

CITY OF SANDPOINT

FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

CITY OF SANDPOINT
September 30, 2016

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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, 2016, 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.

Auditor's 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, 2016, 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 April 6, 2017 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.

April 6, 2017

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

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, 2016. 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 \$68,284,175. Of this amount \$12,195,741 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 \$5,100,333 from prior year (\$2,453,423 for Governmental Activities and \$2,646,910 for Business-type Activities).
- As of the close of the current fiscal year, the City of Sandpoint's governmental funds reported combined fund balance of \$9,716,072, an increase of \$1,560,151 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 \$5,697,758 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.
- Due to the new voter approved 1% Local Option Tax for the refurbishment of Memorial Field will be bringing in sales tax over the next five years. At the end of the current fiscal year the fund balance is \$826,077 and has expended \$118,911 towards the community project. The Local Option Tax Fund will be reported as a major fund and track the revenues and expenditures.

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, 2016

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, local sales tax projects, 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, 2016

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, 2016

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 \$68,284,175 at the close of the most recent fiscal year.

Table 1

STATEMENTS OF NET POSITION September 30, 2016 and 2015

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
	Current and other assets	\$ 11,238,374	\$ 9,546,034	\$ 24,672,255	\$ 22,519,433	\$ 35,910,629
Capital assets	9,439,127	8,231,283	50,493,619	50,763,554	59,932,746	58,994,837
Total assets	20,677,501	17,777,317	75,165,874	73,282,987	95,843,375	91,060,304
Deferred outflow of resources						
Proportionate share of collective deferred outflows of resources	1,446,448	816,190	401,593	219,078	1,848,041	1,035,268
Total deferred outflow of resources	1,446,448	816,190	401,593	219,078	1,848,041	1,035,268
Long-term liabilities outstanding	879,103	516,155	22,736,027	23,779,150	23,615,130	24,295,305
Other liabilities	3,153,071	2,171,785	1,514,836	982,579	4,667,907	3,154,364
Total liabilities	4,032,174	2,687,940	24,250,863	24,761,729	28,283,037	27,449,669
Deferred inflow of resources						
Proportionate share of collective deferred inflows of resources	860,487	1,127,702	263,717	334,359	1,124,204	1,462,061
Total deferred inflow of resources	860,487	1,127,702	263,717	334,359	1,124,204	1,462,061
Net position:						
Net investment in capital assets	8,895,308	8,037,611	27,592,442	26,860,034	36,487,750	34,897,645
Restricted	544,669	303,079	19,056,015	14,147,146	19,600,684	14,450,225
Unrestricted	7,791,311	6,437,175	4,404,430	7,398,797	12,195,741	13,835,972
Total net position	\$ 17,231,288	\$ 14,777,865	\$ 51,052,887	\$ 48,405,977	\$ 68,284,175	\$ 63,183,842

By far, the largest portion of the City of Sandpoint's net position (53%) 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 (29%) represents resources that are subject to external restrictions on how they may be used. The remaining balance \$12,195,741 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.

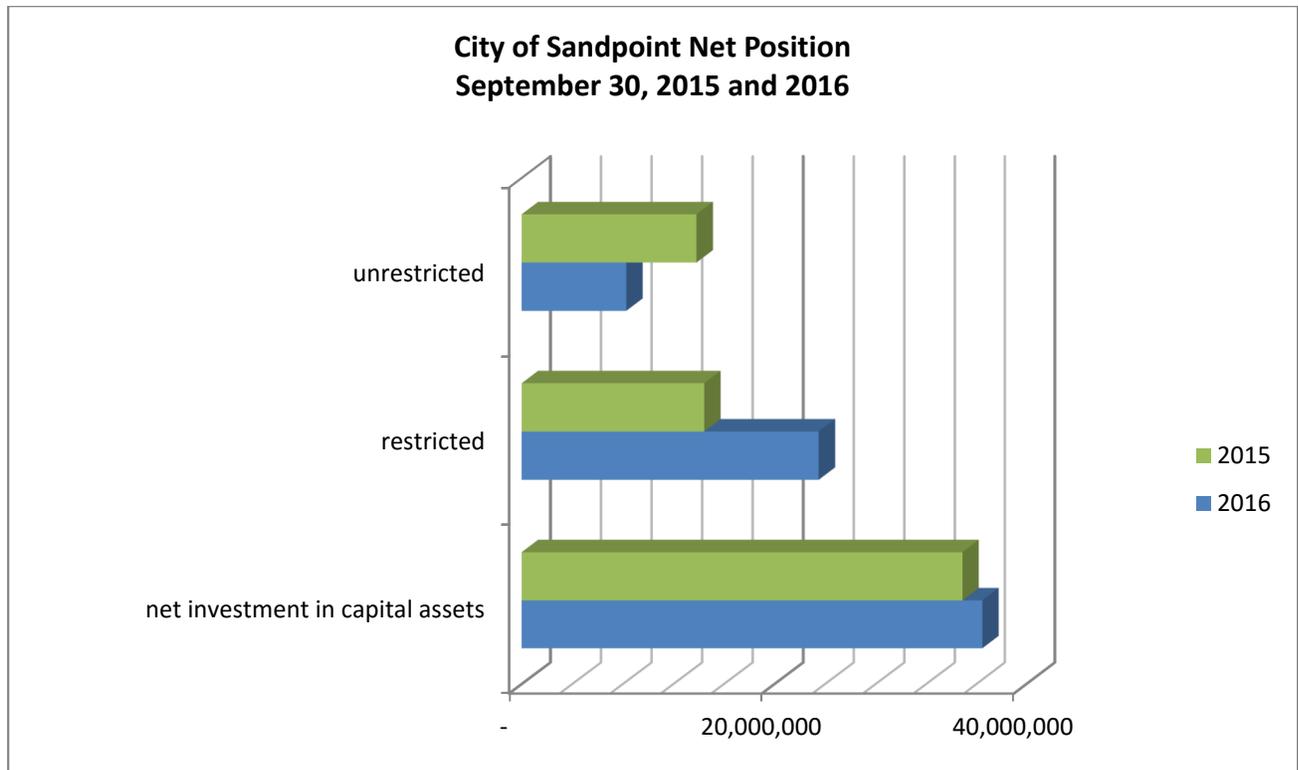
City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

The City of Sandpoint's overall net position increased \$5,100,333 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 increased 17% or 2,453,423 from the prior fiscal year for an ending balance of \$17,231,288 compared to prior year's balance of \$14,777,865. This increase is related to cash on hand from the 1% Local Option Tax dedicated to the refurbishment of Memorial Field, increase in Intergovernmental Revenue and the reporting of the City's proportionate share of deferred outflows and inflows related to State's pension plan.



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

Table 2

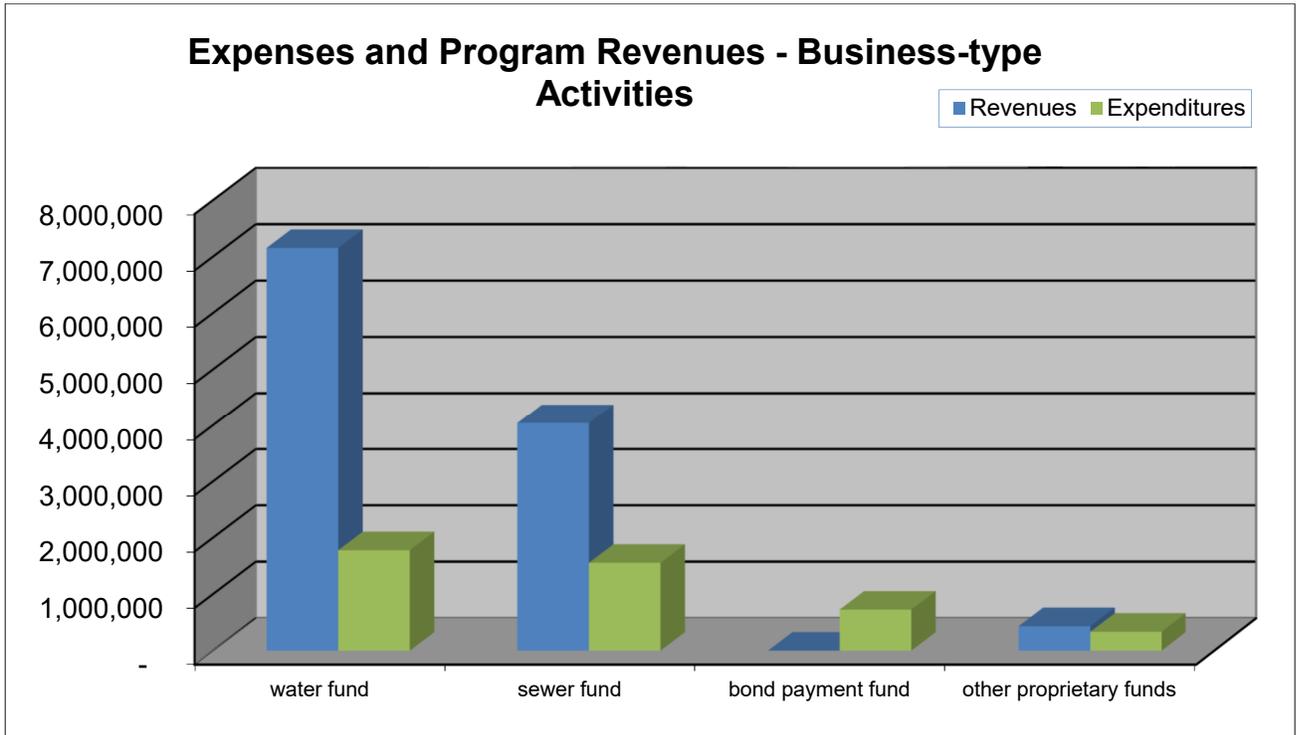
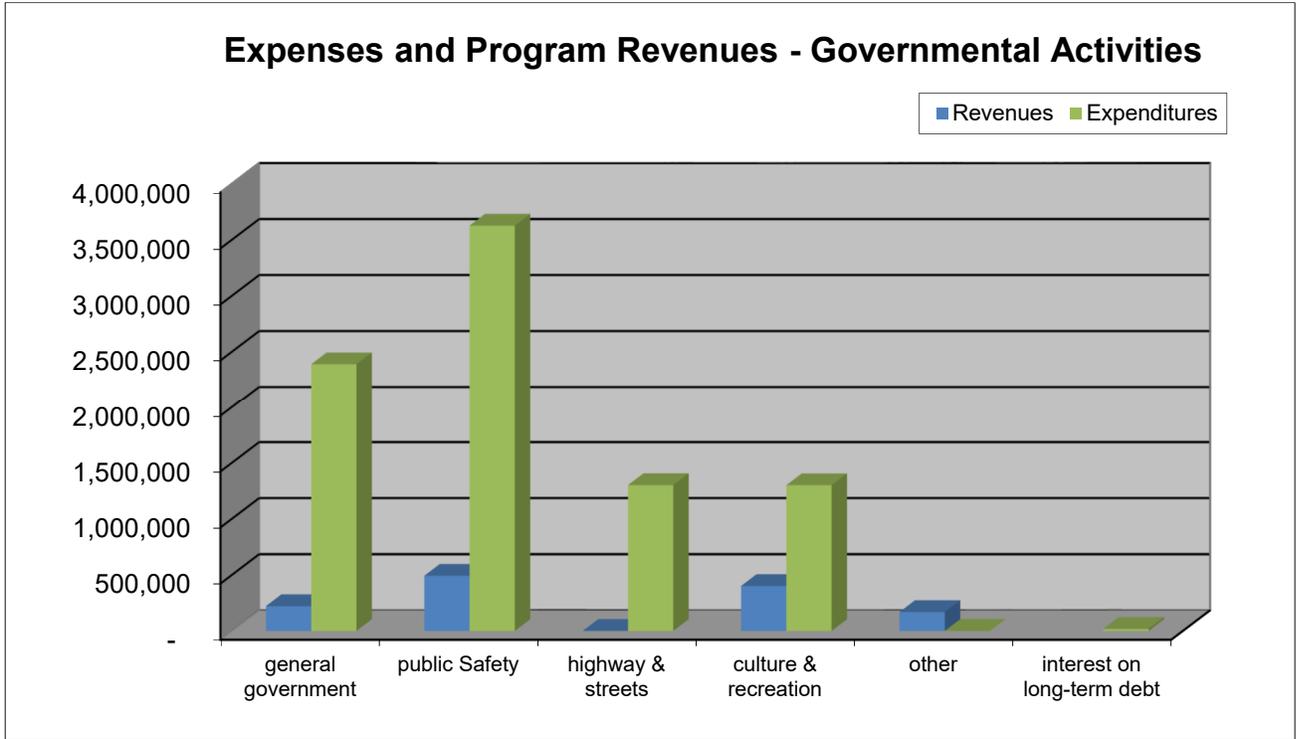
CHANGES IN NET POSITION September 30, 2016 and 2015

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,291,170	\$ 1,205,404	\$ 7,794,204	\$ 7,917,707	\$ 9,085,374	\$ 9,123,111
Capital Grants	429,188	590,657	584,855	749,562	1,014,043	1,340,219
General revenues:						
Property taxes & special assessments	5,250,277	4,093,988	-	-	5,250,277	4,093,988
Investment Earnings	35,095	15,708	96,945	50,964	132,040	66,672
Miscellaneous	30,071	33,114	-	-	30,071	33,114
Intergovernmental	2,026,189	1,883,004	-	-	2,026,189	1,883,004
Gain on disposal of assets	27,960	-	18,829	3,500	46,789	3,500
Total revenues	<u>9,089,950</u>	<u>7,821,875</u>	<u>8,494,833</u>	<u>8,721,733</u>	<u>17,584,783</u>	<u>16,543,608</u>
Expenses:						
General government	2,189,815	2,057,003	-	-	2,189,815	2,057,003
Public safety	3,195,888	3,182,389	-	-	3,195,888	3,182,389
Highways & streets	1,466,554	1,490,332	-	-	1,466,554	1,490,332
Culture & recreation	1,328,696	1,600,810	-	-	1,328,696	1,600,810
Interest on long-term debt	17,769	11,284			17,769	11,284
Change in net pension liability	311,953	69,709			311,953	69,709
Unallocated actual PERSI contributions	(416,749)	(434,298)			(416,749)	(434,298)
Water	-	-	1,777,282	1,687,089	1,777,282	1,687,089
Sewer	-	-	1,554,336	1,590,023	1,554,336	1,590,023
Bond payment fund	-	-	724,955	755,092	724,955	755,092
Bond construction fund	-	-	-	-	-	-
Other proprietary funds	-	-	333,951	437,363	333,951	437,363
Total expenses	<u>8,093,926</u>	<u>7,977,229</u>	<u>4,390,524</u>	<u>4,469,567</u>	<u>12,484,450</u>	<u>12,446,796</u>
(Decreases) Increases in net assets before transfers	996,024	(155,354)	4,104,309	4,252,166	5,100,333	4,096,812
Transfers	1,457,399	1,339,331	(1,457,399)	(1,339,331)	-	-
Increase in net position	2,453,423	1,183,977	2,646,910	2,912,835	5,100,333	4,096,812
Net position – beginning	14,777,865	15,293,923	48,405,977	46,130,909	63,183,842	61,424,832
Prior period adjustment	-	(1,700,035)	-	(637,767)	-	(2,337,802)
Net position – ending	<u>\$ 17,231,288</u>	<u>\$ 14,777,865</u>	<u>\$ 51,052,887</u>	<u>\$ 48,405,977</u>	<u>\$ 68,284,175</u>	<u>\$ 63,183,842</u>

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONCLUDED)

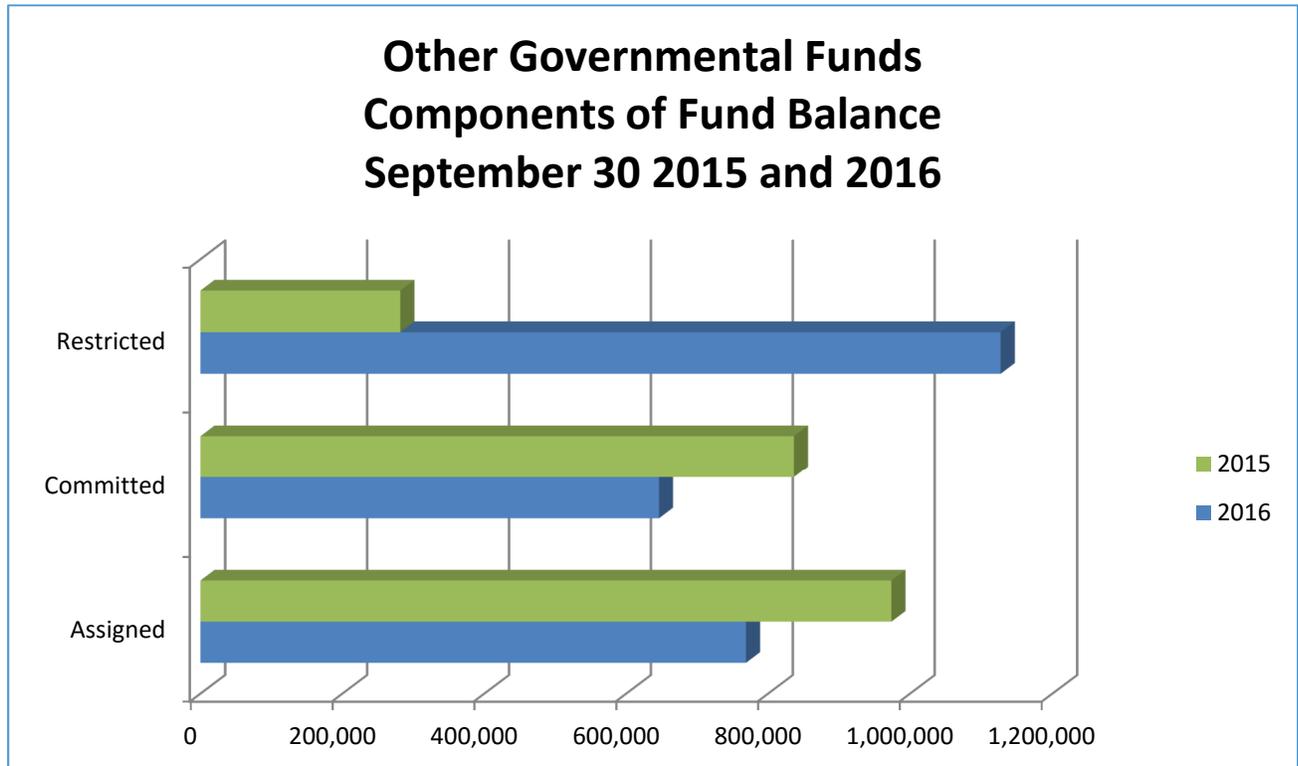
Business-type activities. For the City of Sandpoint's business-type activities, the results for the current fiscal year were positive in that the overall net position at fiscal year-end was \$51,052,887. The total increase in net position for business-type activities (water, sewer, street lights and garbage) was \$2,646,910 or 5% 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 wastewater treatment plant pending renewal of permits.

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, 2016 the City of Sandpoint's governmental funds reported combined fund balances of \$9,716,072, an increase of \$1,560,151 in comparison with the prior year. Approximately 59% of this amount (\$5,697,758) 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, 2) legally required to be maintained intact, 3) restricted for a particular purpose (\$544,669), 4) committed for particular purposes (\$2,545,705), or 5) assigned for particular purposes (\$927,456). The sharp increase in restricted revenues for 2016 is directly related to the 1% Local Option Tax.



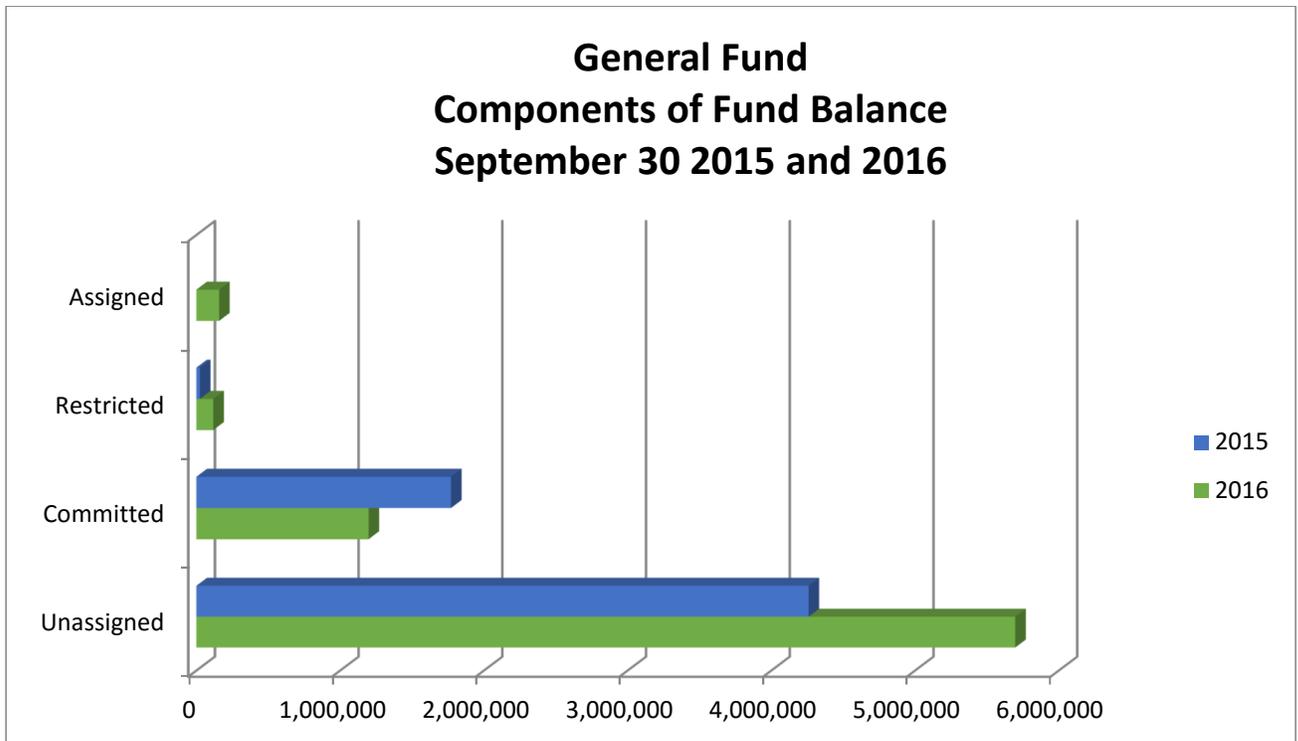
City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

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 \$5,697,758 while the total fund balance reached \$7,173,398. 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 70% of the total general fund expenditures, while total fund balance represents 88% of that same amount.

The fund balance of the City of Sandpoint's general fund increased by \$1,116,416 during the current fiscal year. This is due to an increase in construction related permits, increase in interest income, and an increase in the City's hotel-motel occupancy tax.



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

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.

<u>Revenue source</u>	<u>Estimated revenues</u>	<u>Actual revenues</u>	<u>Difference</u>
Taxes	4,046,448	4,156,105	109,657
Licenses and permits	204,704	250,935	46,231
Grants	3,358,735	425,188	(2,933,547)
Intergovernmental revenue	1,938,200	2,026,189	87,989
Interest	5,235	26,920	21,685
Charges for services	535,221	371,478	(163,743)
Fines and forfeits	83,000	108,110	25,110
Miscellaneous revenues	1,528,838	5,390	(1,523,448)
<u>Expenses</u>	<u>Estimated expenses</u>	<u>Actual expenses</u>	<u>Difference</u>
General government	2,817,737	2,122,266	695,471
Public safety	3,445,596	3,064,074	381,522
Highways and streets	2,388,693	1,244,106	1,144,587
Culture and recreation	802,185	745,522	56,663
Capital outlay	3,473,058	914,338	2,558,720
Debt service:			
Principal retirement	79,300	929,042	(849,742)
Interest expense	450	-	450

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

The shortfalls in the above revenue sources were caused for various reasons. In the Grants category, as well as Charges for Services, the shortfall was specific to grants that were delayed or not awarded to the City. Miscellaneous revenues difference is related to donations and the use of beginning cash.

Excess revenues are reported in Taxes and Special Assessments which directly correlates to increased revenue in the form of resort city taxes. Intergovernmental excess is due, in part, to a legislative change where in the City received additional funds (HB312) funds dedicated for the use on the streets of Sandpoint. Increases were also seen in Sales Tax and Street related M&O

Over the last decade the City of Sandpoint has worked to identify and implement more charges for various programs and activities. This has included licenses and permits, charges for services, rental rates for community buildings and moorage, 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 all 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. Some much needed maintenance at City Hall and Pine Street Park were not able to be completed by September 30 and were moved the next fiscal year. A savings was also experienced in the Highway and Streets category due to employee turnover and some projects were delayed for review and a revaluation of priorities. Public safety savings were experienced due to employee turnover resulting in a salary savings and throughout all of the categories there were lower costs in professional services.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

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 \$2,368,351 and the Sewer Fund was \$1,726,513. The total growth in net position for both funds was \$639,676 and \$1,198,658, 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.

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, 2016 increased to \$59,932,746 (net of accumulated depreciation) from \$58,994,837. This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, right-of-ways and the water and sewer treatment facilities. The total increase in capital assets for the current fiscal year was approximately 2% or \$937,909.

Table 3

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

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
	Land	\$ 2,300,319	\$ 2,300,319	\$ 6,311,579	\$ 6,029,767	\$ 8,611,898
Construction in progress	287,445	695,038	303,587	234,859	591,032	929,897
Buildings	1,377,746	1,107,226	331,220	341,383	1,708,966	1,448,609
Other Improvements	3,982,256	3,341,602	42,728,416	43,223,420	46,710,672	46,565,022
Machinery and equipment	1,433,439	785,840	727,461	829,574	2,160,900	1,615,414
Infrastructure	57,922	4,451	91,356	104,551	149,278	109,002
Total	<u>\$ 9,439,127</u>	<u>\$ 8,234,476</u>	<u>\$ 50,493,619</u>	<u>\$ 50,763,554</u>	<u>\$ 59,932,746</u>	<u>\$ 58,998,030</u>

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

- Rosenbauer Aerial Fire Apparatus \$589,310.
- Dump Truck for the Street Department \$124,920.
- Completion of the Selkirk Loop Interpretive Center \$313,471.
- Sidewalks \$159,772
- Dark Fiber to Sandpoint \$238,992..
- Solar Roadways project in Jeff Jones Town-square \$41,425.58
- Right of way land purchase for the Schweitzer cutoff project \$18,766
- Began the refurbishment of Memorial Field \$101,145.02
- A new solar powered light for the Memorial Field boat ramp parking area \$6,260
- Added a rescue boat and trailer for the Fire Department \$20,100
- Recoated the interior of the Syringa Reservoir located in the watershed \$82,477
- Rebuilt the South Boyer lift station \$108,374
- Purchased Farmin Landing along Sandcreek \$281,812
- Continuation of our I&I project to recoat the lining of sewer pipes within the City \$235,755

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

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

Long-term Debt –At the end of the current fiscal year, the total City of Sandpoint principal bond indebtedness was \$22,748,175. Of this amount, \$22,599,599 is backed by the full faith and credit of the government and \$148,576 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	
	2016	2015	2016	2015	2016	2015
	Compensated absences	\$ 335,284	\$ 319,290	\$ 96,843	\$ 146,650	\$ 432,127
Special assessments	148,576	182,034	-	-	148,576	182,034
Lease purchase contracts	395,243	14,831	39,585	144,953	434,828	159,784
Revenue bonds	-	-	22,599,599	23,487,547	22,599,599	23,487,547
Total	\$ 879,103	\$ 516,155	\$ 22,736,027	\$ 23,779,150	\$ 23,615,130	\$ 24,295,305

The City of Sandpoint's total indebtedness decreased by \$680,175, (-3%) 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 2016-2017 fiscal year budgets.

- A Memorandum of Understanding between the Independent Highway District and the City of Sandpoint is expected to be signed early in 2017. The agreement will emphasize cooperation and establish guidelines while both parties work towards a longer-term agreement.
- 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.
- An economic summit is scheduled for February 2017 for the greater Sandpoint manufacturing community to discuss mutual interests and broaden communications.
- The City completed phase one in bringing dark fiber to Sandpoint. IRU and leasing fees have been established and expectations are to be bring franchise agreements before the City Council for the various telecommunication companies that have shown an interest in providing fiber to our commercial and residential zone.
- The City is currently in the process of refinancing it's 30-year - 2008 Sewer Bond. Interest rates varied between 4.250% and 4.50%. The new bond interest rate will be 1.69% saving the rate payers well over \$1,000,000. We also took the opportunity to shorten the term by five years allowing us to pay the bond in full by 2022 and avoid overlapping debt if anticipated enhancements to the Sewer Treatment are required by permitting agencies.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2016

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

- The 2016-2017 Budget was adopted at \$39,419,820, a decrease of \$471,410 from the past fiscal year's budget of \$39,891,230. The budget includes \$6,725,559 of beginning cash to fund the budget, over 60% of the beginning cash is from water and sewer reserves to upgrade infrastructure.
- Property taxes were budgeted for the 2016-2017 fiscal year at \$3,911,820, an increase of \$180,414 over last year's property tax amount to fund increases in recurring expenditures and obligations.

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, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
ASSETS				
Cash and investments	\$ 8,878,186	\$ 9,909,571	\$ 18,787,757	\$ 2,167,078
Receivables, net	1,106,914	1,254,763	2,361,677	1,061,862
Internal balances	-	-	-	-
Inventory	-	122,069	122,069	-
Prepays	484	-	484	-
Restricted assets:				
Cash and investments	1,252,790	13,385,852	14,638,642	126,152
Capital assets not being depreciated:				
Land	2,300,319	6,311,579	8,611,898	-
Construction in progress	287,445	303,587	591,032	-
Capital assets, net of accumulated depreciation	6,851,363	43,878,453	50,729,816	-
Total assets	<u>20,677,501</u>	<u>75,165,874</u>	<u>95,843,375</u>	<u>3,355,092</u>
DEFERRED OUTFLOWS OF RESOURCES				
Proportionate share of collective deferred outflows of resources	1,446,448	401,593	1,848,041	-
Total deferred outflows of resources	<u>1,446,448</u>	<u>401,593</u>	<u>1,848,041</u>	<u>-</u>
LIABILITIES				
Accounts payable and accrued expenses	1,197,172	471,299	1,668,471	251,874
Unearned property taxes	-	-	-	1,047,020
Payable from restricted assets:				
Customer deposits	130,980	1,768	132,748	-
Accrued interest payable	8,308	261,993	270,301	-
Noncurrent liabilities:				
Compensated absences - due within one year	165,403	45,601	211,004	-
Compensated absences - due in more than one year	169,881	51,242	221,123	-
Due within one year	101,609	956,922	1,058,531	216,060
Due in more than one year	442,210	21,682,262	22,124,472	819,916
Net pension liability	1,816,611	779,776	2,596,387	-
Total liabilities	<u>4,032,174</u>	<u>24,250,863</u>	<u>28,283,037</u>	<u>2,334,870</u>
DEFERRED INFLOWS OF RESOURCES				
Proportionate share of collective deferred inflows of resources	860,487	263,717	1,124,204	-
Total deferred inflows of resources	<u>860,487</u>	<u>263,717</u>	<u>1,124,204</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,895,308	27,592,442	36,487,750	-
Restricted for:				
Contributions	20,795	-	20,795	-
Debt	281,448	3,301,092	3,582,540	-
Capital improvements	130,577	9,218,080	9,348,657	-
Inflow and infiltration	-	2,199,920	2,199,920	-
Kootenai/Ponderay	-	213,895	213,895	-
RCT property tax relief fund	111,849	-	111,849	-
Watershed protection	-	82,988	82,988	-
Other	-	4,040,040	4,040,040	-
Downtown district	-	-	-	(293,064)
Northern district	-	-	-	1,313,286
Unrestricted	7,791,311	4,404,430	12,195,741	-
Total net position	<u>\$ 17,231,288</u>	<u>\$ 51,052,887</u>	<u>\$ 68,284,175</u>	<u>\$ 1,020,222</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, 2016

	Program Revenues		
Functions/Programs	Expenses	Charges for Services	Capital Grants
Governmental activities:			
General government	\$ 2,189,815	\$ 220,780	\$ -
Public safety	3,195,888	501,924	429,188
Highways and streets	1,466,554	-	-
Culture and recreation	1,328,696	400,182	-
Other	-	168,284	-
Interest on long-term debt	17,769	-	-
Change in net pension liability	311,953	-	-
Unallocated actual PERSI contributions	(416,749)	-	-
Total governmental activities	8,093,926	1,291,170	429,188
Business-type activities:			
Water	1,777,282	3,576,912	329,785
Sewer	1,554,336	3,783,865	255,070
Bond payment fund	724,955	-	-
Other proprietary funds	333,951	433,427	-
Total business-type activities	4,390,524	7,794,204	584,855
Total primary government	\$ 12,484,450	\$ 9,085,374	\$ 1,014,043
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
\$ (1,969,035)	\$ -	\$ (1,969,035)	\$ -
(2,264,776)	-	(2,264,776)	-
(1,466,554)	-	(1,466,554)	-
(928,514)	-	(928,514)	-
168,284	-	168,284	-
(17,769)	-	(17,769)	-
(311,953)	-	(311,953)	-
416,749	-	416,749	-
<u>(6,373,568)</u>	<u>-</u>	<u>(6,373,568)</u>	<u>-</u>
-	2,129,415	2,129,415	-
-	2,484,599	2,484,599	-
-	(724,955)	(724,955)	-
-	99,476	99,476	-
<u>-</u>	<u>3,988,535</u>	<u>3,988,535</u>	<u>-</u>
<u>(6,373,568)</u>	<u>3,988,535</u>	<u>(2,385,033)</u>	<u>-</u>
			1,353,700
			41,997
			<u>1,395,697</u>
5,250,277	-	5,250,277	1,051,508
35,095	96,945	132,040	-
30,071	-	30,071	2,098
2,026,189	-	2,026,189	-
27,960.00	18,829	46,789	-
1,457,399	(1,457,399)	-	-
<u>8,826,991</u>	<u>(1,341,625)</u>	<u>7,485,366</u>	<u>1,053,606</u>
2,453,423	2,646,910	5,100,333	(342,091)
14,777,865	48,405,977	63,183,842	1,362,313
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 17,231,288</u>	<u>\$ 51,052,887</u>	<u>\$ 68,284,175</u>	<u>\$ 1,020,222</u>

City of Sandpoint

**GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2016**

	General	Local Option Tax	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 6,896,032	\$ 703,616	\$ 830,616	\$ 8,430,264
Receivables	614,106	122,461	111,691	848,258
Prepaid items	484	-	-	484
Due from other governments	258,656	-	-	258,656
Due from other funds	-	-	-	-
Restricted assets:				
Cash and investments	314,728	-	938,062	1,252,790
Total assets	<u>\$ 8,084,006</u>	<u>\$ 826,077</u>	<u>\$ 1,880,369</u>	<u>\$ 10,790,452</u>
LIABILITIES				
Vouchers payable	\$ 681,577	\$ 15,946	\$ 51,727	\$ 749,250
Due to other funds	-	-	-	-
Payable from restricted assets:				
Customer deposits	126,202	-	4,778	130,980
Total liabilities	<u>807,779</u>	<u>15,946</u>	<u>56,505</u>	<u>880,230</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	102,829	-	4,845	107,674
Unavailable revenue-special assessments	-	-	86,476	86,476
Total deferred inflows of resources	<u>102,829</u>	<u>-</u>	<u>91,321</u>	<u>194,150</u>
FUND BALANCES:				
Non-spendable for				
Prepays	484	-	-	484
Restricted for:				
Art Contributions	1,900	-	-	1,900
Tennis Court Donations	-	-	14,636	14,636
Citizen's pride Contributions	100	-	-	100
Parks Non-Res Dev Fee	-	-	21,339	21,339
Memorial Field Enhancements	-	810,131	109,238	919,369
Debt	-	-	281,448	281,448
Police Contributions	4,159	-	-	4,159
RCT Property Tax Relief	111,849	-	-	111,849
Committed to:				
Insurance	156,736	-	-	156,736
Downtown Parking Dedicated Funds	32,186	-	-	32,186
In Lieu of Sidewalk Dedicated Funds	5,460	-	-	5,460
FY16 Capital Improvement Fund (impact fees)	-	-	507,000	507,000
FY16 parks Improvement Fund Budget	-	-	30,000	30,000
FY16 General Fund Budget	1,004,192	-	-	1,004,192
Assigned to:				
Bonner Business Center	-	-	25,821	25,821
Byway Pump	60,000	-	-	60,000
Healthcare	98,574	-	-	98,574
Recreation Fund	-	-	363,099	363,099
Capital Improvement Fund (impact fees)	-	-	98,669	98,669
Parks Capital Improvement Fund	-	-	281,293	281,293
Unassigned:				
General fund	5,697,758	-	-	5,697,758
Total fund balances	<u>7,173,398</u>	<u>810,131</u>	<u>1,732,543</u>	<u>9,716,072</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,084,006</u>	<u>\$ 826,077</u>	<u>\$ 1,880,369</u>	<u>\$ 10,790,452</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, 2016

Total fund balance at September 30, 2016 - Governmental Funds		\$ 9,716,072
Cost of capital assets at September 30, 2016	\$ 16,219,902	
Less: Accumulated depreciation as of September 30, 2016		
Buildings	(1,008,687)	
Other improvements	(2,633,840)	
Machinery and equipment	(3,135,947)	
Infrastructure	<u>(2,301)</u>	9,439,127
Elimination of deferred inflows of resources		194,150
Long-term liabilities at September 30, 2016		
Accrued interest	(8,308)	
Capital leases payable	(395,243)	
Compensated absences	(335,284)	
Special assessment bond payable	<u>(148,576)</u>	<u>(887,411)</u>
Items related to GASB 68 and reporting net pension liability:		
Proportionate share of collective deferred outflows of resources	1,446,448	
Proportionate share of collective deferred inflows of resources	(860,487)	
Net pension liability	<u>(1,816,611)</u>	<u>(1,230,650)</u>
Net position at September 30, 2016		<u>\$ 17,231,288</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, 2016**

	<u>General</u>	<u>Local Option Tax</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES				
Taxes and special assessments	\$ 4,156,105	\$ 924,291	\$ 215,064	\$ 5,295,460
Licenses and permits	250,935	-	-	250,935
Grants	425,188	-	4,000	429,188
Intergovernmental revenue	2,026,189	-	-	2,026,189
Interest	26,920	1,047	7,128	35,095
Impact fees	-	-	168,284	168,284
Charges for services	371,478	-	392,363	763,841
Fines and forfeits	108,110	-	-	108,110
Miscellaneous revenues	5,390	3,704	20,977	30,071
Total revenues	<u>7,370,315</u>	<u>929,042</u>	<u>807,816</u>	<u>9,107,173</u>
EXPENDITURES				
General government	2,122,266	-	(46)	2,122,220
Public safety	3,064,074	-	-	3,064,074
Highways and streets	1,244,106	-	44,973	1,289,079
Culture and recreation	745,522	29,818	323,202	1,098,542
Capital outlay	914,338	89,093	794,304	1,797,735
Debt service:				
Principal retirement	40,288	-	33,458	73,746
Interest expense	443	-	9,282	9,725
Total expenditures	<u>8,131,037</u>	<u>118,911</u>	<u>1,205,173</u>	<u>9,455,121</u>
(Deficiency) excess of revenues over (under) expenditures	<u>(760,722)</u>	<u>810,131</u>	<u>(397,357)</u>	<u>(347,948)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	30,000	-	-	30,000
Capital leases	420,700	-	-	420,700
Bond proceeds	-	-	-	-
Transfers in	1,459,846	-	33,408	1,493,254
Transfers (out)	(33,408)	-	(2,447)	(35,855)
Total other financing sources (uses)	<u>1,877,138</u>	<u>-</u>	<u>30,961</u>	<u>1,908,099</u>
Net change in fund balance	1,116,416	810,131	(366,396)	1,560,151
Fund balances - beginning	<u>6,056,982</u>	<u>-</u>	<u>2,098,939</u>	<u>8,155,921</u>
Fund balances - ending	<u>\$ 7,173,398</u>	<u>\$ 810,131</u>	<u>\$ 1,732,543</u>	<u>\$ 9,716,072</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, 2016

Total net changes in fund balances for the year ended September 30, 2016	\$ 1,560,151
Add: Capital outlay which is considered expenditures	1,797,735
Less: Depreciation expense for the year ended September 30, 2016	(591,044)
Less: Proceeds from capital lease	(420,700)
Less: Book loss on assets disposed or sold	(2,040)
Add: Special assessment debt and lease principal payments considered as an expenditures	73,746
Less: Change in accrued interest expense	(8,044)
Less: Change in compensated absences	(15,994)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(45,183)
Less: Change in net pension liability	(311,953)
Add: Unallocated actual PERSI contributions	416,749
Change in net position for year ended September 30, 2016	<u>\$ 2,453,423</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, 2016

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
ASSETS					
Current assets:					
Cash and investments	\$ 6,187,604	\$ 3,417,411	\$ -	\$ 304,556	\$ 9,909,571
Receivables	605,636	595,926	1,096	52,105	1,254,763
Due from other funds	-	-	-	-	-
Inventory	122,069	-	-	-	122,069
Restricted cash and investments	3,924,923	7,781,385	1,679,544	-	13,385,852
Total current assets	<u>10,840,232</u>	<u>11,794,722</u>	<u>1,680,640</u>	<u>356,661</u>	<u>24,672,255</u>
Noncurrent assets:					
Land	5,121,649	1,189,930	-	-	6,311,579
Construction in progress	303,587	-	-	-	303,587
Capital assets, net of accumulated depreciation	29,065,136	14,733,835	-	79,482	43,878,453
Total noncurrent assets	<u>34,490,372</u>	<u>15,923,765</u>	<u>-</u>	<u>79,482</u>	<u>50,493,619</u>
Total assets	<u>45,330,604</u>	<u>27,718,487</u>	<u>1,680,640</u>	<u>436,143</u>	<u>75,165,874</u>
DEFERRED OUTFLOWS OF RESOURCES					
Proportionate share of collective deferred outflows of resources	248,025	153,568	-	-	401,593
Total deferred outflows of resources	<u>248,025</u>	<u>153,568</u>	<u>-</u>	<u>-</u>	<u>401,593</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	68,852	375,004	-	27,443	471,299
Payable from restricted assets:					
Customer deposits	1,768	-	-	-	1,768
Accrued interest payable	-	-	261,993	-	261,993
Compensated absences - current portion	33,823	11,778	-	-	45,601
Capital lease payable	39,585	-	-	-	39,585
Revenue bonds - current portion	-	-	917,337	-	917,337
Total current liabilities	<u>144,028</u>	<u>386,782</u>	<u>1,179,330</u>	<u>27,443</u>	<u>1,737,583</u>
Noncurrent:					
Revenue bonds - noncurrent portion	-	-	21,682,262	-	21,682,262
Capital lease payable	-	-	-	-	-
Interim construction LOC	-	-	-	-	-
Compensated absences	45,605	5,637	-	-	51,242
Net pension liability	478,708	301,068	-	-	779,776
Total noncurrent liabilities	<u>524,313</u>	<u>306,705</u>	<u>21,682,262</u>	<u>-</u>	<u>22,513,280</u>
Total liabilities	<u>668,341</u>	<u>693,487</u>	<u>22,861,592</u>	<u>27,443</u>	<u>24,250,863</u>
DEFERRED INFLOWS OF RESOURCES					
Proportionate share of collective deferred inflows of resources	156,963	106,754	-	-	263,717
Total deferred inflows of resources	<u>156,963</u>	<u>106,754</u>	<u>-</u>	<u>-</u>	<u>263,717</u>
NET POSITION					
Net investment in capital assets	34,450,787	15,923,765	(22,861,592)	79,482	27,592,442
Restricted for:					
Debt	973,377	647,075	1,680,640	-	3,301,092
Capital improvements	3,626,789	5,581,465	-	9,826	9,218,080
Inflow & filtration	-	2,199,920	-	-	2,199,920
Kootenai/Ponderay	213,895	-	-	-	213,895
Watershed protection	82,988	-	-	-	82,988
Other	3,037,138	993,076	-	9,826	4,040,040
Unrestricted	2,368,351	1,726,513	-	309,566	4,404,430
Total net position	<u>\$ 44,753,325</u>	<u>\$ 27,071,814</u>	<u>\$ (21,180,952)</u>	<u>\$ 408,700</u>	<u>\$ 51,052,887</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, 2016**

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
OPERATING REVENUES					
Charges for services	\$ 3,382,788	\$ 3,760,753	\$ -	\$ 433,427	\$ 7,576,968
Equipment and meter sales	25,068	9,341	-	-	34,409
Miscellaneous	169,056	13,771	-	-	182,827
Total operating revenues	<u>3,576,912</u>	<u>3,783,865</u>	<u>-</u>	<u>433,427</u>	<u>7,794,204</u>
OPERATING EXPENSES					
Personal services	694,060	407,880	-	-	1,101,940
Contractual services	127,772	159,497	-	310,121	597,390
Other services and charges	217,873	124,361	-	-	342,234
Heat, lights, and power	82,040	103,049	-	11,160	196,249
Depreciation	568,753	710,493	-	12,670	1,291,916
Change in net pension liability	83,461.00	48,071.00	-	-	131,532
Total operating expenses	<u>1,773,959</u>	<u>1,553,351</u>	<u>-</u>	<u>333,951</u>	<u>3,661,261</u>
Operating income	<u>1,802,953</u>	<u>2,230,514</u>	<u>-</u>	<u>99,476</u>	<u>4,132,943</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	37,191	43,124	15,085	1,545	96,945
Interest expense	(3,323)	(985)	(724,955)	-	(729,263)
Gain (loss) on sale of capital assets	18,829	-	-	-	18,829
Total nonoperating revenues (expenses)	<u>52,697</u>	<u>42,139</u>	<u>(709,870)</u>	<u>1,545</u>	<u>(613,489)</u>
Income (loss) before contributions and transfers	<u>1,855,650</u>	<u>2,272,653</u>	<u>(709,870)</u>	<u>101,021</u>	<u>3,519,454</u>
Capital contributions - cap fees	286,900	255,070	-	-	541,970
Contributed water/sewer lines	42,885	-	-	-	42,885.00
Transfers in	64,497	-	1,621,414	-	1,685,911
Transfers out	(1,610,256)	(1,329,065)	-	(203,989)	(3,143,310)
Total transfers	<u>(1,545,759)</u>	<u>(1,329,065)</u>	<u>1,621,414</u>	<u>(203,989)</u>	<u>(1,457,399)</u>
Change in net position	639,676	1,198,658	911,544	(102,968)	2,646,910
Total net position - beginning	44,113,649	25,873,156	(22,092,496)	511,668	48,405,977
Prior period adjustment	-	-	-	-	-
Total net position - ending	<u>\$ 44,753,325</u>	<u>\$ 27,071,814</u>	<u>\$ (21,180,952)</u>	<u>\$ 408,700</u>	<u>\$ 51,052,887</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, 2016

	Water	Sewer	Bond Payment	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 3,563,125	\$ 3,783,929	\$ -	\$ 435,316	\$ 7,782,370
Payments to employees	(772,289)	(467,354)	-	-	(1,239,643)
Payments to suppliers	(435,532)	(122,691)	-	(330,175)	(888,398)
Net cash provided by operating activities	2,355,304	3,193,884	-	105,141	5,654,329
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Additional contributed capital	286,900	255,070	-	-	541,970
Amounts from other funds	3,193	-	-	-	3,193
Operating transfers (out) in	(1,545,759)	(1,329,065)	1,621,414	(203,989)	(1,457,399)
Net cash (used) provided by noncapital financing activities	(1,255,666)	(1,073,995)	1,621,414	(203,989)	(912,236)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of fixed assets	(298,046)	(693,323)	-	-	(991,369)
Proceeds from disposition of assets	31,102	-	-	-	31,102
Principal paid on bonds and leases	(71,942)	(33,426)	(887,948)	-	(993,316)
Interest paid	-	(985)	(733,982)	-	(734,967)
Net cash (used) by capital and related financing activities	(338,886)	(727,734)	(1,621,930)	-	(2,688,550)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	33,868	43,124	15,174	1,545	93,711
Net cash provided by investing activities	33,868	43,124	15,174	1,545	93,711
Net increase in cash and investments	794,620	1,435,279	14,658	(97,303)	2,147,254
Cash and investments, beginning	9,317,907	9,763,517	1,664,886	401,859	21,148,169
Cash and investments, ending	\$ 10,112,527	\$ 11,198,796	\$ 1,679,544	\$ 304,556	\$ 23,295,423
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 1,802,953	\$ 2,230,514	\$ -	\$ 99,476	\$ 4,132,943
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	568,753	710,493	-	12,670	1,291,916
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(13,794)	64	-	1,889	(11,841)
Inventory	2,991	-	-	-	2,991
Increase (decrease) in:					
Vouchers payable	(10,838)	249,800	-	(8,894)	230,068
Items related to net pension liability	5,232	3,013	-	-	8,245
Customer deposits	7	-	-	-	7
Net cash provided by operating activities	\$ 2,355,304	\$ 3,193,884	\$ -	\$ 105,141	\$ 5,654,329
Reconciliation of cash to the statement of net position:					
Cash/investments	\$ 6,187,604	\$ 3,417,411	\$ -	\$ 304,556	\$ 9,909,571
Restricted cash/investments	3,924,923	7,781,385	1,679,544	-	13,385,852
	\$ 10,112,527	\$ 11,198,796	\$ 1,679,544	\$ 304,556	\$ 23,295,423

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, 2016**

	Business Improvement District Agency Fund
ASSETS	
Cash and cash equivalents	\$ 1,921
Accounts receivable	<u>75,171</u>
 Total assets	 <u><u>\$ 77,092</u></u>
 LIABILITIES	
Accounts payable	\$ 1,921
Due to Business Improvement District	<u>75,171</u>
 Total liabilities	 <u><u>\$ 77,092</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, 2016

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, 2016, the City implemented GASB No. 72, *Fair Value Measurement and Application*. 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, 2016

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 *Local Options Tax Fund* is used to account for collected taxes 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, 2016

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, 2016

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, 2016 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, 2016

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, 2016

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, 2016

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, 2016, which were collected and held by the county at September 30, 2016, but not yet remitted to the City until after September 30, 2016.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

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, 2016

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, 2016, 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>33,258,814</u>
Total deposits without exposure to custodial credit risk	<u>\$33,508,814</u>

The following is a recap of the carrying amount:

Statement of net position:	
Cash and investments	\$18,787,757
Restricted cash	14,638,642
Agency fund:	
Fiduciary fund cash	<u>1,921</u>
	<u>\$33,428,320</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, 2016; 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, 2016

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, 2016:

<u>Receivables</u>	<u>Water</u>	<u>Sewer</u>	<u>Bond Payment</u>	<u>Street Lights</u>	<u>Sanitation</u>	<u>Total</u>
Accounts	\$ 601,770	\$ 591,856	\$ -	\$ (12)	\$ 52,202	\$ 1,245,816
Interest	4,344	4,854	1,096	99	74	10,467
Gross receivables	606,114	596,710	1,096	87	52,276	1,256,283
Less: Allowance for uncollectible	(478)	(784)	-	(37)	(221)	(1,520)
Net receivables	<u>\$ 605,636</u>	<u>\$ 595,926</u>	<u>\$ 1,096</u>	<u>\$ 50</u>	<u>\$ 52,055</u>	<u>\$ 1,254,763</u>

NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 2,300,319	\$ -	\$ -	\$ -	\$ 2,300,319
Construction in progress	695,038	205,307	-	(612,900)	287,445
Total capital assets, not being depreciated	<u>2,995,357</u>	<u>205,307</u>	<u>-</u>	<u>(612,900)</u>	<u>2,587,764</u>
Capital assets, being depreciated:					
Buildings	2,072,962	313,471	-	-	2,386,433
Improvements other than buildings	5,648,020	648,957	-	319,119	6,616,096
Machinery and equipment	3,760,498	575,907	(60,800)	293,781	4,569,386
Infrastructure	6,130	54,093	-	-	60,223
Total capital assets being depreciated	<u>11,487,610</u>	<u>1,592,428</u>	<u>(60,800)</u>	<u>612,900</u>	<u>13,632,138</u>
Less accumulated depreciation for:					
Buildings	(965,736)	(42,951)	-	-	(1,008,687)
Other improvements	(2,306,418)	(327,422)	-	-	(2,633,840)
Machinery and equipment	(2,974,658)	(220,049)	58,760	-	(3,135,947)
Infrastructure	(1,679)	(622)	-	-	(2,301)
Total accumulated depreciation	<u>(6,248,491)</u>	<u>(591,044)</u>	<u>58,760</u>	<u>-</u>	<u>(6,780,775)</u>
Total capital assets, being depreciated, net	<u>5,239,119</u>	<u>1,001,384</u>	<u>(2,040)</u>	<u>612,900</u>	<u>6,851,363</u>
Governmental activities capital assets, net	<u>\$ 8,234,476</u>	<u>\$ 1,206,691</u>	<u>\$ (2,040)</u>	<u>\$ -</u>	<u>\$ 9,439,127</u>

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016**

NOTE 5: CHANGES IN FIXED ASSETS (CONCLUDED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 6,029,767	\$ 281,812	\$ -	\$ -	\$ 6,311,579
Construction in progress	234,859	93,614	-	(24,886)	303,587
Total capital assets, not being depreciated	<u>6,264,626</u>	<u>375,426</u>	<u>-</u>	<u>(24,886)</u>	<u>6,615,166</u>
Capital assets, being depreciated:					
Buildings	527,400	-	-	-	527,400
Infrastructure	53,302,326	629,204	-	24,886	53,956,416
Machinery and equipment	2,163,788	29,623	(63,916)	-	2,129,495
Improvements other than buildings	268,396	-	-	-	268,396
Total capital assets, being depreciated	<u>56,261,910</u>	<u>658,827</u>	<u>(63,916)</u>	<u>24,886</u>	<u>56,881,707</u>
Less accumulated depreciation for:					
Buildings	(186,017)	(10,163)	-	-	(196,180)
Infrastructure	(10,078,906)	(1,149,094)	-	-	(11,228,000)
Machinery and equipment	(1,334,214)	(119,463)	51,643	-	(1,402,034)
Improvements	<u>(163,845)</u>	<u>(13,195)</u>	<u>-</u>	<u>-</u>	<u>(177,040)</u>
Total accumulated depreciation	<u>(11,762,982)</u>	<u>(1,291,915)</u>	<u>51,643</u>	<u>-</u>	<u>(13,003,254)</u>
Total capital assets, being depreciated, net	<u>44,498,928</u>	<u>(633,088)</u>	<u>(12,273)</u>	<u>24,886</u>	<u>43,878,453</u>
Business type activities capital assets net	<u>\$ 50,763,554</u>	<u>\$ (257,662)</u>	<u>\$ (12,273)</u>	<u>\$ -</u>	<u>\$ 50,493,619</u>

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

Governmental activities:	
General government	\$ 52,821
Public safety	131,814
Highways and streets, including depreciation of general infrastructure assets	177,475
Culture and recreation	<u>228,934</u>
Total depreciation expense - governmental activities	<u>\$ 591,044</u>
Business -type activities:	
Water	\$ 568,753
Sewer	710,492
Street lights	12,670
Total depreciation expense - business-type activities	<u>\$ 1,291,915</u>

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016**

NOTE 6: BONDS PAYABLE

Bonds payable at September 30, 2016 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%.	\$ 1,336,248
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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%	5,645,000
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2012 Water Facility Improvement Bonds

Payable in annual installments of \$444,510 including 2.75% interest	8,178,853
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2013 Water Facility Improvement Bonds

Payable in annual installments of \$382,240 including 2.50% interest	7,439,498
---	-----------

	<u>\$ 22,599,599</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>
2017	\$ 917,337	\$ 703,112
2018	952,174	671,156
2019	982,475	638,455
2020	1,018,256	604,674
2021	1,054,532	569,598
2022-2026	5,845,340	2,268,480
2027-2031	3,740,452	1,336,827
2032-2036	3,236,612	897,138
2037-2041	3,686,091	447,659
2042-2043	1,166,330	40,366
	<u>\$ 22,599,599</u>	<u>\$ 8,177,466</u>

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016**

NOTE 7: SPECIAL ASSESSMENT DEBT

		Interest			
	<u>Maturity Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
LID #32	2017	4.75%	\$ 3,751	\$ 3,106	\$ 6,857
	2018	4.75%	3,929	2,928	6,857
	2019	4.75%	4,115	2,742	6,857
	2020	4.75%	4,311	2,546	6,857
	2021	4.75%	4,516	2,341	6,857
	2022-2026	4.75%	26,007	8,275	34,282
	2027-2029	4.75%	18,756	1,809	20,565
			<u>65,385</u>	<u>23,747</u>	<u>89,132</u>
LID #2002-02	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>30,193</u>	<u>3,693</u>	<u>33,886</u>
LID #2006-01	2017	4.50%	14,663	1,349	16,012
	2018	4.50%	15,322	690	16,012
			<u>29,985</u>	<u>2,039</u>	<u>32,024</u>
LID #2007-01	2017	5.50%	7,319	1,256	8,575
	2018	5.50%	7,721	854	8,575
	2019	5.50%	7,973	602	8,575
			<u>23,013</u>	<u>2,712</u>	<u>25,725</u>
Total special assessment bonds payable			<u>\$ 148,576</u>	<u>\$ 32,191</u>	<u>\$ 180,767</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.

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 8: CAPITAL LEASES

The City of Sandpoint entered into a new lease for the purchase of a Western Star Dump Truck for \$124,920 and a new Aerial Fire Apparatus of \$295,781.18. Existing leases include; a Front-end Loader for the Water Department in the amount \$205,512.71 and a Verti-drain Aerator for the Parks Department in the amount of \$24,795.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Machinery and equipment	\$ 445,496	\$ 205,513
Less: accumulated depreciation	(20,073)	(32,540)
Total	\$ 425,423	\$ 172,973
Future minimum lease payments are as follows:		
2017	\$ 78,180	\$ 40,775
2018	70,449	-
2019	70,447	-
2020	37,978	-
2021	37,977	-
2022-2025	151,909	-
	446,940	40,775
Less amount representing interest	(51,697)	(1,190)
Total	\$ 395,243	\$ 39,585

NOTE 9: CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 319,290	\$ 15,994	\$ -	\$ 335,284	\$ 165,403
Special assessment bonds payable	182,034	-	33,458	148,576	35,217
Lease purchase contracts payable	14,831	420,700	40,288	395,243	66,392
Governmental activities long-term liabilities	\$ 516,155	\$ 436,694	\$ 73,746	\$ 879,103	\$ 267,012
Business-type activities:					
Revenue bonds payable	\$23,487,547	\$ -	\$ 887,948	\$22,599,599	\$ 917,337
Lease purchase contracts payable	144,953	-	105,368	39,585	39,585
Compensated absences	146,650	-	49,807	96,843	45,601
Business-type activities long-term liabilities	\$23,779,150	\$ -	\$1,043,123	\$22,736,027	\$ 1,002,523

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 10: 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	\$ 6,915,309	\$ 4,013,337
Restricted assets - cash investments	3,924,923	7,781,385
Capital assets	34,490,372	15,923,765
Total assets	45,330,604	27,718,487
Deferred outflows of resources:		
Proportionate share of collective deferred outflows of resources	248,025	153,568
Liabilities:		
Current liabilities	144,028	386,782
Noncurrent liabilities	524,313	306,705
Total liabilities	668,341	693,487
Deferred inflows of resources:		
Proportionate share of collective deferred inflows of resources	156,963	106,754
Net position:		
Net investment in capital assets	34,450,787	15,923,765
Restricted	7,934,187	9,421,536
Unrestricted	2,368,351	1,726,513
Total net position	\$ 44,753,325	\$ 27,071,814
	Water Funds	Sewer Funds
Condensed statement of revenues, expenses and changes in net position:		
Operating revenues	\$ 3,576,912	\$ 3,783,865
Operating expenses	(1,773,959)	(1,553,351)
Operating income	1,802,953	2,230,514
Nonoperating revenues (expenses)	52,697	42,139
Capital contributions - cap fees	286,900	255,070
Contributed water/sewer lines	42,885	-
Net transfers in/(out)	(1,545,759)	(1,329,065)
	(1,163,277)	(1,031,856)
Change in net position	639,676	1,198,658
Prior period adjustment	-	-
Beginning net position	44,113,649	25,873,156
Ending net position	\$ 44,753,325	\$ 27,071,814
Condensed statement of cash flows:		
Net cash provided (used) by:		
Operating activities	\$ 2,355,304	\$ 3,193,884
Noncapital financing activities	(1,255,666)	(1,073,995)
Capital and related financial activities	(338,886)	(727,734)
Investing activities	33,868	43,124
Net increase	794,620	1,435,279
Beginning cash and cash equivalents	9,317,907	9,763,517
Ending cash and cash equivalents	\$ 10,112,527	\$ 11,198,796

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 11: INTERFUND TRANSACTIONS

Interfund transfers (net) during the fiscal year ended September 30, 2016 were as follows:

	Transfers In	Transfers Out
General fund	\$ 1,459,846	\$ 33,408
Nonmajor governmental funds	33,408	2,447
Enterprise funds	64,497	2,939,321
Bond payment fund	1,621,414	-
Nonmajor enterprise funds	-	203,989
	\$ 3,179,165	\$ 3,179,165

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

NOTE 12: DEFINED BENEFIT PENSION PLAN

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.

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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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, 2016 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 \$434,757 for the year ended September 30, 2016.

As of June 30, 2016 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 \$73,221 for the year ended September 30, 2016.

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016**

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

At September 30, 2016, 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 June 30, 2016, 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 June 30, 2016 the City's proportion was 0.9377482 percent.

At September 30, 2016, 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 June 30, 2016, 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 June 30, 2016 the City's proportion was 0.1529441 percent.

For the year ended September 30, 2016, the City of Sandpoint recognized pension expense (revenue) of \$443,485. At September 30, 2016 the City of Sandpoint reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,741,917	\$ 419,113
Changes of assumptions	68,920	-
Net difference between projected and actual earnings on pension plan investments	-	705,091
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	(9,211)	-
City of Sandpoint's contributions subsequent to the measurement date	46,415	-
Total	<u>\$ 1,848,041</u>	<u>\$ 1,124,204</u>

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$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 September 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, 2015 the beginning of the measurement period ended June 30, 2016 is 4.9 and 5.5 years for the measurement period June 30, 2015.

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:

2017	\$	13,476
2018	\$	13,476
2019	\$	425,115
2020	\$	234,568
2021	\$	-

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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 for the period July 1, 2007 through June 30, 2013 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, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

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.

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2016.

Asset Class	Index	Target Allocation	Long-Term Expected Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Russell 3000	55.00%	6.35%
Developed Foreign Equities	MSCI ACWI ex USA	15.00%	7.30%
Actuarial Assumptions			
Assumed Inflation - Mean			3.25%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.08%
Portfolio Standard Deviation			12.59%
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, 2016**

NOTE 12: 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>
Employer's net pension liability (asset) - City	\$ 5,874,864	\$ 2,596,387	\$ (134,131)

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 13: CONTINGENCIES

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

NOTE 14: DEFERRED COMPENSATION PLANS

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

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

(Continued)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

NOTE 14: 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 15: RISK MANAGEMENT

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

NOTE 16: DEFICIT FUND BALANCES

A deficit balance exists in the following individual funds:

	<u>Deficit Net Position Balance</u>
Bond Payment Fund	\$(<u>21,180,952</u>)

NOTE 17: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits held in checking and money market accounts with a local bank. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At September 30, 2016, 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, 2016, totaled \$2,293,230 (including restricted cash and cash equivalents). A summary of the total insured and uninsured bank balances at September 30, 2016 is as follows:

Total bank balances	\$2,293,230
Portion insured by FDIC	<u>(250,000)</u>
Uninsured bank balances	<u>\$2,043,230</u>

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016**

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

RECEIVABLES

Receivables at September 30, 2016 are summarized as follows:

Unearned property taxes receivable	\$1,047,020
Property taxes receivable	4,156
Delinquent property taxes receivable	<u>10,686</u>
	<u>\$1,061,862</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.

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, 2016, the Agency had restricted cash of \$126,152, 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>
2017	\$ 216,061	\$ 34,810	\$ 250,871
2018	223,796	27,075	250,871
2019	231,808	19,063	250,871
2020	240,071	10,800	250,871
2021	<u>124,241</u>	<u>1,94</u>	<u>125,435</u>
Total	<u>\$1,035,976</u>	<u>\$92,943</u>	<u>\$1,128,919</u>

(Continued)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016**

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

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2016 as follows:

	Long-Term Obligations September 30, <u>2015</u>	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations September 30, <u>2016</u>	Due Within One Year
Revenue allocation note	<u>\$1,243,564</u>	<u>\$ -</u>	<u>\$ (207,588)</u>	<u>\$1,035,976</u>	<u>\$216,060</u>

COMMITMENTS AND CONTINGENCIES (SURA)

As of September 30, 2016, 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, 2016, the Agency had provided funding-to-date totaling \$404,874 related to this project. The remaining maximum commitment on this project at September 30, 2016 was \$45,126.

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 Church Street, between First and Fifth Avenues, 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, 2016, the Agency had provided funding-to-date totaling \$592,246 relate to these projects. The remaining commitment of these projects at September 30, 2016 was \$7,754.

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, 2016

	Final Budgeted Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes	\$ 4,046,448	\$ 4,156,105	\$ 109,657
Licenses and permits	204,704	250,935	46,231
Grants	3,358,735	425,188	(2,933,547)
Intergovernmental revenue	1,938,200	2,026,189	87,989
Interest	5,235	26,920	21,685
Charges for services	535,221	371,478	(163,743)
Fines and forfeits	83,000	108,110	25,110
Miscellaneous revenues	1,528,838	5,390	(1,523,448)
Total revenues	<u>11,700,381</u>	<u>7,370,315</u>	<u>(4,330,066)</u>
EXPENDITURES			
General government	2,817,737	2,122,266	695,471
Public safety	3,445,596	3,064,074	381,522
Highways and streets	2,388,693	1,244,106	1,144,587
Culture and recreation	802,185	745,522	56,663
Capital outlay	3,473,058	914,338	2,558,720
Debt service:			
Principal retirement	79,300	40,288	39,012
Interest expense	450	443	7
Total expenditures	<u>13,007,019</u>	<u>8,131,037</u>	<u>4,875,982</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,306,638)</u>	<u>(760,722)</u>	<u>545,916</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	5,000	30,000	25,000
Capital leases	-	420,700	420,700
Transfers in	1,335,046	1,459,846	124,800.00
Transfers (out)	(33,408)	(33,408)	-
Total other financing sources (uses)	<u>1,306,638</u>	<u>1,877,138</u>	<u>570,500</u>
Net change in fund balances	-	1,116,416	1,116,416
Fund balances - beginning	-	6,056,982	6,056,982
Fund balances - ending	<u>\$ -</u>	<u>\$ 7,173,398</u>	<u>\$ 7,173,398</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 LOCAL OPTIONS TAX For the Year Ended September 30, 2016

	<u>Final Budgeted Amounts *</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
REVENUES			
Taxes and special assessments	\$ 3,032,545	\$ 924,291	\$ (2,108,254)
Interest	-	1,047	1,047
Miscellaneous revenues	-	3,704	3,704
Total revenues	<u>3,032,545</u>	<u>929,042</u>	<u>(2,103,503)</u>
EXPENDITURES			
Culture and recreation	32,545	29,818	2,727
Capital outlay	3,000,000	89,093	2,910,907
Total expenditures	<u>3,032,545</u>	<u>118,911</u>	<u>2,913,634</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>810,131</u>	<u>810,131</u>
Net change in fund balances	-	810,131	810,131
Fund balances - beginning	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ 810,131</u>	<u>\$ 810,131</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, 2016**

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

	2016		2015
Employer's portion of the net pension liability	0.1529441%		0.1536525%
Employer's proportionate share of the net pension liability	\$ 3,100,412	\$	2,023,353
Employer's covered-employee payroll	\$ 3,810,467	\$	3,672,792
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	81.37%		55.09%
Plan fiduciary net position as a percentage of the total pension liability	94.95%		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 June 30, 2016.

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

	2016		2016
Statutorily required contribution	\$ 434,757	\$	419,176
Contributions in relation to the statutorily required contribution	434,757		419,176
Contribution deficiency (excess)	\$ -	\$	-
Employer's covered-employee payroll of its covered employee payroll	\$ 3,810,467	\$	3,672,792
Contributions as a percentage of covered-employee payroll	11.41%		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, 2016.

City of Sandpoint

**GASB 68 Required Supplementary Information
For the Year Ended September 30, 2016**

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

	<u>2016</u>		<u>2015</u>
Employer's portion of the net pension liability	0.9377482%		0.8906485%
Employer's proportionate share of the net pension liability	\$ 1,816,611	\$	481,045
Employer's covered-employee payroll	\$ 439,502	\$	629,835
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	413.33%		76.38%
Plan fiduciary net position as a percentage of the total pension liability	118.42%		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 June 30, 2016.

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

	<u>2016</u>		<u>2015</u>
Statutorily required contribution	\$ 73,221	\$	122,514
Contributions in relation to the statutorily required contribution	73,221		122,514
Contribution deficiency (excess)	\$ -	\$	-
Employer's covered-employee payroll of its covered employee payroll	\$ 439,502	\$	629,835
Contributions as a percentage of covered-employee payroll	16.66%		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, 2016.

FINANCIAL SECTION

OTHER SUPPLEMENTARY INFORMATION

City of Sandpoint

NONMAJOR GOVERNMENTAL FUNDS September 30, 2016

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".

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

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, 2016

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ -	\$ 830,616	\$ 830,616
Receivables	89,088	22,603	111,691
Restricted assets:			
Cash and investments	278,836	659,226	938,062
Total assets	\$ 367,924	\$ 1,512,445	\$ 1,880,369
LIABILITIES			
Vouchers payable	\$ -	\$ 51,727	\$ 51,727
Customer deposits	-	4,778	4,778
Total liabilities	-	56,505	56,505
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	86,476	-	86,476
Unavailable revenue-special assessments	-	4,845	4,845
Total deferred inflows of resources	86,476	4,845	91,321
FUND BALANCES			
Restricted	281,448	35,975	317,423
Committed	-	646,238	646,238
Assigned	-	768,882	768,882
Total fund balance	281,448	1,451,095	1,732,543
Total liabilities, deferred inflows of resources, and fund balance	\$ 367,924	\$ 1,512,445	\$ 1,880,369

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, 2016

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES			
Special assessments and taxes	\$ 45,068	\$ 169,996	\$ 215,064
Impact fees	-	168,284	168,284
Interest	1,075	6,053	7,128
Charges for services	-	392,363	392,363
Grants	-	4,000	4,000
Miscellaneous revenues	-	20,977	20,977
Total revenues	<u>46,143</u>	<u>761,673</u>	<u>807,816</u>
EXPENDITURES			
General government	36	(82)	(46)
Highways and streets	-	44,973	44,973
Culture and recreation	-	323,202	323,202
Capital outlay	-	794,304	794,304
Debt service:			
Principal retirement	33,458	-	33,458
Interest expense	9,282	-	9,282
Total expenditures	<u>42,776</u>	<u>1,162,397</u>	<u>1,205,173</u>
(Deficiency) excess of revenues (under) over expenditures	<u>3,367</u>	<u>(400,724)</u>	<u>(397,357)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	33,408	33,408
Transfers (out)	-	(2,447)	(2,447)
Total other financing sources (uses)	<u>-</u>	<u>30,961</u>	<u>30,961</u>
Net change in fund balances	3,367	(369,763)	(366,396)
Fund balances - beginning	<u>278,081</u>	<u>1,820,858</u>	<u>2,098,939</u>
Fund balances - ending	<u>\$ 281,448</u>	<u>\$ 1,451,095</u>	<u>\$ 1,732,543</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, 2016**

	LID #32	LID #2002-01	LID #2002-02
ASSETS			
Receivables:			
Special assessments	\$ 17,228	\$ -	\$ 24,639
Interest	396	1	-
Restricted assets:			
Cash and investments	211,136	2,101	1,632
Total assets	\$ 228,760	\$ 2,102	\$ 26,271
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	\$ 17,229	\$ -	\$ 24,639
Total deferred inflows of resources	17,229	-	24,639
FUND BALANCES			
Restricted for debt service	211,531	2,102	1,632
Total liabilities, deferred inflows of resources, and fund balances	\$ 228,760	\$ 2,102	\$ 26,271

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

LID #2006-01	LID #2007-01	LID Guarantee	Total
\$ 20,884	\$ 23,727	\$ -	\$ 86,478
2,196	-	17	2,610
14,331	10,975	38,661	278,836
<u>\$ 37,411</u>	<u>\$ 34,702</u>	<u>\$ 38,678</u>	<u>\$ 367,924</u>
\$ 20,884	\$ 23,724	\$ -	\$ 86,476
<u>20,884</u>	<u>23,724</u>	<u>-</u>	<u>86,476</u>
<u>16,527</u>	<u>10,978</u>	<u>38,678</u>	<u>281,448</u>
<u>\$ 37,411</u>	<u>\$ 34,702</u>	<u>\$ 38,678</u>	<u>\$ 367,924</u>

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2016**

	LID #32	LID # 2002-01	LID # 2002-02
REVENUES			
Special assessments	\$ 11,245	\$ -	\$ 9,486
Interest	797	8	22
Total revenues	<u>12,042</u>	<u>8</u>	<u>9,508</u>
EXPENDITURES			
General government	36	-	-
Debt service:			
Principal	3,581	-	8,947
Interest	3,276	-	2,348
Total expenditures	<u>6,893</u>	<u>-</u>	<u>11,295</u>
(Deficiency) excess of revenues (under) over expenditures	<u>5,149</u>	<u>8</u>	<u>(1,787)</u>
Net change in fund balances	5,149	8	(1,787)
Fund balances - beginning	<u>206,382</u>	<u>2,094</u>	<u>3,419</u>
Fund balances - ending	<u>\$ 211,531</u>	<u>\$ 2,102</u>	<u>\$ 1,632</u>

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

LID # 2006-01	LID # 2007-01	LID Guarantee	Total
\$ 15,381	\$ 8,956	\$ -	\$ 45,068
59	44	145	1,075
<u>15,440</u>	<u>9,000</u>	<u>145</u>	<u>46,143</u>
-	-	-	36
14,032	6,898	-	33,458
1,981	1,677	-	9,282
<u>16,013</u>	<u>8,575</u>	<u>-</u>	<u>42,776</u>
<u>(573)</u>	<u>425</u>	<u>145</u>	<u>3,367</u>
(573)	425	145	3,367
<u>17,100</u>	<u>10,553</u>	<u>38,533</u>	<u>278,081</u>
<u>\$ 16,527</u>	<u>\$ 10,978</u>	<u>\$ 38,678</u>	<u>\$ 281,448</u>

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2016**

	Recreation	Impact Fees	Parks Improvement	Bonner Business Center	Total
ASSETS					
Cash and investments	\$ 378,360	\$ -	\$ 429,162	\$ 23,094	\$ 830,616
Receivables:					
Taxes	5,677	-	-	-	5,677
Accounts	156	264	9,001	7,505	16,926
Restricted assets:					
Cash and investments, at cost	-	637,887	21,339	-	659,226
Total assets	<u>\$ 384,193</u>	<u>\$ 638,151</u>	<u>\$ 459,502</u>	<u>\$ 30,599</u>	<u>\$ 1,512,445</u>
LIABILITIES					
Vouchers payable	\$ 16,249	\$ 32,482	\$ 2,996	\$ -	\$ 51,727
Customer deposits	-	-	-	4,778	4,778
Due to other funds	-	-	-	-	-
Total liabilities	<u>16,249</u>	<u>32,482</u>	<u>2,996</u>	<u>4,778</u>	<u>56,505</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	4,845	-	-	-	4,845
Total deferred inflows of resources	<u>4,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,845</u>
FUND BALANCES					
Restricted	-	-	35,975	-	35,975
Committed	-	507,000	139,238	-	646,238
Assigned	363,099	98,669	281,293	25,821	768,882
Total fund balances	<u>363,099</u>	<u>605,669</u>	<u>456,506</u>	<u>25,821</u>	<u>1,451,095</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 384,193</u>	<u>\$ 638,151</u>	<u>\$ 459,502</u>	<u>\$ 30,599</u>	<u>\$ 1,512,445</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, 2016**

	Recreation	Impact Fees	Parks Improvement	Bonner Business Center	Total
REVENUES					
Property taxes	\$ 169,996	\$ -	\$ -	\$ -	\$ 169,996
Impact fees	-	168,284	-	-	168,284
Interest	1,430	2,194	2,429	-	6,053
Charges for services	100,289	-	292,074	-	392,363
Grants	4,000	-	-	-	4,000
Miscellaneous revenues	3,755	-	17,222	-	20,977
Total revenues	<u>279,470</u>	<u>170,478</u>	<u>311,725</u>	<u>-</u>	<u>761,673</u>
EXPENDITURES					
General government	-	-	-	(82)	(82)
Highways and streets	-	44,973	-	-	44,973
Culture and recreation	263,238	-	59,964	-	323,202
Capital outlay	-	-	794,304	-	794,304
Total expenditures	<u>263,238</u>	<u>44,973</u>	<u>854,268</u>	<u>(82)</u>	<u>1,162,397</u>
(Deficiency) excess of revenues (under) over expenditures	<u>16,232</u>	<u>125,505</u>	<u>(542,543)</u>	<u>82</u>	<u>(400,724)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	33,408	-	-	-	33,408
Transfers (out)	(2,447)	-	-	-	(2,447)
Total other financing sources (uses)	<u>30,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,961</u>
Net change in fund balances	47,193	125,505	(542,543)	82	(369,763)
Fund balances - beginning	<u>315,906</u>	<u>480,164</u>	<u>999,049</u>	<u>25,739</u>	<u>1,820,858</u>
Fund balances - ending	<u>\$ 363,099</u>	<u>\$ 605,669</u>	<u>\$ 456,506</u>	<u>\$ 25,821</u>	<u>\$ 1,451,095</u>

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

City of Sandpoint

NONMAJOR BUSINESS-TYPE FUNDS September 30, 2016

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, 2016**

	Street Lights	Sanitation	Total
ASSETS			
Cash and investments	\$ 115,407	\$ 189,149	\$ 304,556
Receivables	50	52,055	52,105
Capital assets, net of depreciation	79,482	-	79,482
Total assets	<u>194,939</u>	<u>241,204</u>	<u>436,143</u>
LIABILITIES			
Accounts payable and accrued expenses	-	27,443	27,443
Total liabilities	<u>-</u>	<u>27,443</u>	<u>27,443</u>
NET POSITION			
Net investment in capital assets	79,482	-	79,482
Restricted - capital improvement	-	9,826	9,826
Unrestricted	115,457	203,935	319,392
Total net position	<u>\$ 194,939</u>	<u>\$ 213,761</u>	<u>\$ 408,700</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, 2016

	Street Lights	Sanitation	Total
Operating revenues:			
Charges for services	\$ 325	\$ 433,102	\$ 433,427
Total operating revenues	325	433,102	433,427
Operating expenses:			
Contractual services	-	310,121	310,121
Heat, lights, and power	-	11,160	11,160
Depreciation	12,670	-	12,670
Total operating expenses	12,670	321,281	333,951
Operating income	(12,345)	111,821	99,476
Nonoperating revenues:			
Interest income	916	629	1,545
Total nonoperating revenues	916	629	1,545
Income before transfers	(11,429)	112,450	101,021
Transfers (out)	(124,800)	(79,189)	(203,989)
Change in net position	(136,229)	33,261	(102,968)
Total net position - beginning	331,168	180,500	511,668
Total net position - ending	\$ 194,939	\$ 213,761	\$ 408,700

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, 2016**

	Street Lights	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,388	\$ 433,928	\$ 435,316
Payments to suppliers	(9,783)	(320,392)	(330,175)
Net cash provided by operating activities	(8,395)	113,536	105,141
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers (out)	(124,800)	(79,189)	(203,989)
Net cash (used) by noncapital financing activities	(124,800)	(79,189)	(203,989)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income, net	916	629	1,545
Net cash provided by investing activities	916	629	1,545
Net (decrease) increase in cash and investments	(132,279)	34,976	(97,303)
Cash and investments - beginning	247,686	154,173	401,859
Cash and investments - ending	\$ 115,407	\$ 189,149	\$ 304,556
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (12,345)	\$ 111,821	\$ 99,476
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	1,063	826	1,889
(Decrease) increase in vouchers payable	(9,783)	889	(8,894)
Net cash provided by operating activities	\$ (8,395)	\$ 113,536	\$ 105,141

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, 2016, 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 April 6, 2017. 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's Company, P.A.

Magnuson, McHugh & Co., P.A.

April 6, 2017