of this report.

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

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

The basic fiduciary fund financial statements can be found on page 26 of this report.

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

The notes to the financial statements can be found on pages 27 – 53 of this report.

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

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 58 – 70 of this report.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

GOVERNMENTAL WIDE OVERALL FINANCIAL ANALYSIS

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Sandpoint, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$63,183,842 at the close of the most recent fiscal year.

Table1

STATEMENTS OF NET POSITION September 30, 2015 and 2014

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 9,546,034	\$ 8,796,894	\$ 22,519,433	\$ 20,530,581	\$ 32,065,467	\$ 29,327,475
Capital assets	8,231,283	7,919,326	50,763,554	51,048,380	58,994,837	58,967,706
Total assets	<u>17,777,317</u>	<u>16,716,220</u>	<u>73,282,987</u>	<u>71,578,961</u>	<u>91,060,304</u>	<u>88,295,181</u>
Deferred outflow of resources						
Proportionate share of collective deferred outflows of resources	816,190	-	219,078	-	1,035,268	-
Total deferred outflow of resources	<u>816,190</u>	<u>-</u>	<u>219,078</u>	<u>-</u>	<u>1,035,268</u>	<u>-</u>
Long-term liabilities outstanding	516,155	514,146	23,779,150	24,751,118	24,295,305	25,265,264
Other liabilities	2,171,785	908,151	982,579	696,934	3,154,364	1,605,085
Total liabilities	<u>2,687,940</u>	<u>1,422,297</u>	<u>24,761,729</u>	<u>25,448,052</u>	<u>27,449,669</u>	<u>26,870,349</u>
Deferred inflow of resources						
Proportionate share of collective deferred inflows of resources	1,127,702	-	334,359	-	1,462,061	-
Total deferred inflow of resources	<u>1,127,702</u>	<u>-</u>	<u>334,359</u>	<u>-</u>	<u>1,462,061</u>	<u>-</u>
Net position:						
Net investment in capital assets	8,037,611	7,741,984	26,860,034	26,174,735	34,897,645	33,916,719
Restricted	303,079	318,614	14,147,146	14,405,234	14,450,225	14,723,848
Unrestricted	6,437,175	7,233,325	7,398,797	5,550,940	13,835,972	12,784,265
Total net position	<u>\$ 14,777,865</u>	<u>\$ 15,293,923</u>	<u>\$ 48,405,977</u>	<u>\$ 46,130,909</u>	<u>\$ 63,183,842</u>	<u>\$ 61,424,832</u>

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

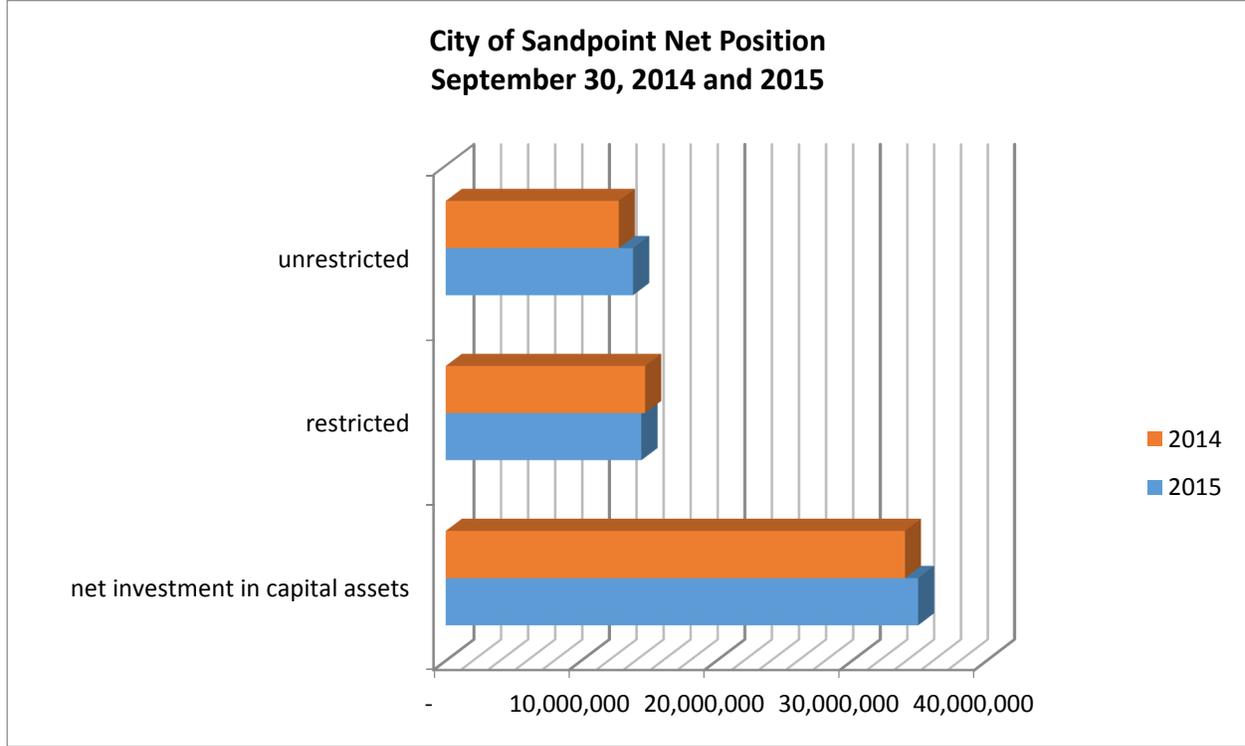
An additional portion of the City of Sandpoint's net position (23%) represents resources that are subject to external restrictions on how they may be used. The remaining balance \$13,835,972 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

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

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)



The City of Sandpoint's overall net position increased \$1,759,010 from the prior fiscal year. The reason for this overall increase is discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for the governmental activities decreased \$516,058 from the prior fiscal year for an ending balance of \$14,777,865 compared to prior year's balance of \$15,293,923. While the City's net investment in capital assets grew slightly, the decrease in the overall net position of governmental activities is a direct result of the GASB 68 requirement to reflect our proportionate share of the unfunded actuarial accrued liability of PERSI on our financial statements.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

Table 2

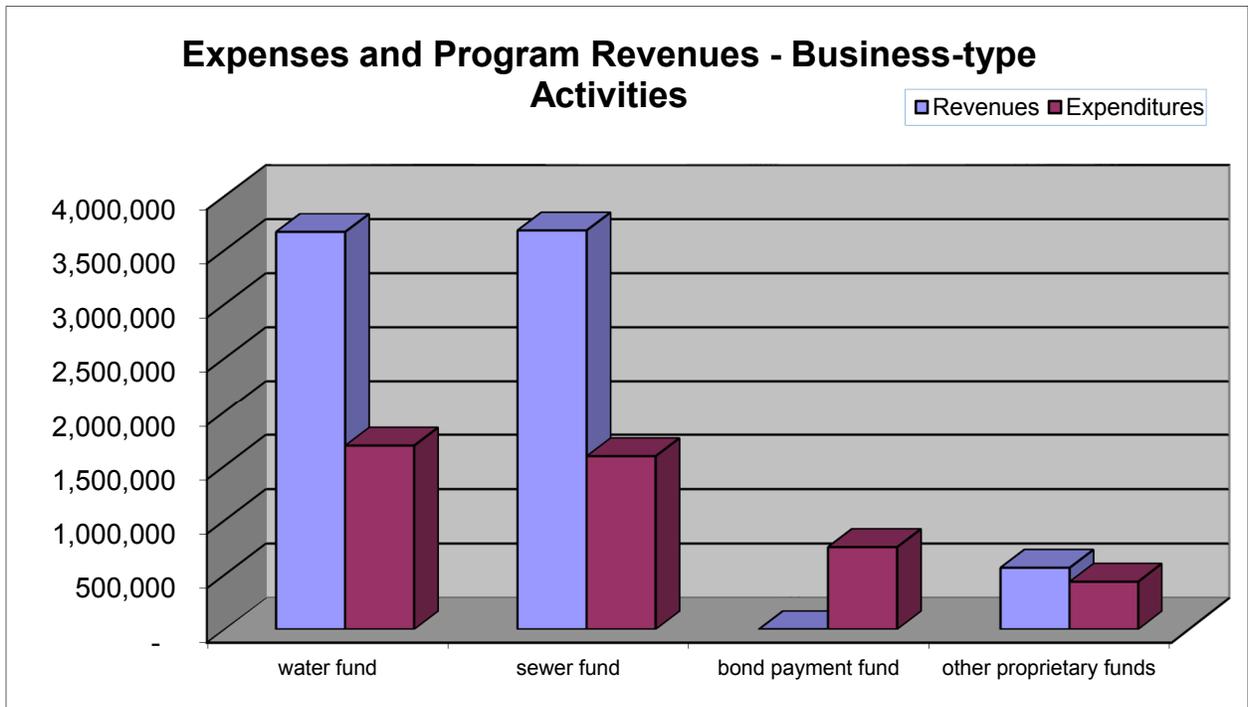
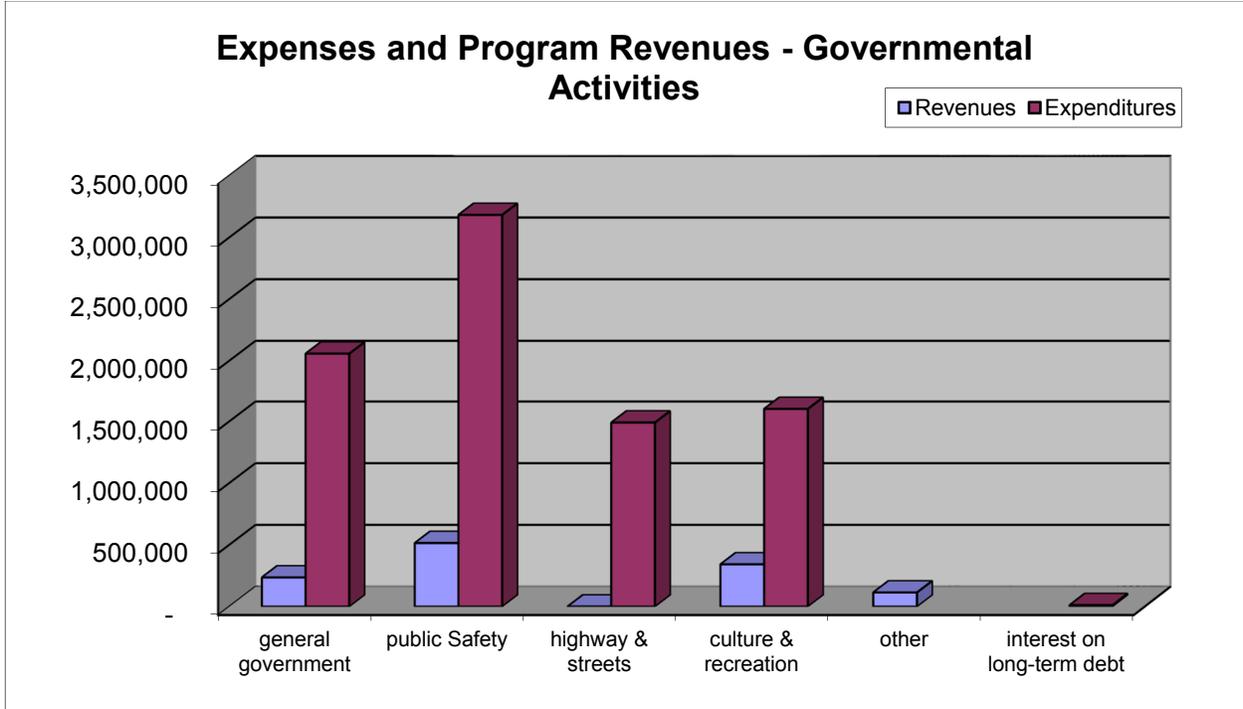
CHANGES IN NET POSITION September 30, 2015 and 2014

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 1,205,404	\$ 1,430,228	\$ 7,917,707	\$ 7,342,240	\$ 9,123,111	\$ 8,772,468
Capital Grants	590,657	233,620	749,562	1,727,577	1,340,219	1,961,197
General revenues:						
Property taxes & special assessments	4,093,988	3,822,496	-	-	4,093,988	3,822,496
Investment Earnings	15,708	8,284	50,964	46,571	66,672	54,855
Miscellaneous	33,114	29,699	-	-	33,114	29,699
Intergovernmental	1,883,004	1,972,467	-	-	1,883,004	1,972,467
Gain on disposal of assets	-	900	3,500	(7,750)	3,500	(6,850)
Total revenues	<u>7,821,875</u>	<u>7,497,694</u>	<u>8,721,733</u>	<u>9,108,638</u>	<u>16,543,608</u>	<u>16,606,332</u>
Expenses:						
General government	2,057,003	1,870,314	-	-	2,057,003	1,870,314
Public safety	3,182,389	3,141,638	-	-	3,182,389	3,141,638
Highways & streets	1,490,332	1,349,789	-	-	1,490,332	1,349,789
Culture & recreation	1,600,810	1,231,525	-	-	1,600,810	1,231,525
Interest on long-term debt	11,284	13,393	-	-	11,284	13,393
Change in net pension liability	69,709	-	-	-	69,709	-
Unallocated actual PERSI contributions	(434,298)	-	-	-	(434,298)	-
Water	-	-	1,687,089	1,698,107	1,687,089	1,698,107
Sewer	-	-	1,590,023	1,564,180	1,590,023	1,564,180
Bond payment fund	-	-	755,092	817,062	755,092	817,062
Bond construction fund	-	-	-	-	-	-
Other proprietary funds	-	-	437,363	426,334	437,363	426,334
Total expenses	<u>7,977,229</u>	<u>7,606,659</u>	<u>4,469,567</u>	<u>4,505,683</u>	<u>12,446,796</u>	<u>12,112,342</u>
(Decreases) Increases in net assets before transfers	(155,354)	(108,965)	4,252,166	4,602,955	4,096,812	4,493,990
Transfers	1,339,331	1,199,806	(1,339,331)	(1,199,806)	-	-
Increase in net position	<u>1,183,977</u>	<u>1,090,841</u>	<u>2,912,835</u>	<u>3,403,149</u>	<u>4,096,812</u>	<u>4,493,990</u>
Net position – beginning	15,293,923	14,203,082	46,130,909	42,727,757	61,424,832	56,930,839
Prior period adjustment	(1,700,035)	-	(637,767)	-	(2,337,802)	-
Net position – ending	<u>\$ 14,777,865</u>	<u>\$ 15,293,923</u>	<u>\$ 48,405,977</u>	<u>\$ 46,130,906</u>	<u>\$ 63,183,842</u>	<u>\$ 61,424,829</u>

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONCLUDED)

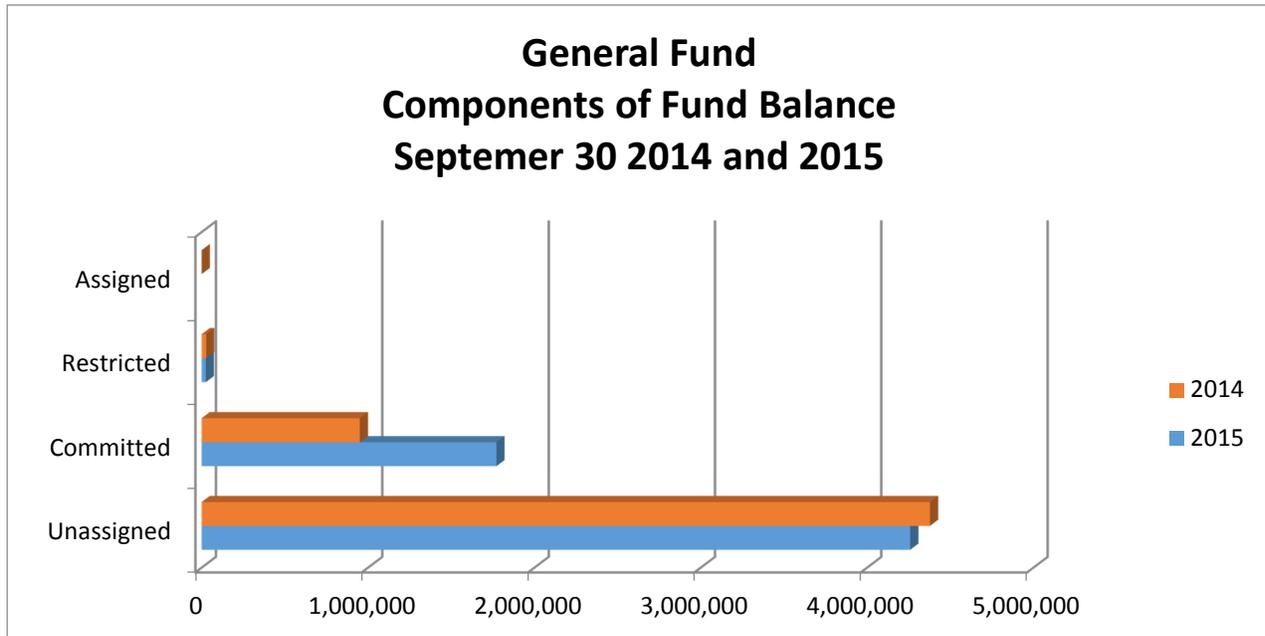
Business-type activities. For the City of Sandpoint's business-type activities, the results for the current fiscal year were positive in that the overall net position at fiscal year-end was \$48,405,977. The total increase in net position for business-type activities (water, sewer, street lights and garbage) was \$2,275,068 or 4.93% from the prior fiscal year. The growth, in large part, is attributed to increases in our reserves due to delays in major projects and improvements to the water and wastewater treatment plant pending permitting.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

At September 30, 2015 the City of Sandpoint's governmental funds reported combined fund balances of \$8,155,921, an increase of \$592,908 in comparison with the prior year. Approximately 52% of this amount (\$4,259,873) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form (\$0), 2) legally required to be maintained intact (\$0), restricted for a particular purpose (\$317,790), 4) committed for particular purposes (\$2,608,495), or 5) assigned for particular purposes (\$973,764).



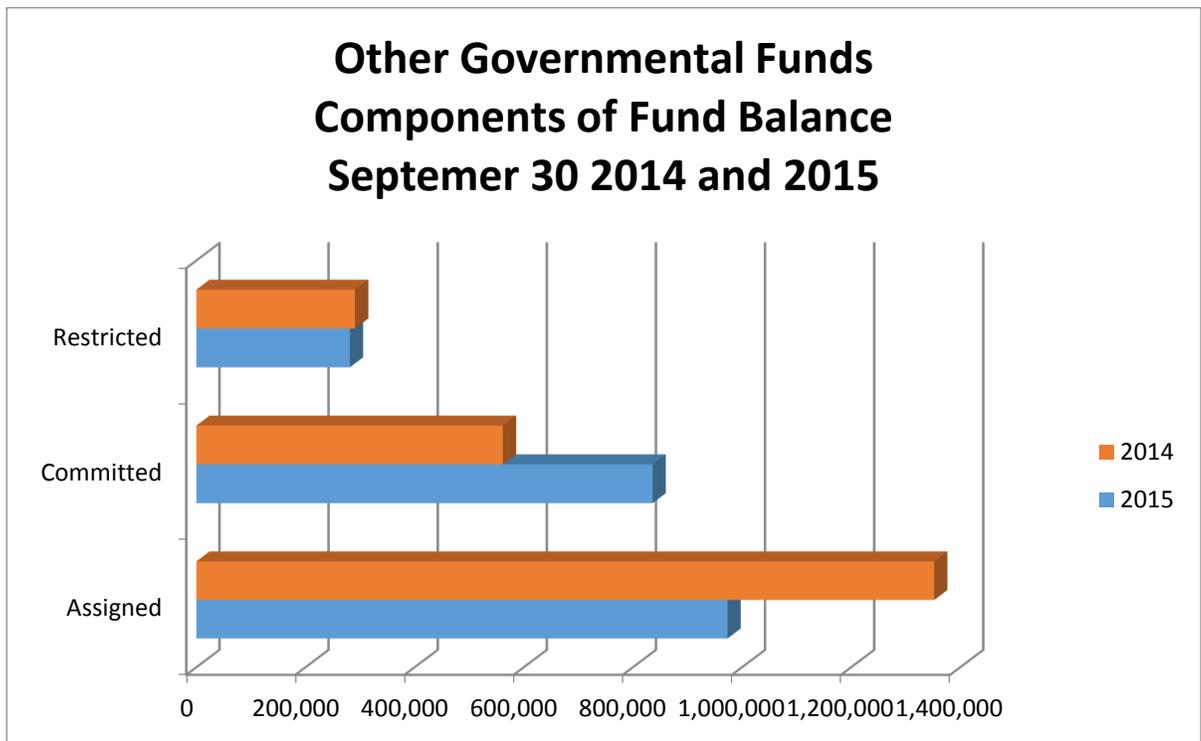
City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONCLUDED)

The general fund is the chief operating fund of the City of Sandpoint. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,259,873 while the total fund balance reached \$6,056,982. 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 56% of the total general fund expenditures, while total fund balance represents 80% of that same amount.

The fund balance of the City of Sandpoint's general fund increased by \$699,551 during the current fiscal year. This is due to a slight increase in interest income, grant funding and paid property taxes this year, all signs of a positive change in the economy.



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

Unrestricted net position of the Water Fund at the end of the year was \$4,485,788 and the Sewer Fund was \$2,518,881. The total growth in net position for both funds was \$1,158,618 and \$951,485, respectively. As noted earlier in the discussion of business-type activities, the increase for the Water Fund results from an increase in current assets (cash and receivables) due to delays in projects and capital improvements waiting for permitting reviews.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

<u>Revenue source</u>	<u>Estimated revenues</u>	<u>Actual revenues</u>	<u>Difference</u>
Taxes & Special Assessments	\$ 3,901,175	\$ 3,939,919	\$ 38,744
License & Permits	\$ 185,900	\$ 235,458	\$ 49,558
Grants	\$ 8,203,150	\$ 303,771	\$ (7,899,379)
Charges for services	\$ 384,682	\$ 420,312	\$ 35,630
Miscellaneous revenues	\$ 742,436	\$ 5,472	\$ (736,964)
<u>Expenses</u>	<u>Estimated expenses</u>	<u>Actual expenses</u>	<u>Difference</u>
General Government	\$ 2,585,680	\$ 1,952,086	\$ 633,594
Public Safety	\$ 3,452,700	\$ 3,032,215	\$ 420,485
Highway and streets	\$ 2,131,397	\$ 1,328,760	\$ 802,637
Capital outlay	\$ 7,878,347	\$ 476,785	\$ 7,401,562

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

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

Expense variances are apparent in several categories where the actual expenditures are less than estimated. This is in part due to the lack of grant funding for several capital outlay projects. Cutbacks of personnel and expenses in the street department and capital outlay were in direct response to the withholding of funds from the Independent Highway District and pending outcome of litigation. Public safety savings were related to grants that were not awarded, employee turnovers in a few departments producing salary savings and lower costs in professional services.

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, 2015 decreased to \$58,998,030 (net of accumulated depreciation) from \$59,015,480. This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, right-of-ways and the water and sewer treatment facilities. The total decrease in capital assets for the current fiscal year was approximately .02% or \$17,450. This is largely due to fully depreciated assets.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table 3

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

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,300,319	\$ 2,272,751	\$ 6,029,767	\$ 6,029,767	\$ 8,330,086	\$ 8,302,518
Construction in progress	695,038	204,847	234,859	194,973	929,897	399,820
Buildings	1,107,226	1,143,908	341,383	351,546	1,448,609	1,495,454
Other Improvements	3,341,602	3,480,069	43,223,420	43,471,453	46,565,022	46,951,522
Machinery and equipment	785,840	860,992	829,574	882,895	1,615,414	1,743,887
Infrastructure	4,451	4,533	104,551	117,746	109,002	122,279
Total	<u>\$ 8,234,476</u>	<u>\$ 7,967,100</u>	<u>\$ 50,763,554</u>	<u>\$ 51,048,380</u>	<u>\$ 58,998,030</u>	<u>\$ 59,015,480</u>

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

- Park amenities \$17,077
- Parks lawn sweeper, aerator \$31,014
- Fire extrication equipment \$20,119
- Fire apparatus (ladder truck) \$293,781
- New police vehicles and mobile data equipment \$90,306
- Street, sidewalk, and pathway improvements \$54,301
- Right-of-way land purchases \$27,568
- Selkirk Interpretive Center \$162,627
- Water reservoir projects and Kootenai mains \$624,201
- Lining of sewer mains, methane generator, secondary clarifier \$ 139,913
- Wastewater boom truck \$69,146

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

Long-term Debt –At the end of the current fiscal year, the total City of Sandpoint principal bond indebtedness was \$23,669,581. Of this amount, \$23,487,542 is backed by the full faith and credit of the government and \$182,034 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Sandpoint's long-term debt obligations comprises of compensated absences and capital leases.

Table 4

CITY OF SANDPOINT'S OUTSTANDING DEBT

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Compensated absences	\$ 319,290	\$ 289,030	\$ 146,650	\$ 157,232	\$ 465,940	\$ 446,262
Special assessments	182,034	213,858	-	-	182,034	213,858
Lease purchase contracts	14,831	11,258	144,953	247,344	159,784	258,602
Revenue bonds	-	-	23,487,547	24,346,542	23,487,547	24,346,542
Total	<u>\$ 516,155</u>	<u>\$ 514,146</u>	<u>\$ 23,779,150</u>	<u>\$ 24,751,118</u>	<u>\$ 24,295,305</u>	<u>\$ 25,265,264</u>

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

The City of Sandpoint's total indebtedness decreased by \$969,959, (-3.8%) during the current fiscal year. The reason for the decrease is due to regular annual payments that reduced the principal due and capital leases paid in full.

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

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

The following economic factors currently affect the City of Sandpoint and were considered in developing the 2015-2016 fiscal year budgets.

- Litigation with the Independent Highway District to compel compliance with a 2003 agreement that provided funding for Sandpoint streets has necessitated a conservative approach limiting projects to those that are short-near-term and avoiding purchases of equipment and personnel.
- Water and sewer rates remain at the rate set in December 2014.
- Property taxes were budgeted for the future 2015-2016 fiscal year at \$3,731,406, an increase of \$127,241 over last year's property tax amount to fund increases in recurring expenditures and obligations. The budget also included projections for a change in administration.
- Fees for specific services are reviewed annually and increased as needed to accommodate the increased cost of providing those services. (e.g. parking fees, moorage fees, parade/public assembly permits, and parking tickets. All fees remained the same with the exception of Tourist Home License Renewal, which increased to \$25.00 from \$19.00
- Health care and manufacturing jobs that include aerospace and high tech businesses have been major players in the City of Sandpoint's job market. Kochava, Bio-medical Innovations, Quest, Litehouse and Tamarack have increased their workforce.
- The new budget includes the money to complete the re-design the City's website, making it more user-friendly and to provide public access to many of the departmental processes and forums.
- The City continues to move forward planning and developing plans to redesign the downtown streets and to bring dark fiber to Sandpoint.
- Departmental maintenance and operation budgets were held at the same levels as the prior year, in most departments to accommodate our conservative approach to weathering the economic downturn and the litigation over the funding of our street repairs and maintenance.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2015

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

The City of Sandpoint has budgeted to use \$2,293,336 of the fund balance to fund the governmental funds budget for the 2015-2016 fiscal year.

Requests for Information

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

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

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Sandpoint

STATEMENT OF NET POSITION
September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
ASSETS				
Cash and investments	\$ 7,910,342	\$ 8,687,786	\$ 16,598,128	\$ 2,813,113
Receivables	1,130,867	1,243,011	2,373,878	951,820
Internal balances	(3,193)	3,193	-	-
Inventory	-	125,060	125,060	-
Restricted assets:				
Cash and investments	504,825	12,460,383	12,965,208	125,900
Capital assets not being depreciated:				
Land	2,300,319	6,029,767	8,330,086	-
Construction in progress	695,038	234,859	929,897	-
Capital assets, net of accumulated depreciation	5,239,119	44,498,928	49,738,047	-
Total assets	<u>17,777,317</u>	<u>73,282,987</u>	<u>91,060,304</u>	<u>3,890,833</u>
DEFERRED OUTFLOWS OF RESOURCES				
Proportionate share of collective deferred outflows of resources	816,190	219,078	1,035,268	-
Total deferred outflows of resources	<u>816,190</u>	<u>219,078</u>	<u>1,035,268</u>	<u>-</u>
LIABILITIES				
Accounts payable and accrued expenses	1,026,888	191,424	1,218,312	349,629
Unearned property taxes	-	-	-	935,327
Payable from restricted assets:				
Customer deposits	120,699	1,761	122,460	-
Accrued interest payable	264	271,020	271,284	-
Noncurrent liabilities:				
Compensated absences - due within one year	154,822	60,848	215,670	-
Compensated absences - due in more than one year	164,468	85,802	250,270	-
Due within one year	40,778	993,316	1,034,094	208,474
Due in more than one year	156,087	22,639,184	22,795,271	1,035,090
Net pension liability	1,023,934	518,374	1,542,308	-
Total liabilities	<u>2,687,940</u>	<u>24,761,729</u>	<u>27,449,669</u>	<u>2,528,520</u>
DEFERRED INFLOWS OF RESOURCES				
Proportionate share of collective deferred inflows of resources	1,127,702	334,359	1,462,061	-
Total deferred inflows of resources	<u>1,127,702</u>	<u>334,359</u>	<u>1,462,061</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,037,611	26,860,034	34,897,645	-
Restricted for:				
Contributions	24,998	-	24,998	-
Debt	278,081	3,288,022	3,566,103	-
Capital improvements	-	8,598,317	8,598,317	-
Inflow and infiltration	-	1,924,918	1,924,918	-
Kootenai/Ponderay	-	82,710	82,710	-
Watershed protection	-	213,179	213,179	-
Other	-	40,000	40,000	-
Downtown district	-	-	-	(176,712)
Northern district	-	-	-	1,539,025
Unrestricted	6,437,175	7,398,797	13,835,972	-
Total net position	<u>\$ 14,777,865</u>	<u>\$ 48,405,977</u>	<u>\$ 63,183,842</u>	<u>\$ 1,362,313</u>

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

City of Sandpoint

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants
Governmental activities:			
General government	\$ 2,057,003	\$ 235,753	\$ 50,000
Public safety	3,182,389	513,791	303,771
Highways and streets	1,490,332	-	-
Culture and recreation	1,600,810	341,653	236,886
Other	-	114,207	-
Interest on long-term debt	11,284	-	-
Change in net pension liability	69,709	-	-
Unallocated actual PERSI contributions	(434,298)	-	-
Total governmental activities	7,977,229	1,205,404	590,657
Business-type activities:			
Water	1,687,089	3,669,384	583,850
Sewer	1,590,023	3,683,243	165,712
Bond payment fund	755,092	-	-
Other proprietary funds	437,363	565,080	-
Total business-type activities	4,469,567	7,917,707	749,562
Total primary government	\$ 12,446,796	\$ 9,123,111	\$ 1,340,219

Component units:
 Community development
 Interest expense
 Total component unit

General revenues:
 Property taxes and special assessments
 Investment earnings
 Miscellaneous
 Intergovernmental revenue
 Gain on disposal of assets
 Transfers
 Total general revenues and transfers

 Change in net position
 Net position - beginning
 Prior period adjustment
 Net position - ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
\$ (1,771,250)	\$ -	\$ (1,771,250)	\$ -
(2,364,827)	-	(2,364,827)	-
(1,490,332)	-	(1,490,332)	-
(1,022,271)	-	(1,022,271)	-
114,207	-	114,207	-
(11,284)	-	(11,284)	-
(69,709)	-	(69,709)	-
434,298	-	434,298	-
<u>(6,181,168)</u>	<u>-</u>	<u>(6,181,168)</u>	<u>-</u>
-	2,566,145	2,566,145	-
-	2,258,932	2,258,932	-
-	(755,092)	(755,092)	-
-	127,717	127,717	-
<u>-</u>	<u>4,197,702</u>	<u>4,197,702</u>	<u>-</u>
<u>(6,181,168)</u>	<u>4,197,702</u>	<u>(1,983,466)</u>	<u>-</u>
			960,179
			<u>49,524</u>
			<u>1,009,703</u>
4,093,988	-	4,093,988	1,011,576
15,708	50,964	66,672	-
33,114	-	33,114	2,713
1,883,004	-	1,883,004	-
-	3,500	3,500	-
1,339,331	(1,339,331)	-	-
<u>7,365,145</u>	<u>(1,284,867)</u>	<u>6,080,278</u>	<u>1,014,289</u>
1,183,977	2,912,835	4,096,812	4,586
15,293,923	46,130,909	61,424,832	1,357,727
<u>(1,700,035)</u>	<u>(637,767)</u>	<u>(2,337,802)</u>	<u>-</u>
<u>\$ 14,777,865</u>	<u>\$ 48,405,977</u>	<u>\$ 63,183,842</u>	<u>\$ 1,362,313</u>

City of Sandpoint

**GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2015**

	<u>General</u>	<u>Parks Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 5,646,880	\$ 1,020,480	\$ 826,996	\$ 7,494,356
Receivables	731,205	20,440	147,214	898,859
Due from other governments	232,008	-	-	232,008
Restricted assets:				
Cash and investments	219,772	10,711	274,342	504,825
Total assets	<u>\$ 6,829,865</u>	<u>\$ 1,051,631</u>	<u>\$ 1,248,552</u>	<u>\$ 9,130,048</u>
LIABILITIES				
Vouchers payable	\$ 546,472	\$ 52,582	\$ 11,848	\$ 610,902
Due to other funds	-	-	3,193	3,193
Payable from restricted assets:				
Customer deposits	115,923	-	4,776	120,699
Total liabilities	<u>662,395</u>	<u>52,582</u>	<u>19,817</u>	<u>734,794</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	110,488	-	5,206	115,694
Unavailable revenue-special assessments	-	-	123,639	123,639
Total deferred inflows of resources	<u>110,488</u>	<u>-</u>	<u>128,845</u>	<u>239,333</u>
FUND BALANCES:				
Restricted for:				
Streets	-	-	-	-
Art Contributions	2,003	-	-	2,003
Debt	-	-	278,081	278,081
Citizen's pride Contributions	100	-	-	100
Parks non-res dev fee	-	10,711	-	10,711
Police Contributions	4,159	-	-	4,159
RCT Property Tax Relief	18,736	-	-	18,736
Committed to:				
Insurance	156,736	-	-	156,736
Downtown Parking Dedicated Funds	32,078	-	-	32,078
In Lieu of Sidewalk Dedicated Funds	5,460	-	-	5,460
Memorial Field	-	120,884	-	120,884
FY 15 Recreation Budget	-	-	6,499	6,499
FY15 Capital Improvement Fund (impact fees)	75,000	-	75,000	150,000
FY15 Parks Improvement Fund Budget	-	634,000	-	634,000
FY15 General Fund Budget	1,502,837	-	-	1,502,837
Assigned to:				
Bonner business center	-	-	25,739	25,739
Recreation fund	-	-	309,407	309,407
Capital improvement fund (impact fees)	-	-	405,164	405,164
Parks capital improvement fund	-	233,454	-	233,454
Unassigned:				
General fund	4,259,873	-	-	4,259,873
Total fund balances	<u>6,056,982</u>	<u>999,049</u>	<u>1,099,890</u>	<u>8,155,921</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,829,865</u>	<u>\$ 1,051,631</u>	<u>\$ 1,248,552</u>	<u>\$ 9,130,048</u>

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

City of Sandpoint

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2015**

Total fund balance at September 30, 2015 - Governmental Funds		\$ 8,155,921
Cost of capital assets at September 30, 2015	\$ 14,482,967	
Less: Accumulated depreciation as of September 30, 2015		
Buildings	(965,736)	
Other improvements	(2,306,418)	
Machinery and equipment	(2,974,658)	
Infrastructure	<u>(1,679)</u>	8,234,476
Elimination of deferred inflows of resources		239,333
Long-term liabilities at September 30, 2015		
Accrued interest	(264)	
Capital leases payable	(14,831)	
Compensated absences	(319,290)	
Special assessment bond payable	<u>(182,034)</u>	<u>(516,419)</u>
Items related to GASB 68 and reporting net pension liability:		
Proportionate share of collective deferred outflows of resources	816,190	
Proportionate share of collective deferred inflows of resources	(1,127,702)	
Net pension liability	<u>(1,023,934)</u>	<u>(1,335,446)</u>
Net position at September 30, 2015		<u><u>\$ 14,777,865</u></u>

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

City of Sandpoint

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2015

	General	Parks Improvement	Other Governmental Funds	Total
REVENUES				
Taxes and special assessments	\$ 3,939,919	\$ -	\$ 192,969	\$ 4,132,888
Licenses and permits	235,459	-	-	235,459
Grants	303,771	236,886	50,000	590,657
Intergovernmental revenue	1,882,704	300	-	1,883,004
Interest	12,164	1,511	2,033	15,708
Impact fees	-	-	114,207	114,207
Charges for services	420,262	254,988	81,385	756,635
Fines and forfeits	99,103	-	-	99,103
Miscellaneous revenues	5,472	24,286	3,356	33,114
Total revenues	<u>6,898,854</u>	<u>517,971</u>	<u>443,950</u>	<u>7,860,775</u>
EXPENDITURES				
General government	1,952,086	-	32,201	1,984,287
Public safety	3,032,215	-	-	3,032,215
Highways and streets	1,328,760	-	-	1,328,760
Culture and recreation	747,457	396,411	239,875	1,383,743
Capital outlay	476,785	27,483	334,377	838,645
Debt service:				
Principal retirement	21,222	-	31,824	53,046
Interest expense	382	-	10,915	11,297
Total expenditures	<u>7,558,907</u>	<u>423,894</u>	<u>649,192</u>	<u>8,631,993</u>
(Deficiency) excess of revenues over (under) expenditures	<u>(660,053)</u>	<u>94,077</u>	<u>(205,242)</u>	<u>(771,218)</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	24,795	-	-	24,795
Transfers in	1,376,525	-	41,716	1,418,241
Transfers (out)	(41,716)	-	(37,194)	(78,910)
Total other financing sources (uses)	<u>1,359,604</u>	<u>-</u>	<u>4,522</u>	<u>1,364,126</u>
Net change in fund balance	699,551	94,077	(200,720)	592,908
Fund balances - beginning	<u>5,357,431</u>	<u>904,972</u>	<u>1,300,610</u>	<u>7,563,013</u>
Fund balances - ending	<u>\$ 6,056,982</u>	<u>\$ 999,049</u>	<u>\$ 1,099,890</u>	<u>\$ 8,155,921</u>

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

City of Sandpoint

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2015

Total net changes in fund balances for the year ended September 30, 2015	\$ 592,908
Add: Capital outlay which is considered expenditures	838,645
Less: Depreciation expense for the year ended September 30, 2015	(571,269)
Less: Proceeds from capital lease	(24,795)
Add: Special assessment debt and lease principal payments considered as an expenditures	53,046
Add: Change in accrued interest expense	13
Less: Change in compensated absences	(30,260)
Add: Difference between revenue revenue from other governments on modified accrual basis versus revenue on accrual basis	123,639
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(162,539)
Less: Change in net pension liability	(69,709)
Add: Unallocated actual PERSI contributions	434,298
Change in net position for year ended September 30, 2015	<u>\$ 1,183,977</u>

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

City of Sandpoint

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2015**

	<u>Water</u>	<u>Sewer</u>	<u>Bond Payment Fund</u>	<u>Other Proprietary Funds</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and investments	\$ 5,320,600	\$ 2,965,327	\$ -	\$ 401,859	\$ 8,687,786
Receivables	591,842	595,990	1,185	53,994	1,243,011
Due from other funds	3,193	-	-	-	3,193
Inventory	125,060	-	-	-	125,060
Restricted cash and investments	3,997,307	6,798,190	1,664,886	-	12,460,383
Total current assets	<u>10,038,002</u>	<u>10,359,507</u>	<u>1,666,071</u>	<u>455,853</u>	<u>22,519,433</u>
Noncurrent assets:					
Land	5,121,649	908,118	-	-	6,029,767
Construction in progress	211,621	23,238	-	-	234,859
Capital assets, net of accumulated depreciation	29,397,197	15,009,579	-	92,152	44,498,928
Total noncurrent assets	<u>34,730,467</u>	<u>15,940,935</u>	<u>-</u>	<u>92,152</u>	<u>50,763,554</u>
Total assets	<u>44,768,469</u>	<u>26,300,442</u>	<u>1,666,071</u>	<u>548,005</u>	<u>73,282,987</u>
DEFERRED OUTFLOWS OF RESOURCES					
Proportionate share of collective deferred outflows of resources	132,214	86,864	-	-	219,078
Total deferred outflows of resources	<u>132,214</u>	<u>86,864</u>	<u>-</u>	<u>-</u>	<u>219,078</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	44,299	110,788	-	36,337	191,424
Payable from restricted assets:					
Customer deposits	1,761	-	-	-	1,761
Accrued interest payable	-	-	271,020	-	271,020
Compensated absences - current portion	42,512	18,336	-	-	60,848
Capital lease payable	71,942	33,426	-	-	105,368
Revenue bonds - current portion	-	-	887,948	-	887,948
Total current liabilities	<u>160,514</u>	<u>162,550</u>	<u>1,158,968</u>	<u>36,337</u>	<u>1,518,369</u>
Noncurrent:					
Revenue bonds - noncurrent portion	-	-	22,599,599	-	22,599,599
Capital lease payable	39,585	-	-	-	39,585
Interim construction LOC	-	-	-	-	-
Compensated absences	72,307	13,495	-	-	85,802
Net pension liability	312,841	205,533	-	-	518,374
Total noncurrent liabilities	<u>424,733</u>	<u>219,028</u>	<u>22,599,599</u>	<u>-</u>	<u>23,243,360</u>
Total liabilities	<u>585,247</u>	<u>381,578</u>	<u>23,758,567</u>	<u>36,337</u>	<u>24,761,729</u>
DEFERRED INFLOWS OF RESOURCES					
Proportionate share of collective deferred inflows of resources	201,787	132,572	-	-	334,359
Total deferred inflows of resources	<u>201,787</u>	<u>132,572</u>	<u>-</u>	<u>-</u>	<u>334,359</u>
NET POSITION					
Net investment in capital assets	34,618,940	15,907,509	(23,758,567)	92,152	26,860,034
Restricted for:					
Debt	973,375	648,576	1,666,071	-	3,288,022
Capital improvements	3,699,657	4,873,272	-	25,388	8,598,317
Inflow & filtration	-	1,924,918	-	-	1,924,918
Kootenai/Ponderay	82,710	-	-	-	82,710
Watershed protection	213,179	-	-	-	213,179
Other	40,000	-	-	-	40,000
Unrestricted	4,485,788	2,518,881	-	394,128	7,398,797
Total net position	<u>\$ 44,113,649</u>	<u>\$ 25,873,156</u>	<u>\$ (22,092,496)</u>	<u>\$ 511,668</u>	<u>\$ 48,405,977</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 NET POSITION
For the Year Ended September 30, 2015**

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
OPERATING REVENUES					
Charges for services	\$ 3,516,951	\$ 3,657,961	\$ -	\$ 565,080	\$ 7,739,992
Equipment and meter sales	21,243	23,622	-	-	44,865
Miscellaneous	131,190	1,660	-	-	132,850
Total operating revenues	<u>3,669,384</u>	<u>3,683,243</u>	<u>-</u>	<u>565,080</u>	<u>7,917,707</u>
OPERATING EXPENSES					
Personal services	728,172	457,802	-	-	1,185,974
Contractual services	105,930	170,582	-	303,773	580,285
Other services and charges	125,954	114,088	-	1,290	241,332
Heat, lights, and power	96,155	96,952	-	119,630	312,737
Depreciation	563,099	707,656	-	12,670	1,283,425
Change in net pension liability	62,329	40,950	-	-	103,279
Total operating expenses	<u>1,681,639</u>	<u>1,588,030</u>	<u>-</u>	<u>437,363</u>	<u>3,707,032</u>
Operating income	<u>1,987,745</u>	<u>2,095,213</u>	<u>-</u>	<u>127,717</u>	<u>4,210,675</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	15,948	19,320	15,048	648	50,964
Grant income	892	-	-	-	892
Interest expense	(5,450)	(1,993)	(755,092)	-	(762,535)
Gain (loss) on sale of capital assets	-	3,500	-	-	3,500
Total nonoperating revenues (expenses)	<u>11,390</u>	<u>20,827</u>	<u>(740,044)</u>	<u>648</u>	<u>(707,179)</u>
Income (loss) before contributions and transfers	<u>1,999,135</u>	<u>2,116,040</u>	<u>(740,044)</u>	<u>128,365</u>	<u>3,503,496</u>
Capital contributions - cap fees	<u>582,958</u>	<u>165,712</u>	<u>-</u>	<u>-</u>	<u>748,670</u>
Transfers in	75,090	-	1,522,192	-	1,597,282
Transfers out	(1,498,565)	(1,330,267)	-	(107,781)	(2,936,613)
Total transfers	<u>(1,423,475)</u>	<u>(1,330,267)</u>	<u>1,522,192</u>	<u>(107,781)</u>	<u>(1,339,331)</u>
Change in net position	1,158,618	951,485	782,148	20,584	2,912,835
Total net position - beginning	43,339,927	25,174,542	(22,874,644)	491,084	46,130,909
Prior period adjustment	<u>(384,896)</u>	<u>(252,871)</u>	<u>-</u>	<u>-</u>	<u>(637,767)</u>
Total net position - ending	<u>\$ 44,113,649</u>	<u>\$ 25,873,156</u>	<u>\$ (22,092,496)</u>	<u>\$ 511,668</u>	<u>\$ 48,405,977</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, 2015

	Water	Sewer	Bond Payment	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 3,650,823	\$ 3,670,072	\$ -	\$ 579,845	\$ 7,900,740
Payments to employees	(792,983)	(508,024)	-	-	(1,301,007)
Payments to suppliers	(465,683)	(507,547)	-	(423,906)	(1,397,136)
Net cash provided by operating activities	2,392,157	2,654,501	-	155,939	5,202,597
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Additional contributed capital	582,958	165,712	-	-	748,670
Grant receipts	892	-	-	-	892
Operating transfers (out) in	(1,378,894)	(1,330,267)	1,522,192	(107,781)	(1,294,750)
Net cash (used) provided by noncapital financing activities	(795,044)	(1,164,555)	1,522,192	(107,781)	(545,188)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of fixed assets	(766,300)	(232,299)	-	-	(998,599)
Proceeds from disposition of assets	-	3,500	-	-	3,500
Principal paid on bonds and leases	(69,925)	(32,466)	(858,995)	-	(961,386)
Interest paid	-	(1,993)	(763,831)	-	(765,824)
Net cash (used) by capital and related financing activities	(836,225)	(263,258)	(1,622,826)	-	(2,722,309)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	10,498	19,320	14,931	648	45,397
Net cash provided by investing activities	10,498	19,320	14,931	648	45,397
Net increase in cash and investments	771,386	1,246,008	(85,703)	48,806	1,980,497
Cash and investments, beginning	8,546,521	8,517,509	1,750,589	353,053	19,167,672
Cash and investments, ending	\$ 9,317,907	\$ 9,763,517	\$ 1,664,886	\$ 401,859	\$ 21,148,169
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 1,987,745	\$ 2,095,213	\$ -	\$ 127,717	\$ 4,210,675
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	563,099	707,656	-	12,670	1,283,425
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(18,386)	(13,171)	-	14,765	(16,792)
Inventory	(36,027)	-	-	-	(36,027)
Increase (decrease) in:					
Vouchers payable	(101,617)	(133,567)	-	787	(234,397)
Items related to net pension liability	(2,482)	(1,630)	-	-	(4,112)
Customer deposits	(175)	-	-	-	(175)
Net cash provided by operating activities	\$ 2,392,157	\$ 2,654,501	\$ -	\$ 155,939	\$ 5,202,597
Reconciliation of cash to the statement of net position:					
Cash/investments	\$ 5,320,600	\$ 2,965,327	\$ -	\$ 401,859	\$ 8,687,786
Restricted cash/investments	3,997,307	6,798,190	1,664,886	-	12,460,383
	\$ 9,317,907	\$ 9,763,517	\$ 1,664,886	\$ 401,859	\$ 21,148,169

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

City of Sandpoint

**AGENCY FUND
STATEMENT OF NET POSITION
September 30, 2015**

	Business Improvement District Agency Fund
ASSETS	
Cash and cash equivalents	\$ 2,226
Accounts receivable	<u>67,251</u>
Total assets	<u><u>\$ 69,477</u></u>
LIABILITIES	
Accounts payable	\$ 2,226
Due to Business Improvement District	<u>67,251</u>
Total liabilities	<u><u>\$ 69,477</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, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. During the year ended September 30, 2015, the City implemented GASB No. 68, Accounting and Financial Reporting for Pensions. The most significant of the City's accounting policies are described below:

B. Basis of Presentation – Government-Wide Financial Statements

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Fund Financial Statements

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

The 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 *Parks Improvement 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.

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.

Additionally, the government reports the following fund type:

The *Agency Fund* accounts for amounts collected and remitted to the business improvement district.

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

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

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

For purposes of reporting cash flows, cash (unrestricted as well as restricted 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, 2015 meet the guidelines as set by regulations of the State of Idaho.

F. Capital Assets

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

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

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

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

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

G. Compensated Absences

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

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accrued Liabilities and Long-term Obligations

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

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred outflows relating to the accounting for the net pension obligation on the government-wide and proprietary funds statement of net position, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has one type of item, which arises under full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, proportionate share of collective deferred inflows of resources, is reported only on the government-wide and proprietary funds statement of net position. The government-wide and proprietary funds statement of net position reports proportionate share of collective deferred inflows of resources from one source: accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance Classifications

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

The City reports the following classifications:

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

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

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

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

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Balance Flow Assumptions

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

L. Net Position Flow Assumptions

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

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

M. Estimates

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

N. Property Taxes

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

Bonner County – Due from Bonner County are taxes and other county collections allocable to the fiscal year ended September 30, 2015, which were collected and held by the county at September 30, 2015, but not yet remitted to the City until after September 30, 2015.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from the Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net pension asset and pension expense (revenue), information about the fiduciary net position of the Firefighters' Retirement Fund Plan (FRF) and additions to/deductions from FRF's fiduciary net position have been determined on the same basis as they are reported by the FRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

The City does not use the encumbrance method of accounting.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 3: CASH AND INVESTMENTS

General:

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

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the City's deposits and investments may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2015, the City's deposits and investments were not exposed to custodial credit risk as follows:

Deposits without exposure to custodial credit risk:

Amount insured by FDIC	\$ 250,000
Amount collateralized with securities held in trust, but not to the City's name	<u>29,365,372</u>
Total deposits without exposure to custodial credit risk	<u>\$29,615,372</u>

The following is a recap of the carrying amount:

Statement of net position:	
Cash and investments	\$16,598,128
Restricted cash	12,965,208
Agency fund:	
Fiduciary fund cash	<u>2,226</u>
	<u>\$29,565,562</u>

Fair value:

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

The balances above that the City has in the Idaho State Investment Pool and DBF are carried at cost which approximates fair market value. The City's portion of the Idaho State Investment Pool and DBF had an unrealized gain of \$18,045 and \$36,553 respectively as of September 30, 2015; this unrealized gain has not been recorded by the City.

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

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 3: CASH AND INVESTMENTS (CONCLUDED)

Credit risk:

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

NOTE 4: ACCOUNTS RECEIVABLE

Enterprise accounts receivable consist of the following as of September 30, 2015:

<u>Receivables</u>	<u>Water</u>	<u>Sewer</u>	<u>Bond Payment</u>	<u>Street Lights</u>	<u>Sanitation</u>	<u>Total</u>
Accounts	\$ 592,284	\$ 595,553	\$ -	\$ 1,162	\$ 53,070	\$ 1,242,069
Interest	1,132	1,271	1,185	30	19	3,637
Gross receivables	593,416	596,824	1,185	1,192	53,089	1,245,706
Less: Allowance for uncollectible	(1,574)	(834)	-	(79)	(208)	(2,695)
Net receivables	<u>\$ 591,842</u>	<u>\$ 595,990</u>	<u>\$ 1,185</u>	<u>\$ 1,113</u>	<u>\$ 52,881</u>	<u>\$ 1,243,011</u>

NOTE 5: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2015, and are recorded in the debt service fund:

Deferred principal amounts not currently due, but due at a future date \$123,639

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 6: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 2,272,751	\$ 27,568	\$ -	\$ -	\$ 2,300,319
Construction in progress	204,847	490,191	-	-	695,038
Total capital assets, not being depreciated	<u>2,477,598</u>	<u>517,759</u>	<u>-</u>	<u>-</u>	<u>2,995,357</u>
Capital assets, being depreciated:					
Buildings	2,072,962	-	-	-	2,072,962
Improvements other than buildings	5,478,527	169,493	-	-	5,648,020
Machinery and equipment	3,609,105	151,393	-	-	3,760,498
Infrastructure	6,130	-	-	-	6,130
Total capital assets being depreciated	<u>11,166,724</u>	<u>320,886</u>	<u>-</u>	<u>-</u>	<u>11,487,610</u>
Less accumulated depreciation for:					
Buildings	(929,054)	(36,682)	-	-	(965,736)
Other improvements	(1,998,458)	(307,960)	-	-	(2,306,418)
Machinery and equipment	(2,748,113)	(226,545)	-	-	(2,974,658)
Infrastructure	(1,597)	(82)	-	-	(1,679)
Total accumulated depreciation	<u>(5,677,222)</u>	<u>(571,269)</u>	<u>-</u>	<u>-</u>	<u>(6,248,491)</u>
Total capital assets, being depreciated, net	<u>5,489,502</u>	<u>(250,383)</u>	<u>-</u>	<u>-</u>	<u>5,239,119</u>
Governmental activities capital assets, net	<u>\$ 7,967,100</u>	<u>\$ 267,376</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,234,476</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 6: CHANGES IN FIXED ASSETS (CONCLUDED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 6,029,767	\$ -	\$ -	\$ -	\$ 6,029,767
Construction in progress	194,973	56,789	-	(16,903)	234,859
Total capital assets, not being depreciated	6,224,740	56,789	-	(16,903)	6,264,626
Capital assets, being depreciated:					
Buildings	527,400	-	-	-	527,400
Infrastructure	52,412,761	872,662	-	16,903	53,302,326
Machinery & equipment	2,135,227	69,146	(40,585)	-	2,163,788
Improvements other than buildings	268,396	-	-	-	268,396
Total capital assets, being depreciated	55,343,784	941,808	(40,585)	16,903	56,261,910
Less accumulated depreciation for:					
Buildings	(175,854)	(10,163)	-	-	(186,017)
Infrastructure	(8,941,308)	(1,137,598)	-	-	(10,078,906)
Machinery & equipment	(1,252,332)	(122,467)	40,585	-	(1,334,214)
Improvements	(150,650)	(13,195)	-	-	(163,845)
Total accumulated depreciation	(10,520,144)	(1,283,423)	40,585	-	(11,762,982)
Total capital assets, being depreciated, net	44,823,640	(341,615)	-	16,903	44,498,928
Business type activities capital assets net	<u>\$ 51,048,380</u>	<u>\$ (284,826)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,763,554</u>

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

Governmental activities:	
General government	\$ 46,969
Public safety	150,174
Highways and streets, including depreciation of general infrastructure assets	161,572
Culture and recreation	212,554
Total depreciation expense - governmental activities	<u>\$ 571,269</u>
 Business -type activities:	
Water	\$ 563,099
Sewer	707,654
Street lights	12,670
Total depreciation expense - business-type activities	<u>\$ 1,283,423</u>

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 7: BONDS PAYABLE

Bonds payable at September 30, 2015 are comprised of the following individual revenue bond issues:

1997 Water Revenue Bonds

Payable in annual installments of \$146,624 including interest at 4.5%.	\$ 1,419,016
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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%	6,045,000
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2012 Water Facility Improvement Bonds

Payable in annual installments of \$444,510 including 2.75% interest	8,392,568
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2013 Water Facility Improvement Bonds

Payable in annual installments of \$382,240 including 2.50% interest	7,630,964
---	-----------

	<u>\$ 23,487,547</u>
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The above outstanding bonds are secured by a first lien on net revenues earned by enterprise funds. Net revenues are defined in the bond agreements. The enterprise funds are required to establish bond reserves in the amounts of \$444,510, \$146,624, \$382,240 and \$651,562. The required reserve is on hand. The enterprise funds are also required to establish user fees and rates that will yield net revenues equal to at least 1.4 times the debt service that will become due in the following year.

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 887,948	\$ 734,000
2017	917,337	703,112
2018	952,174	671,156
2019	982,475	638,455
2020	1,018,256	604,674
2021-2025	5,650,924	2,466,803
2026-2030	4,391,059	1,479,695
2031-2035	3,153,534	980,216
2036-2040	3,591,449	542,301
2041-2042	1,942,391	91,054
	<u>\$ 23,487,547</u>	<u>\$ 8,911,466</u>

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 8: SPECIAL ASSESSMENT DEBT

	Maturity Date	Interest	Principal	Interest	Total
		Rate			
LID #32	2016	4.75%	3,581	3,276	6,857
	2017	4.75%	3,751	3,106	6,857
	2018	4.75%	3,929	2,928	6,857
	2019	4.75%	4,115	2,741	6,856
	2020-2024	4.75%	23,702	10,580	34,282
	2025-2029	4.75%	29,888	4,390	34,278
				<u>68,966</u>	<u>27,021</u>
LID #2002-02	2016	6.00%	8,947	2,348	11,295
	2017	6.00%	9,484	1,812	11,296
	2018	6.00%	10,053	1,242	11,295
	2019	6.00%	10,656	639	11,295
			<u>39,140</u>	<u>6,041</u>	<u>45,181</u>
LID #2006-01	2016	4.50%	14,032	1,981	16,013
	2017	4.50%	14,663	1,349	16,012
	2018	4.50%	15,323	690	16,013
			<u>44,018</u>	<u>4,020</u>	<u>48,038</u>
LID #2007-01	2016	5.50%	6,930	1,645	8,575
	2017	5.50%	7,311	1,264	8,575
	2018	5.50%	7,713	862	8,575
	2019	5.50%	7,956	619	8,575
		<u>29,910</u>	<u>4,390</u>	<u>34,300</u>	
Total special assessment bonds payable			<u>182,034</u>	<u>41,472</u>	<u>223,506</u>

The City is fully obligated for the local improvement debt, placing liens against the property owners to ensure payment to the City. The LID Guarantee Fund was established by ordinance to provide additional security for the local improvement district bondholders.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 9: CAPITAL LEASES

The City entered into a new lease for the purchase of a Verti-drain Aerator for the Parks Department during the 2015 fiscal year. The amount of the Verti-drain was \$24,795 with a down payment of \$10,000. Existing leases include; a Sewer Vac Truck for \$301,309, a Skid Steer Loader for \$36,165 and a Front-end Loader for the Water Department in the amount \$53,640.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Machinery and equipment	\$ 24,795	\$ 354,950
Less: accumulated depreciation	(2,273)	(90,059)
Total	\$ 22,522	\$ 264,891
Future minimum lease payments are as follows:		
2016	7,732	109,678
2017	7,731	40,776
	15,463	150,454
Less amount representing interest	(632)	(5,501)
Total	\$ 14,831	\$ 144,953

NOTE 10: CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 289,030	\$ 30,260	\$ -	\$ 319,290	\$ 154,822
Special assessment bonds payable	213,858	-	31,824	182,034	33,490
Lease purchase contracts payable	11,258	24,795	21,222	14,831	7,288
Governmental activities long-term liabilities	\$ 514,146	\$ 55,055	\$ 53,046	\$ 516,155	\$ 195,600
Business-type activities:					
Revenue bonds payable	\$ 24,346,542	\$ -	\$ 858,995	\$ 23,487,547	\$ 887,948
Lease purchase contracts payable	247,344	-	102,391	144,953	105,368
Compensated absences	157,232	-	10,582	146,650	60,848
Business-type activities long-term liabilities	\$ 24,751,118	\$ -	\$ 971,968	\$ 23,779,150	\$ 1,054,164

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 11: SEGMENT INFORMATION FOR CERTAIN 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 as follows:

	Water Funds	Sewer Funds
Condensed Statement of net position:		
Assets:		
Current assets	\$ 6,040,695	\$ 3,561,317
Restricted assets - cash investments	3,997,307	6,798,190
Capital assets	34,730,467	15,940,935
Total assets	44,768,469	26,300,442
Deferred outflows of resources:		
Proportionate share of collective deferred outflows of resources	132,214	86,864
Liabilities:		
Current liabilities	160,514	162,550
Noncurrent liabilities	424,733	219,028
Total liabilities	585,247	381,578
Deferred inflows of resources:		
Proportionate share of collective deferred inflows of resources	201,787	132,572
Net position:		
Net investment in capital assets	34,618,940	15,907,509
Restricted	5,008,921	7,446,766
Unrestricted	4,485,788	2,518,881
Total Net Position	\$ 44,113,649	\$ 25,873,156
	Water Funds	Sewer Funds
Condensed statement of revenues, expenses and changes in net position:		
Operating revenues	\$ 3,669,384	\$ 3,683,243
Operating expenses	(1,681,639)	(1,588,030)
Operating income	1,987,745	2,095,213
Nonoperating revenues (expenses)	11,390	20,827
Capital contributions - cap fees	582,958	165,712
Net transfers in/(out)	(1,423,475)	(1,330,267)
	(829,127)	(1,143,728)
Change in net position	1,158,618	951,485
Prior period adjustment	(384,896)	(252,871)
Beginning net position	43,339,927	25,174,542
Ending net position	\$ 44,113,649	\$ 25,873,156
Condensed statement of cash flows:		
Net cash provided (used) by:		
Operating activities	\$ 2,392,157	\$ 2,654,501
Noncapital financing activities	(795,044)	(1,164,555)
Capital and related financial activities	(836,225)	(263,258)
Investing activities	10,498	19,320
Net increase	771,386	1,246,008
Beginning cash and cash equivalents	8,546,521	8,517,509
Ending cash and cash equivalents	\$ 9,317,907	\$ 9,763,517

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 12: INTERFUND TRANSACTIONS

Due to or from other funds as of September 30, 2015:

Receivable Fund	Payable Fund	Amount
Water	Impact Fees	\$ 3,193
Total all funds		\$ 3,193

Interfund transfers (net) as of September 30, 2015:

	Transfers In	Transfers Out
General fund	\$ 1,376,525	\$ 41,716
Nonmajor governmental funds	41,716	37,194
Enterprise funds	75,090	2,828,832
Bond payment fund	1,522,192	-
Nonmajor enterprise funds	-	107,781
	\$ 3,015,523	\$ 3,015,523

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

NOTE 13: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Sandpoint contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

The City also contributes to the FRF which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers a closed group of firefighters who were hired before October 1, 1980, and who received benefits in addition to those provided under the PERSI Base Plan. The cost to administer the plan is financed through the contributions and investment earnings of the FRF. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Responsibility for administration of the Base Plan and the FRF is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Responsibility for administration of the Base Plan and the FRF is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Employee membership data related to the PERSI Base Plan, as of June 30, 2015 was as follows:

Retirees and beneficiaries receiving benefits	42,657
Terminated employees entitled to but not yet receiving benefits	11,859
Active plan members	67,008
	<u>121,524</u>

Employee membership data related to the FRF, as of June 30, 2015 was as follows:

Retirees and beneficiaries receiving benefits	535
Terminated employees entitled to but not yet receiving benefits	-
Active plan members	2
	<u>537</u>

Pension Benefits

The Base Plan and FRF provide retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary.

Members in the Base Plan become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. Amounts in parenthesis represent police/firefighters.

In the FRF, a firefighter must have 5 years of service to be eligible for a lifetime retirement allowance at age 60. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance is based on Idaho Code Title 72 Chapter 14.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

The benefit payments for the FRF are calculated using a benefit formula adopted by the Idaho Legislature. The FRF cost of living increase is based on the increase in the statewide average firefighter's wage.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan and FRF are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The Base Plan contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2015 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate is set by the Retirement Board and was 11.32% general employees and 11.66% for police and firefighters. The City's contributions were \$419,176 for the year ended September 30, 2015.

The total FRF employer contribution rate through December 31, 2014 was 37.55%. This includes the employer excess rate of 25.89% plus the PERSI class 2 firefighters rate of 11.66%. As of January 1, 2015 the total employer rate was reduced to 25.31% which includes the lower employer excess rate of 13.65% plus the PERSI class 2 firefighters rate of 11.66%. The FRF member rate for the year for class B is 11.45% which is 3.09% above the class 2 rate of 8.36%. The City's contributions were \$122,514 for the year ended September 30, 2015.

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

At September 30, 2015, the City reported a liability (net of the net pension asset with the FRF plan) for its proportionate share on the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At July 1, 2015 the City's proportion was 0.1536525 percent.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

At September 30, 2015, the City reported an asset (netted against the net pension liability with the Base Plan) for its proportionate share on the net pension asset. The net pension asset was measured as of July 1, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City's proportion of the net pension asset was based on the City's share of contributions in the FRF pension plan relative to the total contributions of all participating FRF employers. At July 1, 2015 the City's proportion was 0.8906485 percent.

For the year ended September 30, 2015, the City of Sandpoint recognized pension expense (revenue) of \$172,988. At September 30, 2015 the City of Sandpoint reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 853,967	\$ 242,557
Changes of assumptions	73,687	-
Net difference between projected and actual earnings on pension plan investments	-	1,219,504
City of Sandpoint's contributions subsequent to the measurement date"	107,614	-
Total	\$ 1,035,268	\$ 1,462,061

\$107,614 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2014 the beginning of the measurement period ended June 30, 2015 is 5.6 years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended June 30:

2016	\$(232,547)
2017	\$(232,547)
2018	\$(232,547)
2019	\$ 177,976
2020	\$ (14,741)

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

Unfunded actuarial accrued liability for FRF is the difference between the actuarial present value of the FRF benefits not provided by the Base Plan and the FRF assets. Currently FRF assets exceed this actuarial present value; therefore there is not an unfunded liability to amortize at this time. The maximum amortization period for the FRF permitted under Section 59-1394, Idaho Code, is 50 years.

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial assumptions - Base Plan:

Inflation	3.25%
Salary increases	4.5-10.00%
Salary inflation	3.75%
Investment rate of return	7.1%, net of investment expenses
Cost of Living (COLA) adjustments	1.00%

Actuarial assumptions - FRF:

Inflation	3.25%
Salary increases	3.75%
Salary inflation	3.75%
Investment rate of return	7.1%, net of investment expenses
Cost of Living (COLA) adjustments	3.75%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed in 2012 for the period July 1, 2007 through June 30, 2011 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Asset as of June 30, 2015 is based on the results of an actuarial valuation date of July 1, 2015.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2014.

Asset Class	Index	Target Allocation	Long-Term Expected Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Wilshire 5000 / Russell 3000	55.00%	6.90%
Developed Foreign Equities	MSCI EAFE	15.00%	7.55%
Assumed Inflation - Mean			3.25%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.42%
Portfolio Long-Term Expected Rate of Return			7.50%
Assumed Investment Expenses			0.40%
Long-Term Expected Rate of Return, Net of investment expenses			7.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	<u>1% Decrease (6.10%)</u>	<u>Current Discount Rate (7.10%)</u>	<u>1% Increase (8.10%)</u>
District's net pension liability (asset)	\$ 4,742,081.73	\$ 1,542,308.05	\$ (1,121,285.95)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

NOTE 14: CONTINGENCIES

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

NOTE 15: DEFERRED COMPENSATION PLANS

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

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

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 15: DEFERRED COMPENSATION PLANS (CONCLUDED)

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 16: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

NOTE 17: DEFICIT FUND BALANCES

A deficit balance exists in the following individual funds:

	<u>Deficit Net Position Balance</u>
Bond Payment Fund	\$(22,092,496)

NOTE 18: PRIOR PERIOD ADJUSTMENT

Beginning net position for the government-wide governmental activities and business type funds were adjusted in order to implement GASB 68, the new pension accounting standard, which became effective this year. Accordingly, beginning net position was adjusted as illustrated below. See Note 13 for further disclosures on the pension plan and related accounting.

	<u>PERSI Base Plan</u>		
	Water	Sewer	Total Business type
Deferred outflow	30,761	20,210	50,971
Deferred inflow	(240,763)	(158,178)	(398,941)
Net pension liability	(174,984)	(114,903)	(289,887)
Prior period adjustment	(384,986)	(252,871)	(637,857)
	<u>PERSI Base Plan PERSI FRF</u>		
			Total Government activities
Deferred outflow	147,982	17,228	165,210
Deferred inflow	(1,158,232)	(221,148)	(1,379,380)
Net pension liability	(841,360)	335,495	(505,865)
Prior period adjustment	(1,851,610)	131,575	(1,720,035)

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

NOTE 19: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits held in checking and money market accounts with a local bank. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At September 30, 2015, the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Both the carrying amount of cash and cash equivalents on the Agency's books, and bank balances at September 30, 2015, totaled \$2,939,013 (including restricted cash and cash equivalents). A summary of the total insured and uninsured bank balances at September 30, 2015 is as follows:

Total bank balances	\$2,939,013
Portion insured by FDIC	<u>(250,000)</u>
Uninsured bank balances	<u>\$2,689,013</u>

RECEIVABLES

Receivables at September 30, 2014 are summarized as follows:

Unearned property taxes receivable	\$935,327
Delinquent property taxes receivable	<u>16,493</u>
	<u>\$951,820</u>

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

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015**

NOTE 19: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONTINUED)

LONG-TERM OBLIGATIONS

Revenue Allocation Note Payable

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

At September 30, 2015, the Agency had restricted cash of \$125,900, which is represented by a separate debt service payment account. The use of this cash is restricted to paying the semi-annual installments on the note.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 208,474	\$ 42,397	\$ 250,871
2017	216,061	34,810	250,871
2018	223,796	27,075	250,871
2019	231,808	19,063	250,871
2020	240,098	10,773	250,871
2021	<u>123,354</u>	<u>2,169</u>	<u>125,523</u>
Total	<u>\$1,243,564</u>	<u>\$136,314</u>	<u>\$1,379,878</u>

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2015 as follows:

	<u>Long-Term Obligations September 30, 2014</u>	<u>Long-Term Obligations Incurred</u>	<u>Long-Term Obligations Paid</u>	<u>Long-Term Obligations September 30, 2015</u>	<u>Due Within One Year</u>
Revenue allocation note	<u>\$1,444,911</u>	<u>\$ -</u>	<u>\$ (2010,347)</u>	<u>\$1,243,564</u>	<u>\$208,474</u>

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2015

NOTE 19: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONCLUDED)

COMMITMENTS AND CONTINGENCIES (SURA)

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

During 2011, the Agency entered into an agreement with the Panida Theater in Sandpoint, Idaho related to the repair and restoration of the historic building. The agreement calls for the Agency's Downtown District to provide funding of \$450,000 over a five-year period, in maximum annual installments of \$90,000, as work is completed. Any funding below the \$90,000 annual commitment may be assigned to the following year's commitment on the project. As of September 30, 2015, the Agency had provided funding-to-date totaling \$343,159 related to this project. The remaining maximum commitment on this project at September 30, 2015 was \$106,841.

During 2014, the Agency entered into an agreement with the Sandpoint Airport to provide funding for temporary repairs of the airport's runway, so that it may remain usable until it can be rebuilt in 2019. The agreement calls for the Agency's Northern District to provide funding of up to \$400,000, as work is completed. As of September 30, 2015, the Agency has provided funding-to-date totaling \$289,345. The remaining commitment on these projects at September 30, 2015 was \$34,431.

During 2015, the Agency entered into an agreement with the Sandpoint Business Improvement District (SBID) to provide funding for approved economic revitalization projects. The agreement calls for the Agency's Downtown District to provide funding of up to \$45,000, as work is completed. As of September 30, 2015, the Agency had provided funding-to-date totaling \$38,019 related to these projects. The remaining commitment on these projects at September 30, 2015 was \$6,981.

During 2015, the Agency entered into an agreement with the City of Sandpoint, Idaho (the City) to provide funding for capital improvements to be constructed on Third and Fourth Avenues, between Church and Pine Street, as part of the City's Downtown Revitalization Plan. The agreement calls for the Agency's Downtown District to provide funding of up to \$600,000, as work is completed. As of September 30, 2015, the Agency had provided funding-to-date totaling \$150,000 related to these projects. The remaining commitment on these projects at September 30, 2015 was \$450,000.

SUBSEQUENT EVENTS (SURA)

During October 2015, the Agency entered into agreements with Schweitzer Ranch LLC, Whitewater Development LLC and Milltown Apartments LLC to provide funding to help construct a 51-unit senior rental affordable housing development in Sandpoint, Idaho. The agreements call for the Agency's Northern District to provide funding of up to \$375,000, \$790,000 and \$500,000 to Schweitzer Ranch LLC, Whitewater Development LLC and Milltown Apartments LLC, respectively, as work is completed. As of September 30, 2015, the Agency has not provided any funding on the project.

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, 2015

	Final Budgeted Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes	\$ 3,901,175	\$ 3,939,919	\$ 38,744
Licenses and permits	185,900	235,459	49,559
Grants	8,203,150	303,771	(7,899,379)
Intergovernmental revenue	2,205,750	1,882,704	(323,046)
Interest	7,237	12,164	4,927
Charges for services	384,682	420,262	35,580
Fines and forfeits	71,000	99,103	28,103
Miscellaneous revenues	742,436	5,472	(736,964)
Total revenues	<u>15,701,330</u>	<u>6,898,854</u>	<u>(8,802,476)</u>
EXPENDITURES			
General government	2,585,680	1,952,086	633,594
Public safety	3,452,700	3,032,215	420,485
Highways and streets	2,131,397	1,328,760	802,637
Culture and recreation	850,795	747,457	103,338
Capital outlay	7,878,347	476,785	7,401,562
Debt service:			
Principal retirement	141,250	21,222	120,028
Interest expense	970	382	588
Total expenditures	<u>17,041,139</u>	<u>7,558,907</u>	<u>9,482,232</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,339,809)</u>	<u>(660,053)</u>	<u>679,756</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	5,000	-	(5,000)
Capital leases	-	24,795	24,795
Transfers in	1,376,525	1,376,525	-
Transfers (out)	(41,716)	(41,716)	-
Total other financing sources (uses)	<u>1,339,809</u>	<u>1,359,604</u>	<u>19,795</u>
Net change in fund balances	-	699,551	699,551
Fund balances - beginning	-	5,357,431	5,357,431
Fund balances - ending	<u>\$ -</u>	<u>\$ 6,056,982</u>	<u>\$ 6,056,982</u>

* Final budgeted amounts were not amended.

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

City of Sandpoint

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL PARKS IMPROVEMENT

For the Year Ended September 30, 2015

	Final Budgeted Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Grants	\$ 44,000	\$ 236,886	\$ 192,886
Intergovernmental revenue	14,000	300	(13,700)
Interest	-	1,511	1,511
Charges for services	237,731	254,988	17,257
Miscellaneous revenues	464,000	24,286	(439,714)
Total revenues	<u>759,731</u>	<u>517,971</u>	<u>(241,760)</u>
EXPENDITURES			
Culture and recreation	181,731	396,411	(214,680)
Capital outlay	578,000	27,483	550,517
Total expenditures	<u>759,731</u>	<u>423,894</u>	<u>335,837</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>94,077</u>	<u>94,077</u>
Net change in fund balances	-	94,077	94,077
Fund balances - beginning	-	904,972	904,972
Fund balances - ending	<u>\$ -</u>	<u>\$ 999,049</u>	<u>\$ 999,049</u>

* Final budgeted amounts were not amended.

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

City of Sandpoint

GASB 68 Required Supplementary Information For the Year Ended September 30, 2015

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

	<u>2015</u>
Employer's portion of the net pension liability	0.1536525%
Employer's proportionate share of the net pension liability	\$ 2,023,353
Employer's covered-employee payroll	\$ 3,672,792
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	55.09%
Plan fiduciary net position as a percentage of the total pension liability	94.95%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 (measurement date).

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

	<u>2015</u>
Statutorily required contribution	\$ 419,176
Contributions in relation to the statutorily required contribution	419,176
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll of its covered employee payroll	\$ 3,672,792
Contributions as a percentage of covered-employee payroll	11.41%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of September 30, 2015.

City of Sandpoint

**GASB 68 Required Supplementary Information
For the Year Ended September 30, 2015**

**Schedule of Employers's Share of Net Pension Liability
FRF
Last 10 - Fiscal Years ***

	2015
Employer's portion of the net pension liability	0.8906485%
Employer's proportionate share of the net pension liability	\$ 481,045
Employer's covered-employee payroll	\$ 629,835
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	76.38%
Plan fiduciary net position as a percentage of the total pension liability	112.01%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 (measurement date).

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

	2015
Statutorily required contribution	\$ 122,514
Contributions in relation to the statutorily required contribution	122,514
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ 629,835
Contributions as a percentage of covered-employee payroll	19.45%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of September 30, 2015.

FINANCIAL SECTION

OTHER SUPPLEMENTARY INFORMATION

City of Sandpoint

NONMAJOR GOVERNMENTAL FUNDS September 30, 2015

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 committed and/or assigned to the administration and development of recreation programs.

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

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

City of Sandpoint

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS September 30, 2015

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ -	\$ 826,996	\$ 826,996
Receivables	127,378	19,836	147,214
Restricted assets:			
Cash and investments	274,342	-	274,342
Total assets	\$ 401,720	\$ 846,832	\$ 1,248,552
LIABILITIES			
Vouchers payable	\$ -	\$ 11,848	\$ 11,848
Customer deposits	-	4,776	4,776
Due to other funds	-	3,193	3,193
Total liabilities	-	19,817	19,817
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	123,639	-	123,639
Unavailable revenue-special assessments	-	5,206	5,206
Total deferred inflows of resources	123,639	5,206	128,845
FUND BALANCES			
Restricted	278,081	-	278,081
Committed	-	81,499	81,499
Assigned	-	740,310	740,310
Total fund balance	278,081	821,809	1,099,890
Total liabilities, deferred inflows of resources, and fund balance	\$ 401,720	\$ 846,832	\$ 1,248,552

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

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015**

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES			
Special assessments and taxes	\$ 29,271	\$ 163,698	\$ 192,969
Impact fees	-	114,207	114,207
Interest	502	1,531	2,033
Charges for services	-	81,385	81,385
Grants	-	50,000	50,000
Miscellaneous revenues	-	3,356	3,356
Total revenues	<u>29,773</u>	<u>414,177</u>	<u>443,950</u>
EXPENDITURES			
General government	-	32,201	32,201
Culture and recreation	-	239,875	239,875
Capital outlay	-	334,377	334,377
Debt service:			
Principal retirement	31,824	-	31,824
Interest expense	10,915	-	10,915
Total expenditures	<u>42,739</u>	<u>606,453</u>	<u>649,192</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(12,966)</u>	<u>(192,276)</u>	<u>(205,242)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	41,716	41,716
Transfers (out)	-	(37,194)	(37,194)
Total other financing sources (uses)	<u>-</u>	<u>4,522</u>	<u>4,522</u>
Net change in fund balances	(12,966)	(187,754)	(200,720)
Fund balances - beginning	<u>291,047</u>	<u>1,009,563</u>	<u>1,300,610</u>
Fund balances - ending	<u>\$ 278,081</u>	<u>\$ 821,809</u>	<u>\$ 1,099,890</u>

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

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
September 30, 2015**

	LID #32	LID #2002-01	LID #2002-02
ASSETS			
Receivables:			
Special assessments	\$ 26,101	\$ -	\$ 31,893
Interest	370	-	-
Restricted assets:			
Cash and investments	206,012	2,094	3,419
Total assets	\$ 232,483	\$ 2,094	\$ 35,312
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	\$ 26,101	\$ -	\$ 31,893
Total deferred inflows of resources	26,101	-	31,893
FUND BALANCES			
Restricted for debt service	206,382	2,094	3,419
Total liabilities, deferred inflows of resources, and fund balances	\$ 232,483	\$ 2,094	\$ 35,312

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

LID #2006-01	LID #2007-01	LID Guarantee	Total
\$ 34,962	\$ 30,685	\$ -	\$ 123,641
3,362	-	5	3,737
13,737	10,552	38,528	274,342
<u>\$ 52,061</u>	<u>\$ 41,237</u>	<u>\$ 38,533</u>	<u>\$ 401,720</u>
\$ 34,961	\$ 30,684	\$ -	\$ 123,639
34,961	30,684	-	123,639
17,100	10,553	38,533	278,081
<u>\$ 52,061</u>	<u>\$ 41,237</u>	<u>\$ 38,533</u>	<u>\$ 401,720</u>

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2015**

	LID #32	LID # 2002-01	LID # 2002-02
REVENUES			
Special assessments	\$ 2,750	\$ -	\$ 9,486
Interest	359	4	18
Total revenues	<u>3,109</u>	<u>4</u>	<u>9,504</u>
EXPENDITURES			
Debt service:			
Principal	3,418	-	8,440
Interest	3,438	-	2,855
Total expenditures	<u>6,856</u>	<u>-</u>	<u>11,295</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(3,747)</u>	<u>4</u>	<u>(1,791)</u>
Net change in fund balances	(3,747)	4	(1,791)
Fund balances - beginning	210,129	2,090	5,210
Fund balances - ending	<u>\$ 206,382</u>	<u>\$ 2,094</u>	<u>\$ 3,419</u>

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

LID # 2006-01	LID # 2007-01	LID Guarantee	Total
\$ 8,079	\$ 8,956	\$ -	\$ 29,271
33	22	66	502
<u>8,112</u>	<u>8,978</u>	<u>66</u>	<u>29,773</u>
13,428	6,538	-	31,824
2,585	2,037	-	10,915
<u>16,013</u>	<u>8,575</u>	<u>-</u>	<u>42,739</u>
<u>(7,901)</u>	<u>403</u>	<u>66</u>	<u>(12,966)</u>
(7,901)	403	66	(12,966)
<u>25,001</u>	<u>10,150</u>	<u>38,467</u>	<u>291,047</u>
<u>\$ 17,100</u>	<u>\$ 10,553</u>	<u>\$ 38,533</u>	<u>\$ 278,081</u>

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2015**

	<u>Recreation</u>	<u>Impact Fees</u>	<u>Bonner Business Center</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 321,130	\$ 483,292	\$ 22,574	\$ 826,996
Receivables:				
Taxes	6,174	-	-	6,174
Accounts	5,474	65	8,123	13,662
Restricted assets:				
Cash and investments, at cost	-	-	-	-
Total assets	<u>\$ 332,778</u>	<u>\$ 483,357</u>	<u>\$ 30,697</u>	<u>\$ 846,832</u>
LIABILITIES				
Vouchers payable	\$ 11,666	\$ -	\$ 182	\$ 11,848
Customer deposits	-	-	4,776	4,776
Due to other funds	-	3,193	-	3,193
Total liabilities	<u>11,666</u>	<u>3,193</u>	<u>4,958</u>	<u>19,817</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	5,206	-	-	5,206
Total deferred inflows of resources	<u>5,206</u>	<u>-</u>	<u>-</u>	<u>5,206</u>
FUND BALANCES				
Committed	6,499	75,000	-	81,499
Assigned	309,407	405,164	25,739	740,310
Total fund balances	<u>315,906</u>	<u>480,164</u>	<u>25,739</u>	<u>821,809</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 332,778</u>	<u>\$ 483,357</u>	<u>\$ 30,697</u>	<u>\$ 846,832</u>

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

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2015**

	Recreation	Impact Fees	Bonner Business Center	Total
REVENUES				
Property taxes	\$ 163,698	\$ -	\$ -	\$ 163,698
Impact fees	-	114,207	-	114,207
Interest	552	979	-	1,531
Charges for services	81,385	-	-	81,385
Grants	-	-	50,000	50,000
Miscellaneous revenues	3,326	-	30	3,356
Total revenues	<u>248,961</u>	<u>115,186</u>	<u>50,030</u>	<u>414,177</u>
EXPENDITURES				
General government	-	-	32,201	32,201
Culture and recreation	239,875	-	-	239,875
Capital outlay	-	193,781	140,596	334,377
Total expenditures	<u>239,875</u>	<u>193,781</u>	<u>172,797</u>	<u>606,453</u>
(Deficiency) excess of revenues (under) over expenditures	<u>9,086</u>	<u>(78,595)</u>	<u>(122,767)</u>	<u>(192,276)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	41,716	-	-	41,716
Transfers (out)	(2,162)	-	(35,032)	(37,194)
Total other financing sources (uses)	<u>39,554</u>	<u>-</u>	<u>(35,032)</u>	<u>4,522</u>
Net change in fund balances	48,640	(78,595)	(157,799)	(187,754)
Fund balances - beginning	<u>267,266</u>	<u>558,759</u>	<u>183,538</u>	<u>1,009,563</u>
Fund balances - ending	<u>\$ 315,906</u>	<u>\$ 480,164</u>	<u>\$ 25,739</u>	<u>\$ 821,809</u>

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

City of Sandpoint

NONMAJOR BUSINESS-TYPE FUNDS

September 30, 2015

Activities

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

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

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

City of Sandpoint

**COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
September 30, 2015**

	Street Lights	Sanitation	Total
ASSETS			
Cash and investments	\$ 247,686	\$ 154,173	\$ 401,859
Receivables	1,113	52,881	53,994
Capital assets, net of depreciation	92,152	-	92,152
Total assets	<u>340,951</u>	<u>207,054</u>	<u>548,005</u>
LIABILITIES			
Accounts payable and accrued expenses	9,783	26,554	36,337
Total liabilities	<u>9,783</u>	<u>26,554</u>	<u>36,337</u>
NET POSITION			
Net investment in capital assets	92,152	-	92,152
Restricted - capital improvement	25,388	-	25,388
Unrestricted	213,628	180,500	394,128
Total net position	<u>\$ 331,168</u>	<u>\$ 180,500</u>	<u>\$ 511,668</u>

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

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION NONMAJOR PROPRIETARY FUNDS For the Year Ended September 30, 2015

	Street Lights	Sanitation	Total
Operating revenues:			
Charges for services	\$ 145,976	\$ 419,104	\$ 565,080
Total operating revenues	145,976	419,104	565,080
Operating expenses:			
Contractual services	-	303,773	303,773
Heat, lights, and power	112,816	6,814	119,630
Other services and charges	1,290	-	1,290
Depreciation	12,670	-	12,670
Total operating expenses	126,776	310,587	437,363
Operating income	19,200	108,517	127,717
Nonoperating revenues:			
Interest income	408	240	648
Total nonoperating revenues	408	240	648
Income before transfers	19,608	108,757	128,365
Transfers (out)	(36,732)	(71,049)	(107,781)
Change in net position	(17,124)	37,708	20,584
Total net position - beginning	348,292	142,792	491,084
Total net position - ending	\$ 331,168	\$ 180,500	\$ 511,668

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

City of Sandpoint

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2015**

	<u>Street Lights</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 166,020	\$ 413,825	\$ 579,845
Payments to suppliers	(114,034)	(309,872)	(423,906)
Net cash provided by operating activities	<u>51,986</u>	<u>103,953</u>	<u>155,939</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers (out)	(36,732)	(71,049)	(107,781)
Net cash (used) by noncapital financing activities	<u>(36,732)</u>	<u>(71,049)</u>	<u>(107,781)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income, net	408	240	648
Net cash provided by investing activities	<u>408</u>	<u>240</u>	<u>648</u>
Net increase in cash and investments	15,662	33,144	48,806
Cash and investments - beginning	<u>232,024</u>	<u>121,029</u>	<u>353,053</u>
Cash and investments - ending	<u>\$ 247,686</u>	<u>\$ 154,173</u>	<u>\$ 401,859</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 19,200	\$ 108,517	\$ 127,717
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	12,670	-	12,670
Changes in assets and liabilities:			
Decrease (increase) in receivables	20,044	(5,279)	14,765
Increase in vouchers payable	72	715	787
Net cash provided by operating activities	<u>\$ 51,986</u>	<u>\$ 103,953</u>	<u>\$ 155,939</u>

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

REPORT REQUIRED BY GAO

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sandpoint as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Sandpoint's basic financial statements, and have issued our report thereon dated February 29, 2016. Our report includes a reference to other auditors who audited the financial statements of Sandpoint Urban Renewal Agency, as described in our report on City of Sandpoint's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Sandpoint's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sandpoint's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Sandpoint's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sandpoint's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONCLUDED)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Co., P.A.

February 29, 2016