City of Sandpoint

Financial Statements
September 30, 2017

CITY OF SANDPOINT
September 30, 2017

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor's Report ..... 1 – 3

Management's Discussion and Analysis ..... 4 – 16

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position 17

Statement of Activities ..... 18 – 19

Fund Financial Statements:

Governmental Funds:

Balance Sheet 20

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 21

Statement of Revenues, Expenditures and Changes in Fund Balances 22

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 23

Proprietary Funds:

Statement of Net Position 24

Statement of Revenues, Expenses and Changes in Net Position 25

Statement of Cash Flows 26

Agency Funds:

Statement of Net Position 27

Notes to the Basic Financial Statements ..... 28 – 52

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund 53

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Local Options Tax 54

Schedule of Employers' Share of Net Pension Liability 55

Schedule of Employer Contributions 55

Schedule of Employers' Share of Net Pension Liability – FRF 56

Schedule of Employer Contributions – FRF 56

TABLE OF CONTENTS

OTHER SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds Description - Debt Service Funds & Special Revenue Funds 57

Combining Balance Sheet – Nonmajor Governmental Funds 58

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds 59

Combining Balance Sheet – Nonmajor Debt Service Funds ..... 60 – 61

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds ..... 62 – 63

Combining Balance Sheet – Nonmajor Special Revenue Funds 64

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds 65

Nonmajor Business-Type Funds Description – Activities 66

Combining Statement of Net Position – Nonmajor Proprietary Funds 67

Combining Statement of Revenues, Expenses and Changes in Fund Net Position – Nonmajor Proprietary Funds 68

Combining Statement of Cash Flows – Nonmajor Proprietary Funds 69

SINGLE AUDIT SECTION

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* ..... 70 – 71

Report on Compliance for Each Major Federal Program and Report On Internal Control Over Compliance in Accordance With the Uniform Guidance ..... 72 – 73

Schedule of Expenditures of Federal Awards 74

Notes to the Schedule of Expenditures of Federal Awards 75

Schedule of Findings and Questioned Costs ..... 76 – 77

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, 2017, 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.

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, 2017, 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 combining and individual nonmajor fund financial statements, and the Schedule of Expenditures of Federal Awards required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards 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 combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2018 on our consideration of City of Sandpoint's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sandpoint's internal control over financial reporting and compliance

Magnuson, McHugh & Company, P.A.

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

February 22, 2018

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017. 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 $75,137,053. Of this amount $12,044,149 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 $6,852,878 from prior year ($3,629,300 for Governmental Activities and $3,223,578 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 $8,813,575, a decrease of $902,497 in comparison with the prior fiscal year.

- At the end of the current fiscal year, unrestricted fund balance for the general fund was $419,177 or approximately 4% 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 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 $(1,098,376) and the total expended has been $3,324,685 towards the community project. The Local Option Tax Fund has been reported as a major fund and tracks 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.

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.

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 20 – 23 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 24 – 26 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 27 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 28 – 52 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 57 – 69 of this report.

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 $75,137,053 at the close of the most recent fiscal year.

Table1

STATEMENTS OF NET POSITION
September 30, 2017 and 2016

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 11,208,892	$ 11,238,374	$ 26,096,466	$ 24,672,255	$ 37,305,358	$ 35,910,629
Capital assets	12,216,846	9,439,127	50,091,939	50,493,619	62,308,785	59,932,746
Total assets	23,425,738	20,677,501	76,188,405	75,165,874	99,614,143	95,843,375
Deferred outflow of resourses						
Proportionate share of collective deferred outflows of resourses	210,045	1,446,448	163,857	401,593	373,902	1,848,041
Total deferred outflow of resoures	210,045	1,446,448	163,857	401,593	373,902	1,848,041
Long-term liabilities outstanding	826,506	879,103	20,246,656	22,736,027	21,073,162	23,615,130
Other liabilities	1,707,361	3,153,071	1,680,001	1,514,836	3,387,362	4,667,907
Total liabilities	2,533,867	4,032,174	21,926,657	24,250,863	24,460,524	28,283,037
Deferred inflow of resourses						
Proportionate share of collective deferred inflows of resourses	241,328	860,487	149,340	263,717	390,668	1,124,204
Total deferred outflow of resoures	241,328	860,487	149,340	263,717	390,668	1,124,204
Net position:						
Net investment in capital assets	12,902,545	8,895,308	29,939,677	27,592,442	42,842,222	36,487,750
Restricted	415,239	544,669	19,835,443	19,056,015	20,250,682	19,600,684
Unrestricted	7,542,804	7,791,311	4,501,345	4,404,430	12,044,149	12,195,741
Total net position	$ 20,860,588	$ 17,231,288	$ 54,276,465	$ 51,052,887	$ 75,137,053	$ 68,284,175

By far, the largest portion of the City of Sandpoint's net position (57%) 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.

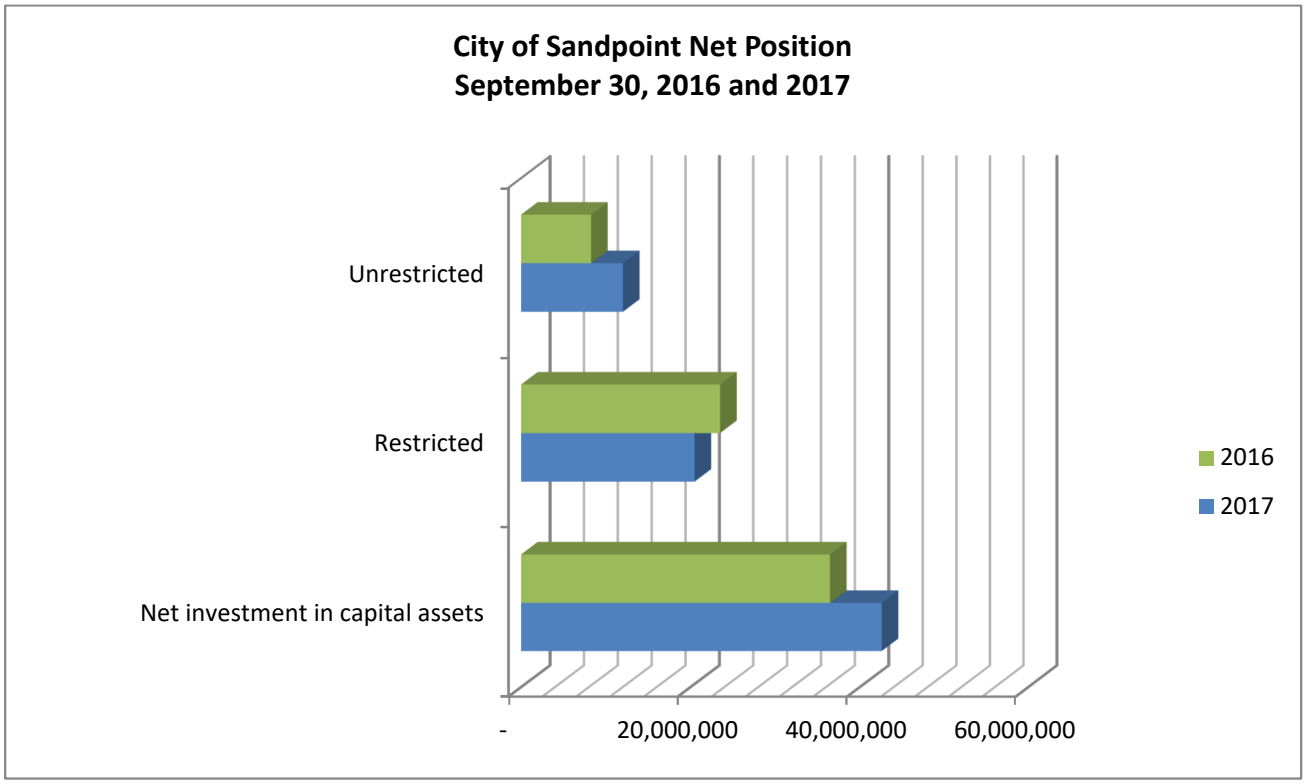
An additional portion of the City of Sandpoint's net position (27%) represents resources that are subject to external restrictions on how they may be used. The remaining balance $12,044,149 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

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.

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

The City of Sandpoint's overall net position increased $6,852,878 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 21% or 3,629,300 from the prior fiscal year for an ending balance of $20,860,588 compared to prior year's balance of $17,231,288. 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.



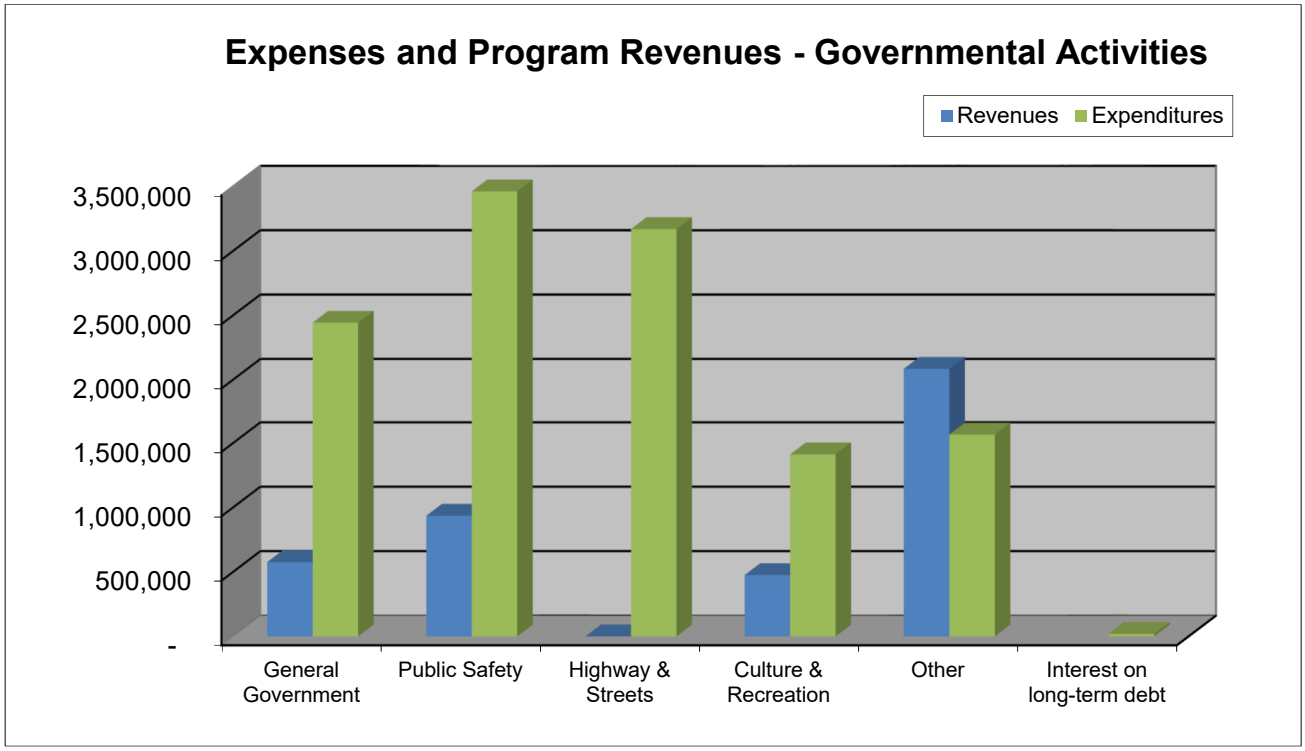
GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

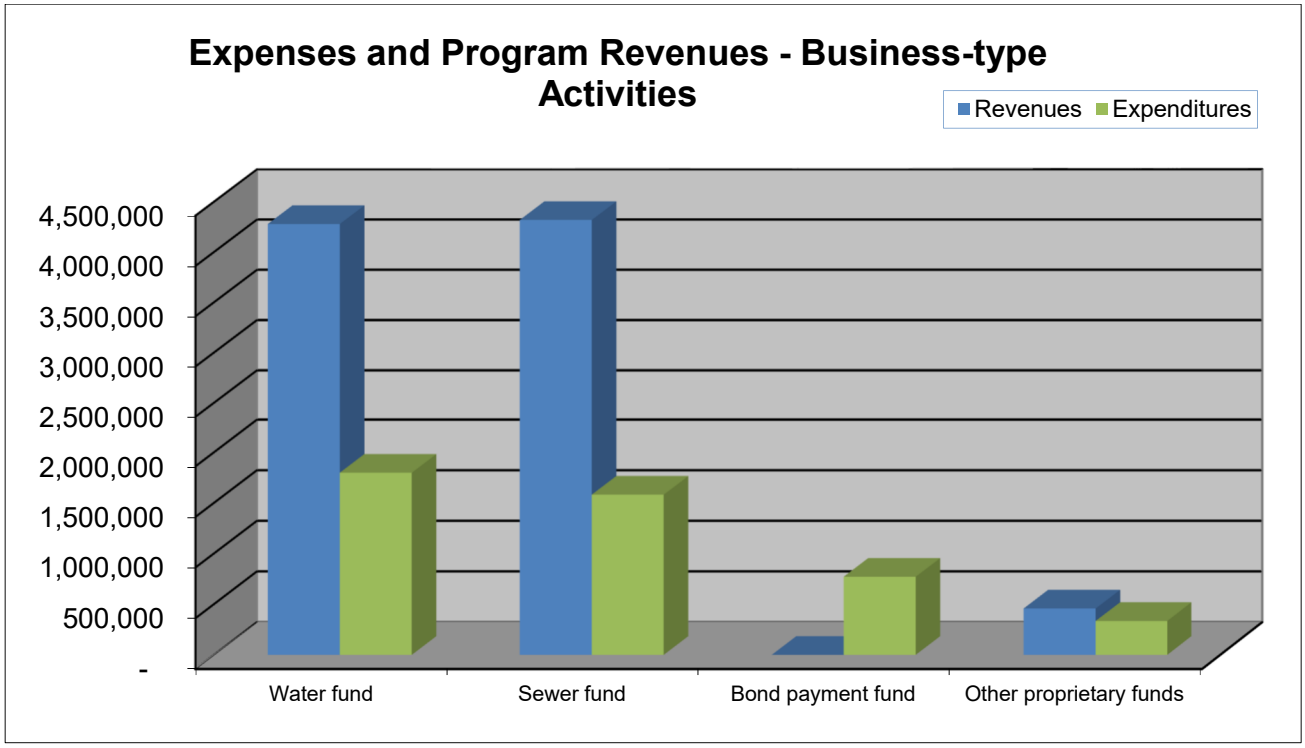
Table 2

CHANGES IN NET POSITION
September 30, 2017 and 2016

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	2,170,891	1,291,170	7,917,707	7,794,204	10,088,598	9,085,374
Capital Grants	1,897,954	429,188	749,562	584,855	2,647,516	1,014,043
General revenues:						
Property taxes & special assessments	5,847,046	5,250,277	-	-	5,847,046	5,250,277
Investment Earnings	75,009	35,095	230,571	96,945	305,580	132,040
Miscellaneous	354,347	30,071	-	-	354,347	30,071
Intergovernmental	3,091,327	2,026,189	-	-	3,091,327	2,026,189
Gain on disposal of assets	833	27,960	114,052	18,829	114,885	46,789
Total revenues	13,437,407	9,089,950	9,011,892	8,494,833	22,449,299	17,584,783
Expenses:						
General government	2,442,734	2,189,815	-	-	2,442,734	2,189,815
Public safety	3,462,445	3,195,888	-	-	3,462,445	3,195,888
Highways & streets	3,169,182	1,466,554	-	-	3,169,182	1,466,554
Culture & recreation	1,411,630	1,328,696	-	-	1,411,630	1,328,696
Other	1,565,611	-	-	-	1,565,611	-
Interest on long-term debt	18,947	17,769		-	18,947	17,769
Change in net pension liability	(194,684)	311,953			(194,684)	311,953
Unallocated actual PERSI contributions	(374,628)	(416,749)			(374,628)	(416,749)
Water	-	-	1,789,125	1,777,282	1,789,125	1,777,282
Sewer	-	-	1,581,066	1,554,336	1,581,066	1,554,336
Bond payment fund			769,991	724,955	769,991	724,955
Bond construction fund	-	-	-	-	-	-
Other proprietary funds	-	-	334,205	333,951	334,205	333,951
Total expenses	11,501,237	8,093,926	4,474,387	4,390,524	15,975,624	12,484,450
(Decreases) Increases in net assets before transfers	1,936,170	996,024	4,537,505	4,104,309	6,473,675	5,100,333
Transfers	1,693,130	1,457,399	(1,693,130)	(1,457,399)	-	-
Increase in net position	3,629,300	2,453,423	2,844,375	2,646,910	6,473,675	5,100,333
Net position – beginning	17,231,288	14,777,865	51,052,887	48,405,977	68,284,175	63,183,842
Prior period adjustsment	-		-		-	
Net position - ending	20,860,588	17,231,288	53,897,262	51,052,887	74,757,850	68,284,175

GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)





GOVERNMENTAL-WIDE OVERALL FINANCIAL ANALYSIS (CONCLUDED)

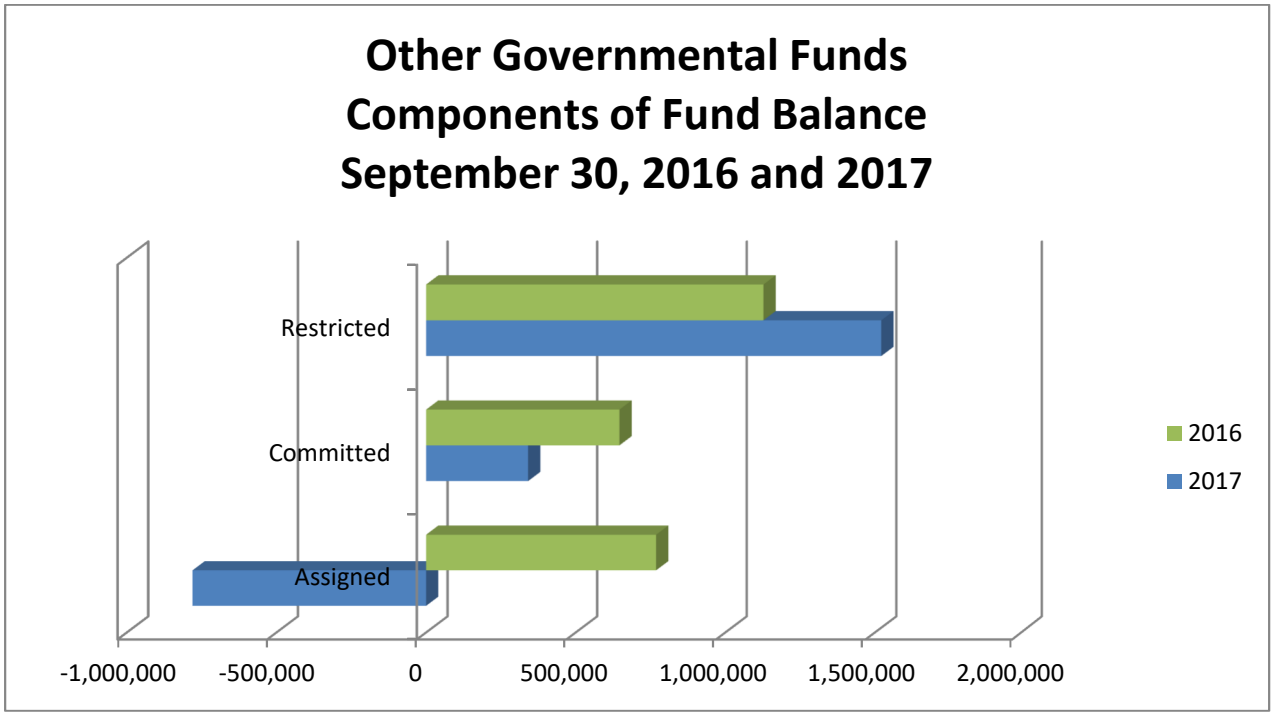
Business-type activities. For the City of Sandpoint's business-type activities, the results for the current fiscal year were positive in that the overall net position at fiscal year-end was $54,276,465. The total increase in net position for business-type activities (water, sewer, street lights and garbage) was $3,223,578 or 6% 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.

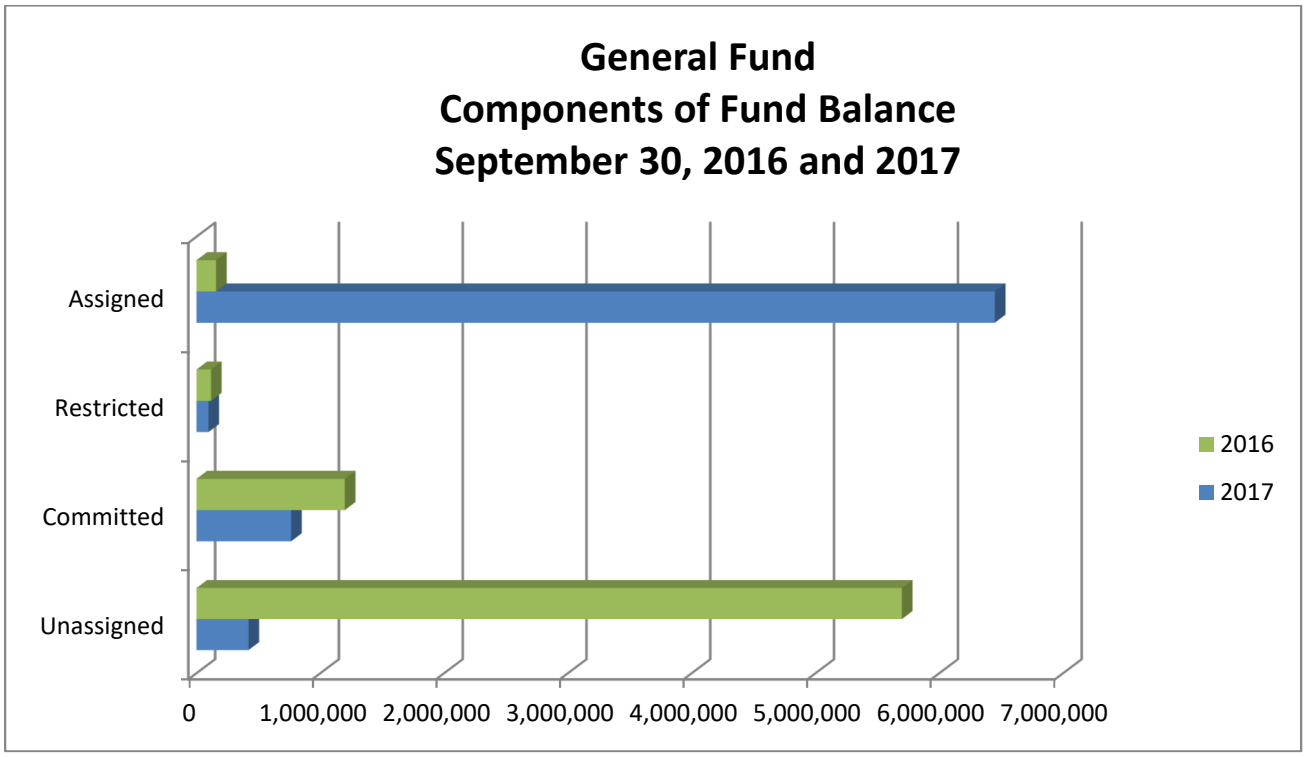
At September 30, 2017 the City of Sandpoint's governmental funds reported combined fund balances of $8,813,575, a decrease of $902,497 in comparison with the prior year. Approximately 5% of this amount $419,177 constitutes *unassigned fund balance*, which is available for spending at the government's 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 ($683,137), 4) committed for particular purposes $1,105,283, or 5) assigned for particular purposes $7,970,589. The sharp increase in assigned revenues for 2017 is directly related to the Financial Policy and Construction Reserve Policy. The negative balance in restricted is the loan to the Local Option Tax Fund. This was to fund the construction of Memorial grandstands.



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 $419,177 while the total fund balance reached $7,731,731. 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 4% of the total general fund expenditures, while total fund balance represents 75% of that same amount.

The fund balance of the City of Sandpoint's general fund increased by $558,333 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.



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.

REVENUE SOURCE	ESTIMATED REVENUES	ACTUAL REVENUES	DIFFERENCE
Taxes and special assessments	4,237,743	4,355,434	117,691
Licenses and permits	198,460	302,333	103,873
Grants	4,104,584	332,343	(3,772,241)
Intergovernmental revenues	5,924,368	3,091,327	(2,833,041)
Interest	12,235	57,930	45,695
Charges for services	242,805	753,710	510,905
Fines and forfeits	130,080	122,542	(7,538)
Miscellaneous revenues	1,211,145	257,486	(953,659)

EXPENSES	ESTIMATED EXPENSES	ACTUAL EXPENSES	DIFFERENCE
General Government	2,571,717	2,290,058	281,659
Public Safety	3,518,507	3,285,643	232,864
Highway and Sreets	1,652,212	2,795,966	(1,143,754)
Culture and recreation	900,808	789,415	111,393
Capital outlay	8,753,129	1,048,788	7,704,341
Debt service:			
Principal retirement	64,287	66,427	(2,140)
Interest expense	2,918	11,788	(8,870)

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 Intergovernmental revenues, the shortfall was specific to grants/projects 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. 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/intergovernmental funding and or delay for several capital outlay projects. Some projects were not able to be completed by September 30 and were moved the next fiscal year. A variance was also noted in the Highway and Streets category due to Schweitzer roundabout project. 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.

GENERAL FUND BUDGETARY HIGHLIGHTS (CONCLUDED)

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

Unrestricted net position of the Water Fund at the end of the year was $4,259,154 and the Sewer Fund was $0. The total growth in net position for both funds was $1,061,246 and $545,263, 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, 2017 increased to $63,457,608 (net of accumulated depreciation) from $59,932,746. 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 6% or $3,524,862.

Table 3

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

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 2,300,319	$ 2,300,319	$ 6,311,579	$ 6,311,579	$ 8,611,898	$ 8,611,898
Construction in progress	3,877,447	287,445	1,138,719	303,587	5,016,166	591,032
Buildings	1,334,795	1,377,746	321,057	331,220	1,655,852	1,708,966
Other Improvements	4,182,914	3,982,256	41,702,294	42,728,416	45,885,208	46,710,672
Machinery and equipment	1,534,382	1,433,439	606,941	727,461	2,141,323	2,160,900
Infrastructure	135,812	57,922	11,349	91,356	147,161	149,278
Total	$ 13,365,669	$ 9,439,127	$ 50,091,939	$ 50,493,619	$ 63,457,608	$ 59,932,746

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

- 4 Police Interceptor vehicles and a UXV for the Police Department $225,844
- Added a Command vehicle for the Fire Department $35,795
- Airport property improvements $328,516
- JAC 70544 HR700 and Honda TRX420F for Parks Department $67,073
- Paving at Travers Field $9,853
- Sidewalks and pathways $474,024
- Dark Fiber to Sandpoint $79,495
- Solar Roadways project in Jeff Jones Town-square $45,763
- Right of way land purchase for the Schweitzer cutoff project $50,101
- Construction of Memorial Field grandstands $3,168,227
- A new scoreboard and sound system for Memorial Field $57,047
- City Hall entry way improvements $45,972
- Recoated the interior of the Syringa Reservoir located in the watershed $16,032
- Downtown sewer main replacement phase 1 $372,568
- Bank stabilization project at Sandcreek $10,964
- Sandcreek waterline replacement and hydroelectric projects $420,709
- Rebuilding watershed bridges $113,163
- Wastewater facility planning $34,490

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

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

Long-term Debt –At the end of the current fiscal year, the total City of Sandpoint principal bond indebtedness was $20,265,653. Of this amount, $20,152,262 is backed by the full faith and credit of the government and $113,391 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	
	2017	2016	2017	2016	2017	2016
Compensated absences	$ 363,382	$ 335,284	$ 94,394	$ 96,843	$ 457,776	$ 432,127
Special assessments	113,391	148,576	-	-	113,391	148,576
Lease purchase contracts	349,733	395,243	-	39,585	349,733	434,828
Revenue bonds	-	-	20,152,262	22,599,599	20,152,262	22,599,599
Total	$ 826,506	$ 879,103	$ 20,246,656	$ 22,736,027	$ 21,073,162	$ 23,615,130

The City of Sandpoint's total indebtedness decreased by $2,541,968, (-11%) during the current fiscal year. The reason for the decrease is due to regular annual payments that reduced the principal due refunding of the 2008 Sewer Bonds 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 2017-2018 fiscal year budgets.

- 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.

- During FY 2017 the City refinanced the 2008 Sewer Bond. This saved the City rate payers over $2,000,000 and shortened the term by 5 years. This will also avoid overlapping debt if the anticipated enhancements to the Sewer Treatment are required by the permitting agencies.

- In July 2017 the Council adopted the Fiscal Policies for Fund Balance, Reserves and Use of One-time Resources and Construction Reserve Policies. As of the end of the FY 2017 the City has $2,442,577 million assigned for Operating Reserve $872,349 assigned for an Emergency Reserve and $3,000,000 assigned for the Construction Reserve. The Construction Reserve will fund the construction of the SURA Funded Downtown Street Project. This is slated to beginning in FY 2018 and continue through FY 2021 with the SURA funding to occur through FY 2029. During FY 2017 the City's downtown streets were redesigned and were changed from a one-way flow back to two ways.

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

- The City began construction of the Memorial Field Grandstands during FY 2017. This project has been funded by the 1% Local Option Tax that was approved by the voters in 2016 and will be collected over a 5-year period. Project life to date expenditures are $3,324,685 and life to date revenues collected from the Local Option Tax are $2,218,566.

- The City continues phase two in bringing dark fiber to Sandpoint. IRU and leasing fees have been established and franchise agreements have been brought to City Council for the various telecommunication companies that the City is providing fiber to. These are both in the commercial and residential zones.

- The 2017-2018 Budget was adopted at $40,136,717, an increase of $716,897 from the past fiscal year's budget of $39,419,820. The budget includes $7,484,346 of beginning cash to fund the budget, over 68% of the beginning cash is from water and sewer reserves to upgrade infrastructure.

- Property taxes were budgeted for the 2017-2018 fiscal year at $3,963,615, an increase of $51,795 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:

Sarah Lynds
City of Sandpoint Treasurer
1123 Lake Street
Sandpoint, Idaho 83864

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Sandpoint

STATEMENT OF NET POSITION
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
ASSETS				
Cash and investments	$ 2,076,623	$ 9,995,899	$ 12,072,522	$ 2,083,516
Receivables, net	1,294,896	1,350,661	2,645,557	1,140,806
Internal balances	(1,148,823)	1,148,823	-	-
Inventory	-	153,624	153,624	-
Prepaids	1,663	200	1,863	-
Restricted assets:				
Cash and investments	7,835,710	13,447,459	21,283,169	126,276
Capital assets not being depreciated:				
Land	2,300,319	6,311,579	8,611,898	-
Construction in progress	3,877,447	1,138,719	5,016,166	-
Capital assets, net of accumulated depreciation	7,187,903	42,641,641	49,829,544	-
Total assets	23,425,738	76,188,605	99,614,343	3,350,598
DEFERRED OUTFLOWS OF RESOURCES				
Proportionate share of collective deferred outflows of resources	210,045	163,857	373,902	-
Total deferred outflows of resources	210,045	163,857	373,902	-
LIABILITIES				
Accounts payable and accrued expenses	1,020,261	810,540	1,830,801	77,471
Unearned property taxes	-	-	-	1,120,517
Payable from restricted assets:				
Customer deposits	49,133	1,784	50,917	-
Accrued interest payable	7,912	246,302	254,214	-
Noncurrent liabilities:				
Compensated absences - due within one year	199,965	58,098	258,063	-
Compensated absences - due in more than one year	163,417	36,296	199,713	-
Due within one year	104,394	1,232,174	1,336,568	223,796
Due in more than one year	358,730	18,920,088	19,278,818	594,833
Net pension liability	630,055	621,375	1,251,430	-
Total liabilities	2,533,867	21,926,657	24,460,524	2,016,617
DEFERRED INFLOWS OF RESOURCES				
Proportionate share of collective deferred inflows of resources	241,328	149,340	390,668	-
Total deferred inflows of resources	241,328	149,340	390,668	-
NET POSITION				
Net investment in capital assets	12,902,545	29,939,677	42,842,222	-
Restricted for:				
Contributions	23,234	-	23,234	-
Debt	271,332	2,491,340	2,762,672	-
Capital improvements	31,899	9,305,596	9,337,495	-
Inflow and infiltration	-	2,533,125	2,533,125	-
Kootenai/Ponderay	-	330,230	330,230	-
RCT property tax relief fund	88,774	-	88,774	-
Watershed protection	-	83,644	83,644	-
Other	-	5,091,508	5,091,508	-
Downtown district	-	-	-	(103,385)
Northern district	-	-	-	1,437,366
Unrestricted	7,542,804	4,501,345	12,044,149	-
Total net position	$ 20,860,588	$ 54,276,465	$ 75,137,053	$ 1,333,981

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, 2017

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Capital Grants**
Governmental activities:			
General government	$ 2,442,734	$ 574,953	$ -
Public safety	3,462,445	602,606	332,343
Highways and streets	3,169,182	-	-
Culture and recreation	1,411,630	474,963	-
Other	1,565,611	518,369	1,565,611
Interest on long-term debt	18,947	-	-
Change in net pension liability	(194,684)	-	-
Unallocated actual PERSI contributions	(374,628)	-	-
Total governmental activities	11,501,237	2,170,891	1,897,954
Business-type activities:			
Water	1,798,125	3,819,464	459,701
Sewer	1,581,066	3,919,491	399,642
Bond payment fund	769,991	-	-
Other proprietary funds	334,205	457,174	-
Total business-type activities	4,483,387	8,196,129	859,343
Total primary government	$ 15,984,624	$ 10,367,020	$ 2,757,297
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			
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
$ (1,867,781)	$ -	$ (1,867,781)	$ -
(2,527,496)	-	(2,527,496)	-
(3,169,182)	-	(3,169,182)	-
(936,667)	-	(936,667)	-
518,369	-	518,369	-
(18,947)	-	(18,947)	-
194,684	-	194,684	-
374,628	-	374,628	-
(7,432,392)	-	(7,432,392)	-
-	2,481,040	2,481,040	-
-	2,738,067	2,738,067	-
-	(769,991)	(769,991)	-
-	122,969	122,969	-
-	4,572,085	4,572,085	-
(7,432,392)	4,572,085	(2,860,307)	-
			816,945
			30,950
			847,895
5,847,046	-	5,847,046	1,158,965
75,009	230,571	305,580	-
354,347	-	354,347	2,689
3,091,327	-	3,091,327	-
833	114,052	114,885	-
1,693,130	(1,693,130)	-	-
11,061,692	(1,348,507)	9,713,185	1,161,654
3,629,300	3,223,578	6,852,878	313,759
17,231,288	51,052,887	68,284,175	1,020,222
$ 20,860,588	$ 54,276,465	$ 75,137,053	$ 1,333,981

City of Sandpoint

GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2017

	General	Local Option Tax	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 505,678	$ 1,522	$ 1,072,660	$ 1,579,860
Receivables	781,190	120,670	120,935	1,022,795
Prepaid items	1,663	-	-	1,663
Due from other governments	272,101	-	-	272,101
Restricted assets:				
Cash and investments	6,755,979	-	1,079,731	7,835,710
Total assets	$ 8,316,611	$ 122,192	$ 2,273,326	$ 10,712,129
LIABILITIES				
Vouchers payable	$ 424,740	$ 71,745	$ 27,013	$ 523,498
Due to other funds	-	1,148,823	-	1,148,823
Payable from restricted assets:				
Customer deposits	49,133	-	-	49,133
Total liabilities	473,873	1,220,568	27,013	1,721,454
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	111,007	-	5,231	116,238
Unavailable revenue-special assessments	-	-	60,862	60,862
Total deferred inflows of resources	111,007	-	66,093	177,100
FUND BALANCES:				
Non-spendable for:				
Prepaids	1,663	-	-	1,663
Restricted for:				
Historic Commission Donation	1,339	-	-	1,339
Art Contributions	2,500	-	-	2,500
Economic Development	500	-	-	500
Tennis Court Donations	-	-	14,636	14,636
Citizen's pride Contributions	100	-	-	100
Parks Non-Res Dev Fee	-	-	31,899	31,899
Memorial Field Enhancements	-	(1,098,376)	-	(1,098,376)
Debt Service	-	-	271,332	271,332
Police Contributions	4,159		-	4,159
RCT Property Tax Relief	88,774		-	88,774
Committed to:				
Downtown Parking Dedicated Funds	20,235	-	-	20,235
In Lieu of Sidewalk Dedicated Funds	5,460	-	-	5,460
Memorial Field	-	-	94,851	94,851
Memorial Field Maintenance	-	-	15,021	15,021
FY17 Recreation Budget	-	-	37,592	37,592
FY17 Capital Improvement Fund (impact fees)	-	-	18,000	18,000
FY17 parks Improvement Fund Budget	-	-	175,471	175,471
FY17 General Fund Budget	738,653	-	-	738,653
Assigned to:				
Byway Pump	60,000	-	-	60,000
Healthcare	74,245	-	-	74,245
Recreation Fund	-	-	375,497	375,497
Operating Reserve	2,442,577	-	-	2,442,577
Emergency Reserve	872,349	-	-	872,349
Construction Reserve	3,000,000	-	-	3,000,000
Capital Improvement Fund (impact fees)	-	-	760,979	760,979
Parks Capital Improvement Fund	-	-	351,270	351,270
Fiber Optic Fund	-	-	33,672	33,672
Unassigned:				
General fund	419,177	-	-	419,177
Total fund balances	7,731,731	(1,098,376)	2,180,220	8,813,575
Total liabilities, deferred inflows of resources and fund balances	$ 8,316,611	$ 122,192	$ 2,273,326	$ 10,712,129

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, 2017

Total fund balance at September 30, 2017 - Governmental Funds		$ 8,813,575
Cost of capital assets at September 30, 2017	$ 20,912,838	
Less: Accumulated depreciation as of September 30, 2017		
Buildings	(1,037,550)	
Other improvements	(3,130,197)	
Machinery and equipment	(3,375,516)	
Infrastructure	(3,906)	13,365,669
Elimination of deferred inflows of resources		177,100
Long-term liabilities at September 30, 2017		
Accrued interest	(7,912)	
Capital leases payable	(349,733)	
Compensated absences	(363,382)	
Special assessment bond payable	(113,391)	(834,418)
Items related to GASB 68 and reporting net pension liability:		
Proportionate share of collective deferred outflows of resources	210,045	
Proportionate share of collective deferred inflows of resources	(241,328)	
Net pension liability	(630,055)	(661,338)
Net position at September 30, 2017		$ 20,860,588

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, 2017

	General	Local Option Tax	Other Governmental Funds	Total
REVENUES				
Taxes and special assessments	$ 4,355,434	$ 1,297,351	$ 211,311	$ 5,864,096
Licenses and permits	302,333	-	-	302,333
Grants	332,343	-	1,565,611	1,897,954
Intergovernmental revenue	3,091,327	-	-	3,091,327
Interest	57,930	(84)	17,163	75,009
Impact fees	-	-	518,369	518,369
Charges for services	753,710	-	473,937	1,227,647
Fines and forfeits	122,542	-	-	122,542
Miscellaneous revenues	257,486	-	96,861	354,347
Total revenues	9,273,105	1,297,267	2,883,252	13,453,624
EXPENDITURES				
General government	2,290,058	-	54,378	2,344,436
Public safety	3,285,643	-	-	3,285,643
Highways and streets	2,795,966	-	185,569	2,981,535
Culture and recreation	789,415	37,546	325,115	1,152,076
Capital outlay	1,048,788	3,168,228	325,193	4,542,209
Debt service:				
Principal retirement	66,427	-	35,185	101,612
Interest expense	11,788	-	7,555	19,343
Total expenditures	10,288,085	3,205,774	932,995	14,426,854
(Deficiency) excess of revenues over (under) expenditures	(1,014,980)	(1,908,507)	1,950,257	(973,230)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,779	-	-	1,779
Capital leases	20,917	-	-	20,917
Contributions to local municipalities	-	-	(1,565,611)	(1,565,611)
Transfers in	2,361,063	-	129,844	2,490,907
Transfers (out)	(810,446)	-	(66,813)	(877,259)
Total other financing sources (uses)	1,573,313	-	(1,502,580)	70,733
Net change in fund balance	558,333	(1,908,507)	447,677	(902,497)
Fund balances - beginning	7,173,398	810,131	1,732,543	9,716,072
Fund balances - ending	$ 7,731,731	$ (1,098,376)	$ 2,180,220	$ 8,813,575

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, 2017

Total net changes in fund balances for the year ended September 30, 2017		$ (902,497)
Add:	Capital outlay which is considered expenditures	4,542,209
Less:	Depreciation expense for the year ended September 30, 2017	(694,203)
Less:	Proceeds from capital lease	(20,917)
Less:	Book loss on assets disposed or sold	(946)
Add:	Special assessment debt and lease principal payments considered as expenditures	101,612
Add:	Change in accrued interest expense	396
Less:	Change in compensated absences	(28,098)
Less:	Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(17,050)
Add:	Change in net pension liability	194,684
Add:	Unallocated actual PERSI contributions	374,628
Add:	Transfer of capital assets from enterprise funds to governmental funds	79,482
Change in net position for year ended September 30, 2017		$ 3,629,300

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, 2017

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
ASSETS					
Current assets:					
Cash and investments	$ 6,446,393	$ 3,343,261	$ -	$ 206,245	$ 9,995,899
Receivables	666,564	604,987	(388)	79,498	1,350,661
Due from other funds	1,148,823	-	-	-	1,148,823
Inventory	153,624	-	-	-	153,624
Prepaid items	200	-	-	-	200
Restricted cash and investments	3,732,336	8,728,869	986,254	-	13,447,459
Total current assets	12,147,940	12,677,117	985,866	285,743	26,096,666
Noncurrent assets:					
Land	5,121,649	1,189,930	-	-	6,311,579
Construction in progress	720,696	418,023	-	-	1,138,719
Capital assets, net of accumulated depreciation	28,621,481	14,020,160	-	-	42,641,641
Total noncurrent assets	34,463,826	15,628,113	-	-	50,091,939
Total assets	46,611,766	28,305,230	985,866	285,743	76,188,605
DEFERRED OUTFLOWS OF RESOURCES					
Proportionate share of collective deferred outflows of resources	95,378	68,479	-	-	163,857
Total deferred outflows of resources	95,378	68,479	-	-	163,857
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	357,515	424,797	-	28,228	810,540
Payable from restricted assets:					
Customer deposits	1,784	-	-	-	1,784
Accrued interest payable	-	-	246,302	-	246,302
Compensated absences - current portion	38,371	19,727	-	-	58,098
Capital lease payable	-	-	-	-	-
Revenue bonds - current portion	-	-	1,232,174	-	1,232,174
Total current liabilities	397,670	444,524	1,478,476	28,228	2,348,898
Noncurrent:					
Revenue bonds - noncurrent portion	-	-	18,920,088	-	18,920,088
Compensated absences	34,379	1,917	-	-	36,296
Net pension liability	377,001	244,374	-	-	621,375
Total noncurrent liabilities	411,380	246,291	18,920,088	-	19,577,759
Total liabilities	809,050	690,815	20,398,564	28,228	21,926,657
DEFERRED INFLOWS OF RESOURCES					
Proportionate share of collective deferred inflows of resources	83,523	65,817	-	-	149,340
Total deferred inflows of resources	83,523	65,817	-	-	149,340
NET POSITION					
Net investment in capital assets	34,463,826	15,628,113	(20,152,262)	-	29,939,677
Restricted for:					
Debt	973,377	778,399	739,564	-	2,491,340
Capital improvements	3,316,678	5,988,918	-	-	9,305,596
Inflow and filtration	-	2,533,125	-	-	2,533,125
Kootenai/Ponderay	330,230	-	-	-	330,230
Watershed protection	83,644	-	-	-	83,644
Other	2,387,662	2,688,522	-	15,324	5,091,508
Unrestricted	4,259,154	-	-	242,191	4,501,345
Total net position	$ 45,814,571	$ 27,617,077	$ (19,412,698)	$ 257,515	$ 54,276,465

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, 2017

	Water	Sewer	Bond Payment Fund	Other Proprietary Funds	Total
OPERATING REVENUES					
Charges for services	$ 3,598,285	$ 3,871,252	$ -	$ 457,174	$ 7,926,711
Equipment and meter sales	20,428	12,810	-	-	33,238
Miscellaneous	200,751	35,429	-	-	236,180
Total operating revenues	3,819,464	3,919,491	-	457,174	8,196,129
OPERATING EXPENSES					
Personal services	760,590	437,955	-	-	1,198,545
Contractual services	131,045	154,082	-	317,873	603,000
Other services and charges	202,579	132,597	-	-	335,176
Heat, lights, and power	82,918	117,731	-	16,332	216,981
Depreciation	572,848	713,675	-	-	1,286,523
Change in net pension liability	44,896	25,026	-	-	69,922
Total operating expenses	1,794,876	1,581,066	-	334,205	3,710,147
Operating income	2,024,588	2,338,425	-	122,969	4,485,982
NONOPERATING REVENUES (EXPENSES)					
Interest income	94,876	99,784	34,245	1,666	230,571
Interest expense	(3,249)	-	(718,187)	-	(721,436)
Bond issuance costs	-	-	(51,804)	-	(51,804)
Gain (loss) on sale of capital assets	114,052	-	-	-	114,052
Total nonoperating revenues (expenses)	205,679	99,784	(735,746)	1,666	(428,617)
Income (loss) before contributions and transfers	2,230,267	2,438,209	(735,746)	124,635	4,057,365
Capital contributions - cap fees	459,701	399,642	-	-	859,343
Transfers in	61,796	732,354	3,236,354	-	4,030,504
Transfers out	(1,690,518)	(3,024,942)	(732,354)	(275,820)	(5,723,634)
Total transfers	(1,628,722)	(2,292,588)	2,504,000	(275,820)	(1,693,130)
Change in net position	1,061,246	545,263	1,768,254	(151,185)	3,223,578
Total net position - beginning	44,753,325	27,071,814	(21,180,952)	408,700	51,052,887
Total net position - ending	$ 45,814,571	$ 27,617,077	$ (19,412,698)	$ 257,515	$ 54,276,465

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, 2017

	Water	Sewer	Bond Payment	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ 3,758,552	$ 3,910,430	$ -	$ 429,781	$ 8,098,763
Payments to employees	(827,986)	(471,294)	-	-	(1,299,280)
Payments to suppliers	(160,292)	(354,617)	-	(333,420)	(848,329)
Net cash provided by operating activities	2,770,274	3,084,519	-	96,361	5,951,154
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Additional contributed capital	459,701	399,642	-	-	859,343
Amounts from other funds	(1,148,823)	-	-	-	(1,148,823)
Operating transfers (out) in	(1,628,722)	(2,292,588)	2,504,000	(196,338)	(1,613,648)
Net cash (used) provided by noncapital financing activities	(2,317,844)	(1,892,946)	2,504,000	(196,338)	(1,903,128)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of fixed assets	(549,902)	(418,023)	-	-	(967,925)
Proceeds from disposition of assets	117,652	-	-	-	117,652
Proceeds from Water Facility Improvement Bonds	-	-	4,230,000	-	4,230,000
Bond issuance costs	-	-	(51,804)	-	(51,804)
Principal paid on bonds and leases	(45,605)	-	(6,677,337)	-	(6,722,942)
Interest paid	-	-	(733,878)	-	(733,878)
Net cash (used) by capital and related financing activities	(477,855)	(418,023)	(3,233,019)	-	(4,128,897)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	91,627	99,784	35,729	1,666	228,806
Net cash provided by investing activities	91,627	99,784	35,729	1,666	228,806
Net increase in cash and investments	66,202	873,334	(693,290)	(98,311)	147,935
Cash and investments, beginning	10,112,527	11,198,796	1,679,544	304,556	23,295,423
Cash and investments, ending	$ 10,178,729	$ 12,072,130	$ 986,254	$ 206,245	$ 23,443,358
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$ 2,024,588	$ 2,338,425	$ -	$ 122,969	$ 4,485,982
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	572,848	713,675	-	-	1,286,523
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(60,928)	(9,061)	-	(27,393)	(97,382)
Inventory	(31,555)	-	-	-	(31,555)
Prepaid expense	(200)	-	-	-	(200.00)
Increase (decrease) in:					
Vouchers payable	288,005	54,022	-	785	342,812
Items related to net pension liability	(22,500)	(12,542)	-	-	(35,042)
Customer deposits	16	-	-	-	16
Net cash provided by operating activities	$ 2,770,274	$ 3,084,519	$ -	$ 96,361	$ 5,951,154
Reconciliation of cash to the statement of net position:					
Cash/investments	$ 6,446,393	$ 3,343,261	$ -	$ 206,245	$ 9,995,899
Restricted cash/investments	3,732,336	8,728,869	986,254	-	13,447,459
	$ 10,178,729	$ 12,072,130	$ 986,254	$ 206,245	$ 23,443,358

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, 2017

	Business Improvement District Agency Fund
ASSETS	
Cash and cash equivalents	$ 68,042
Accounts receivable	79,537
Total assets	$ 147,579
LIABILITIES	
Deferred revenue	
Due to Business Improvement District	$ 147,579
Total liabilities	$ 147,579

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

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. 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)

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 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 *Sewer 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)

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)

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, 2017 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:

Assets	Years
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)

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)

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)

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, 2017, which were collected and held by the county at September 30, 2017, but not yet remitted to the City until after September 30, 2017.

(Continued)

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)

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, 2017, 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	33,217,281
Total deposits without exposure to custodial credit risk	$33,467,281

The following is a recap of the carrying amount:

Statement of net position:	
Cash and investments	$12,072,522
Restricted cash	21,283,169
Agency fund:	
Fiduciary fund cash	68,042
	$33,423,733

Fair value:

The City invests in a two 2a7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool is 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 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)

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, 2017:

Receivables	Water	Sewer	Bond Payment	Street Lights	Sanitation	Total
Accounts	$656,570	$594,497	$ -	$ -	$ 79,621	$1,330,688
Interest	11,435	11,880	(388)	-	194	23,121
Gross receivables	668,005	606,377	(388)	-	79,815	1,353,809
Less: Allowance for uncollectible	(1,441)	(1,390)	-	-	(317)	(3,148)
Net receivables	$666,564	$604,987	$ (388)	$ -	$ 79,498	$1,350,661

NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 2,300,319	$ -	$ -	$ -	$ 2,300,319
Construction in progress	287,445	3,675,399	-	(85,397)	3,877,447
Total capital assets, not being depreciated	2,587,764	3,675,399	-	(85,397)	6,177,766
Capital assets, being depreciated:					
Buildings	2,386,433	-	(14,088)	-	2,372,345
Improvements other than buildings	6,616,096	419,856	(61,634)	338,793	7,313,111
Machinery and equipment	4,569,386	367,459	(26,947)	-	4,909,898
Infrastructure	60,223	79,495	-	-	139,718
Total capital assets being depreciated	13,632,138	866,810	(102,669)	338,793	14,735,072
Less accumulated depreciation for:					
Buildings	(1,008,687)	(42,951)	14,088	-	(1,037,550)
Other improvements	(2,633,840)	(384,077)	61,634	(173,914)	(3,130,197)
Machinery and equipment	(3,135,947)	(265,570)	26,001	-	(3,375,516)
Infrastructure	(2,301)	(1,605)	-	-	(3,906)
Total accumulated depreciation	(6,780,775)	(694,203)	101,723	(173,914)	(7,547,169)
Total capital assets, being depreciated, net	6,851,363	172,607	(946)	164,879	7,187,903
Governmental activities capital assets, net	$ 9,439,127	$ 3,848,006	$ (946)	$ 79,482	$ 13,365,669

(Continued)

NOTE 5: CHANGES IN FIXED ASSETS (CONCLUDED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 6,311,579	$ -	$ -	$ -	$ 6,311,579
Construction in progress	303,587	838,732	(3,600)	-	1,138,719
Total capital assets, not being depreciated	6,615,166	838,732	(3,600)	-	7,450,298
Capital assets, being depreciated:					
Buildings	527,400	-	-	-	527,400
Infrastructure	53,956,416	129,193	-	-	54,085,609
Machinery and equipment	2,129,495	-	-	-	2,129,495
Improvements other than buildings	268,396	-	-	(253,396)	15,000
Total capital assets, being depreciated	56,881,707	129,193	-	(253,396)	56,757,504
Less accumulated depreciation for:					
Buildings	(196,180)	(10,163)	-	-	(206,343)
Infrastructure	(11,228,000)	(1,155,315)	-	-	(12,383,315)
Machinery and equipment	(1,402,034)	(120,520)	-	-	(1,522,554)
Improvements	(177,040)	(525)	-	173,914	(3,651)
Total accumulated depreciation	(13,003,254)	(1,286,523)	-	173,914	(14,115,863)
Total capital assets, being depreciated, net	43,878,453	(1,157,330)	-	(79,482)	42,641,641
Business type activities capital assets net	$ 50,493,619	$ (318,598)	$ (3,600)	$ (79,482)	$ 50,091,939

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

Governmental activities:	
General government	$ 72,756
Public safety	176,802
Highways and streets, including depreciation of general infrastructure assets	187,647
Culture and recreation	256,998
Total depreciation expense - governmental activities	$ 694,203
Business -type activities:	
Water	$ 572,848
Sewer	713,675
Total depreciation expense - business-type activities	$ 1,286,523

(Continued)

NOTE 6: BONDS PAYABLE

On December 14, 2016, the City advance refunded the 2007A Sewer Revenue Bonds in the amount of $5,645,000. To completely prepay and defease the current 2007A Sewer Revenue Bonds, the City used the proceeds of the new 2016 Series Sewer Refunding Bonds in the amount of $4,230,000 in addition to cash contributions of $1,672,421 (including existing debt service reserves of $692,421). The aforementioned proceeds were place into escrow and completely paid off during the fiscal year. The new 2016 Series Sewer Revenue Bonds were issued at par value. As a result, the refunded bonds are considered to be defeased and the prior liability of the 2007A Sewer Revenue Bonds has been removed from the Statement of Net Position. The advance refunding was undertaken to reduce future debt service payments. The old bonds carried interest rates ranging from 4.0% to 4.25%. The new bonds were issued with an interest rate of 1.69%. The refunding resulted in substantially reduced cash flow savings and an economic gain of $596,577.

Bonds payable at September 30, 2017 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%.	$ 1,249,755
2012 Water Facility Improvement Bonds	
Payable in annual installments of $444,510 including 2.75% interest	7,959,262
2013 Water Facility Improvement Bonds	
Payable in annual installments of $382,240 including 2.50% interest	7,243,246
2016 Sewer Revenue Refunding Bonds	
Payable in annual installments ranging from $584,608 to $778,398 including 1.69% interest	3,700,000
	$ 20,152,262

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, and $382,240. 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.

(Continued)

NOTE 6: BONDS PAYABLE (CONCLUDED)

Revenue bond debt service requirements to maturity are as follows:

Year ending September 30	Principal	Interest
2018	$ 1,232,174	$ 518,730
2019	1,262,475	491,345
2020	1,288,256	463,228
2021	1,314,532	434,446
2022	1,346,320	404,983
2023-2027	3,177,588	1,689,282
2028-2032	3,055,987	1,223,106
2033-2037	3,321,884	811,866
2038-2043	4,153,046	360,649
	$ 20,152,262	$ 6,397,634

NOTE 7: SPECIAL ASSESSMENT DEBT

	Maturity Date	Interest Rate	Principal	Interest	Total
LID #32	2018	4.75%	$ 3,929	$ 2,928	$ 6,857
	2019	4.75%	4,115	2,741	6,857
	2020	4.75%	4,311	2,546	6,857
	2021	4.75%	4,516	2,341	6,857
	2022	4.75%	4,730	2,126	6,857
	2023-2027	4.75%	27,243	7,040	34,283
	2028-2029	4.75%	12,791	918	13,709
			61,635	20,640	82,277
LID #2002-02					
	2018	6.00%	10,053	1,242	11,295
	2019	6.00%	10,656	639	11,295
			20,708	1,882	22,590
LID #2006-01					
	2018	4.50%	15,323	690	16,013
			15,323	690	16,013
LID #2007-01					
	2018	5.50%	7,721	854	8,575
	2019	5.50%	8,004	570	8,574
			15,725	1,424	17,149
Total special assessment bonds payable			$ 113,391	$ 24,635	$ 138,029

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

(Continued)

NOTE 8: CAPITAL LEASES

The City of Sandpoint entered into a new lease for the purchase of a Ford F-150 Fire Command Vehicle for $20,917. Existing lease purchase agreements include a Rosenbauer Fire Apparatus with annual lease payments of $37,977.23 through November 2024; Street Department Western Star Dump Truck with annual lease payments of $32,471.12 thru March 2019.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	$ 742,604
Less: accumulated depreciation	(57,870)
Total	$ 684,735
Future minimum lease payments are as follows:	
2018	$ 77,871
2019	77,871
2020	45,400
2021	37,977
2022	37,977
2023	37,977
2024-2025	75,954
	391,027
Less amount representing interest	(41,295)
Total	$ 349,733

NOTE 9: CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	$ 335,284	$ 28,098	$ -	$ 363,382	$ 199,965
Special assessment bonds payable	148,576	-	35,185	113,391	37,026
Lease purchase contracts payable	395,243	20,917	66,427	349,733	67,368
Governmental activities long-term liabilities	$ 879,103	$ 49,015	$ 101,612	$ 826,506	$ 304,359
Business-type activities:					
Revenue bonds payable	$ 22,599,599	$ 4,230,000	$ 6,677,337	$ 20,152,262	$ 1,232,174
Lease purchase contracts payable	39,585	-	39,585	-	-
Compensated absences	96,843	-	2,449	94,394	58,098
Business-type activities long-term liabilities	$ 22,736,027	$4,230,000	$ 6,719,371	$ 20,246,656	$ 1,290,272

(Continued)

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	$ 8,415,604	$ 3,948,248
Restricted assets - cash investments	3,732,336	8,728,869
Capital assets	34,463,826	15,628,113
Total assets	46,611,766	28,305,230
Deferred outflows of resources:		
Proportionate share of collective deferred outflows of resources	95,378	68,479
Liabilities:		
Current liabilities	397,670	444,524
Noncurrent liabilities	411,380	246,291
Total liabilities	809,050	690,815
Deferred inflows of resourses:		
Proportionate share of collective deferred inflows of resources	83,523	65,817
Net position:		
Net investment in capital assets	34,463,826	15,628,113
Restricted	7,091,591	11,988,964
Unrestricted	4,259,154	-
Total net position	$ 45,814,571	$ 27,617,077

	Water Funds	Sewer Funds
Condensed statement of revenues, expenses and changes in net position:		
Operating revenues	$ 3,819,464	$ 3,919,491
Operating expenses	(1,794,876)	(1,581,066)
Operating income	2,024,588	2,338,425
Nonoperating revenues (expenses)	205,679	99,784
Capital contributions - cap fees	459,701	399,642
Net transfers in/(out)	(1,628,722)	(2,292,588)
	(963,342)	(1,793,162)
Change in net position	1,061,246	545,263
Beginning net position	44,753,325	27,071,814
Ending net position	$ 45,814,571	$ 27,617,077
Condensed statement of cash flows:		
Net cash provided (used) by:		
Operating activities	$ 2,770,274	$ 3,084,519
Noncapital financing activities	(2,317,844)	(1,892,946)
Capital and related financial activities	(477,855)	(418,023)
Investing activities	91,627	99,784
Net increase	66,202	873,334
Beginning cash and cash equivalents	10,112,527	11,198,796
Ending cash and cash equivalents	$ 10,178,729	$ 12,072,130

(Continued)

NOTE 11: INTERFUND TRANSACTIONS

Due to or from other funds as of September 30, 2017:

Receivable Fund	Payable Fund	Amount
Water	Local Option Tax	$ 1,148,823
Total all funds		$ 1,148,823

Interfund transfers (net) during the fiscal year ended September 30, 2017 were as follows:

	Transfers In	Transfers Out
General fund	$ 2,440,545	$ 810,446
Nonmajor governmental funds	129,844	66,813
Enterprise funds	4,030,504	5,447,814
Nonmajor enterprise funds	-	275,820
	$ 6,600,893	$ 6,600,893

The prinicpal 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.

In the current year, capital assets with a net book value of $79,482 were transferred from the Street Fund, and enterprise fund, to the General Fund, a governmental fund. As a result, interfund transfers do not balance at the fund financial statement level.

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.

(Continued)

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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, 2017 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 $449,242 for the year ended September 30, 2017.

(Continued)

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

As of June 30, 2017 the total FRF employer rate was 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 $102,809 for the year ended September 30, 2017.

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

At September 30, 2017, 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, 2017, 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, 2017 the City's proportion was 0.1249960 percent.

At September 30, 2017, 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, 2017, 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, 2017 the City's proportion was 0.8313845 percent.

For the year ended September 30, 2017, the City of Sandpoint recognized pension revenue of $194,684. At September 30, 2017 the City of Sandpoint reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 117,715
Changes of assumptions	36,333	-
Net difference between projected and actual earnings on pension plan investments	272,176	177,005
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	9,211	95,948
City of Sandpoint's contributions subsequent to the measurement date	56,182	-
Total	$ 373,902	$ 390,668

(Continued)

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

$56,182 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, 2018.

In the Base Plan, 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, 2016 the beginning of the measurement period ended June 30, 2017 is 4.9 and 5.5 for the measurement period June 30, 2016.

In the FRF Plan, 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, 2016 the beginning of the measurement period ended June 30, 2017 is 1.0 and 1.0 for the measurement period June 30, 2016.

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:	
2018	$ (126,534)
2019	$ 213,703
2020	$ 55,981
2021	$ (145,242)
2022	$ -

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)

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The total pension liability in the June 30, 2017 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	4.25 - 10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1.00%

Actuarial assumptions - FRF

Inflation	3.25%
Salary increases	3.75%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living 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 Liability as of June 30, 2017 is based on the results of an actuarial valuation date of July 1, 2017.

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)

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, 2017.

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.15%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	0.90%	0%	0% - 5%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

* Expected arithmetic return net of fees and expenses

Actuarial Assumptions	
Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric 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)

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:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's net pension liability (asset)	$ 4,107,379	$ 1,251,430	$ (1,126,399)

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)

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:

	Deficit Net Position Balance
Local Option Tax	$(1,098,376)
Bond Payment Fund	$(19,412,698)

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, 2017, 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, 2017, totaled $2,209,792 (including restricted cash and cash equivalents). A summary of the total insured and uninsured bank balances at September 30, 2017 is as follows:

Total bank balances	$2,209,792
Portion insured by FDIC	(250,000)
Uninsured bank balances	$1,959,792

(Continued)

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

RECEIVABLES

Receivables at September 30, 2017 are summarized as follows:

Unearned property taxes receivable	$1,120,517
Property taxes receivable	828
Delinquent property taxes receivable	19,461
	$1,140,806

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, 2017, the Agency had restricted cash of $126,276, 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:

Year Ending September 30,	Principal	Interest	Total
2018	$ 223,796	$ 27,075	$ 250,871
2019	231,808	19,063	250,871
2020	240,071	10,800	250,871
2021	122,954	2,481	125,435
Total	$818,629	$59,419	$878,048

(Continued)

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, 2017 as follows:

	Long-Term Obligations September 30, 2016	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations September 30, 2017	Due Within One Year
Revenue allocation note	$1,035,977	$ -	$ (217,348)	$818,629	$223,796

COMMITMENTS AND CONTINGENCIES (SURA)

As of September 30, 2017, 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 2016, the Agency entered into an agreement with the City to provide funding for a roundabout to be constructed at the intersection of Schweitzer Cutoff Road and Boyer Avenue. The agreement calls for the Agency's Northern District to provide funding of up to $270,000, as work is completed. As of September 30, 2017, the Agency had provided no funding related to the project. The remaining commitment on the project at September 30, 2017 was $270,000.

(Concluded)

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, 2017

	Original Budget Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes	$ 4,237,743	$ 4,355,434	$ 117,691
Licenses and permits	198,460	302,333	103,873
Grants	4,104,584	332,343	(3,772,241)
Intergovernmental revenue	5,924,368	3,091,327	(2,833,041)
Interest	12,235	57,930	45,695
Charges for services	242,805	753,710	510,905
Fines and forfeits	130,080	122,542	(7,538)
Miscellaneous revenues	1,211,145	257,486	(953,659)
Total revenues	16,061,420	9,273,105	(6,788,315)
EXPENDITURES			
General government	2,571,717	2,290,058	281,659
Public safety	3,518,507	3,285,643	232,864
Highways and streets	1,652,212	2,795,966	(1,143,754)
Culture and recreation	900,808	789,415	111,393
Capital outlay	8,753,129	1,048,788	7,704,341
Debt service:			
Principal retirement	64,287	66,427	(2,140)
Interest expense	2,918	11,788	(8,870)
Total expenditures	17,463,578	10,288,085	7,175,493
Excess (deficiency) of revenues over (under) expenditures	(1,402,158)	(1,014,980)	387,178
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	5,000	1,779	(3,221)
Capital leases	-	20,917	20,917
Transfers in	1,449,454	2,361,063	911,609.00
Transfers (out)	(52,296)	(810,446)	(758,150)
Total other financing sources (uses)	1,402,158	1,573,313	171,155
Net change in fund balances	-	558,333	558,333
Fund balances - beginning	-	7,173,398	7,173,398
Fund balances - ending	$ -	$ 7,731,731	$ 7,731,731

* The original budget was not amended.

City of Sandpoint

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
LOCAL OPTIONS TAX
For the Year Ended September 30, 2017

	Original Budget Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Taxes and special assessments	$ 3,253,016	$ 1,297,351	$ (1,955,665)
Grants	255,000	-	(255,000)
Interest	-	(84)	(84)
Miscellaneous revenues	980,000	-	(980,000)
Total revenues	4,488,016	1,297,267	(3,190,749)
EXPENDITURES			
Culture and recreation	33,016	37,546	(4,530)
Capital outlay	4,455,000	3,168,228	1,286,772
Total expenditures	4,488,016	3,205,774	1,282,242
Excess (deficiency) of revenues over (under) expenditures	-	(1,908,507)	(1,908,507)
Net change in fund balances	-	(1,908,507)	(1,908,507)
Fund balances - beginning	-	810,131	810,131
Fund balances - ending	$ -	$ (1,098,376)	$ (1,098,376)

* The original budget was not amended.

City of Sandpoint

GASB 68 Required Supplementary Information
For the Year Ended September 30, 2017

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

	2017	2016	2015
Employer's portion of the net pension liability	0.1249960%	0.1529441%	0.1536525%
Employer's proportionate share of the net pension liability	$ 1,964,722	$ 3,100,412	$ 2,023,353
Employer's covered-employee payroll	$ 3,937,266	$ 3,810,467	$ 3,672,792
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	49.90%	81.37%	55.09%
Plan fiduciary net position as a percentage of the total pension liability	90.68%	87.26%	91.38%

* 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, 2017.

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

	2017	2016	2016
Statutorily required contribution	$ 449,242	$ 434,757	$ 419,176
Contributions in relation to the statutorily required contribution	449,242	434,757	419,176
Contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered-employee payroll of its covered employee payroll	$ 3,937,266	$ 3,810,467	$ 3,672,792
Contributions as a percentage of covered-employee payroll	11.41%	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, 2017.

City of Sandpoint

GASB 68 Required Supplementary Information
For the Year Ended September 30, 2017

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

	2017	2016	2015
Employer's portion of the net pension liability	0.8313845%	0.9377482%	0.8906485%
Employer's proportionate share of the net pension asset	$ 713,292	$ 504,025	$ 481,045
Employer's covered-employee payroll	$ 623,257	$ 439,502	$ 629,835
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	114.45%	114.68%	76.38%
Plan fiduciary net position as a percentage of the total pension liability	129.65%	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, 2017.

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

	2017	2016	2015
Statutorily required contribution	$ 102,809	$ 73,221	$ 122,514
Contributions in relation to the statutorily required contribution	102,809	73,221	122,514
Contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered-employee payroll of its covered employee payroll	$ 623,257	$ 439,502	$ 629,835
Contributions as a percentage of covered-employee payroll	16.50%	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, 2017.

FINANCIAL SECTION

OTHER SUPPLEMENTARY INFORMATION

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. During the year ended September 30, 2017, the City closed this fund.

Fiber Optic Network – This fund is used to account for program revenues committed and/or assigned to the administration and use of the fiber optic network.

Capital Projects Funds

Capital Projects Funds are used to account for specific revenues and expenditures that are related to a specific construction project

Capital Projects Fund – This fund is used to account for the City's sponsorship of the Schweitzer Road Cutoff Bridge Project. The bridge is not owned or maintained by the City, and therefore it was donated to another municipality.

City of Sandpoint

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2017

	Debt Service Funds	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	$ -	$ 1,072,660	$ -	$ 1,072,660
Receivables	62,610	58,325	-	120,935
Restricted assets:				
Cash and investments	269,584	810,147	-	1,079,731
Total assets	$ 332,194	$ 1,941,132	$ -	$ 2,273,326
LIABILITIES				
Vouchers payable	$ -	$ 27,013	$ -	$ 27,013
Total liabilities	-	27,013	-	27,013
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	-	5,231	-	5,231
Unavailable revenue-special assessments	60,862	-	-	60,862
Total deferred inflows of resources	60,862	5,231	-	66,093
FUND BALANCES				
Restricted	271,332	46,535	-	317,867
Committed	-	340,935	-	340,935
Assigned	-	1,521,418	-	1,521,418
Total fund balance	271,332	1,908,888	-	2,180,220
Total liabilities, deferred inflows of resources, and fund balance	$ 332,194	$ 1,941,132	$ -	$ 2,273,326

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	Debt Service Funds	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES				
Special assessments and taxes	$ 30,977	$ 180,334	$ -	$ 211,311
Impact fees	-	518,369	-	518,369
Interest	2,344	14,819	-	17,163
Charges for services	-	473,937	-	473,937
Grants	-	-	1,565,611	1,565,611
Miscellaneous revenues	-	96,861	-	96,861
Total revenues	33,321	1,284,320	1,565,611	2,883,252
EXPENDITURES				
General government	697	53,681	-	54,378
Highways and streets	-	185,569	-	185,569
Culture and recreation	-	325,115	-	325,115
Capital outlay	-	325,193	-	325,193
Debt service:				
Principal retirement	35,185	-	-	35,185
Interest expense	7,555	-	-	7,555
Total expenditures	43,437	889,558	-	932,995
(Deficiency) excess of revenues (under) over expenditures	(10,116)	394,762	1,565,611	1,950,257
OTHER FINANCING SOURCES (USES)				
Contributions to local municipalities	-	-	(1,565,611)	(1,565,611)
Transfers in	160	129,684	-	129,844
Transfers (out)	(160)	(66,653)	-	(66,813)
Total other financing sources (uses)	-	63,031	(1,565,611)	(1,502,580)
Net change in fund balances	(10,116)	457,793	-	447,677
Fund balances - beginning	281,448	1,451,095	-	1,732,543
Fund balances - ending	$ 271,332	$ 1,908,888	$ -	$ 2,180,220

City of Sandpoint

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
September 30, 2017

	LID #32	LID #2002-01	LID #2002-02
ASSETS			
Receivables:			
Special assessments	$ 13,972	$ -	$ 16,877
Interest	198	2	-
Restricted assets:			
Cash and investments	210,470	2,118	-
Total assets	$ 224,640	$ 2,120	$ 16,877
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	$ 13,972	$ -	$ 16,877
Total deferred inflows of resources	13,972	-	16,877
FUND BALANCES			
Restricted for debt service	210,668	2,120	-
Total liabilities, deferred inflows of resources, and fund balances	$ 224,640	$ 2,120	$ 16,877

LID #2006-01	LID #2007-01	LID Guarantee	Total
$ 13,706	$ 16,307	$ -	$ 60,862
1,500	11	37	1,748
6,736	11,453	38,807	269,584
$ 21,942	$ 27,771	$ 38,844	$ 332,194
$ 13,706	$ 16,307	$ -	$ 60,862
13,706	16,307	-	60,862
8,236	11,464	38,844	271,332
$ 21,942	$ 27,771	$ 38,844	$ 332,194

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
For the Year Ended September 30, 2017

	LID #32	LID # 2002-01	LID # 2002-02
REVENUES			
Special assessments	$ 4,197	$ -	$ 9,487
Interest	1,797	18	17
Total revenues	5,994	18	9,504
EXPENDITURES			
General government	-	-	-
Debt service:			
Principal	3,751	-	9,484
Interest	3,106	-	1,812
Total expenditures	6,857	-	11,296
(Deficiency) excess of revenues (under) over expenditures	(863)	18	(1,792)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	160
Transfers (out)	-	-	-
Total other financing sources	-	-	160
Net change in fund balances	(863)	18	(1,632)
Fund balances - beginning	211,531	2,102	1,632
Fund balances - ending	$ 210,668	$ 2,120	$ -

LID # 2006-01	LID # 2007-01	LID Guarantee	Total
$ 8,336	$ 8,957	$ -	$ 30,977
82	104	326	2,344
8,418	9,061	326	33,321
697	-	-	697
14,663	7,287	-	35,185
1,349	1,288	-	7,555
16,709	8,575	-	43,437
(8,291)	486	326	(10,116)
-	-	-	160
-	-	(160)	(160)
-	-	(160)	-
(8,291)	486	166	(10,116)
16,527	10,978	38,678	281,448
$ 8,236	$ 11,464	$ 38,844	$ 271,332

City of Sandpoint

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2017

	Recreation	Impact Fees	Parks Improvement	Bonner Business Center	Fiber Optic Network	Total
ASSETS						
Cash and investments	$ 422,744	$ -	$ 649,916	$ -	$ -	$ 1,072,660
Receivables:						
Taxes	6,131	-	-	-	-	6,131
Accounts	393	731	4,492	-	46,578	52,194
Restricted assets:						
Cash and investments, at cost	-	778,248	31,899	-	-	810,147
Total assets	$ 429,268	$ 778,979	$ 686,307	$ -	$ 46,578	$ 1,941,132
LIABILITIES						
Vouchers payable	$ 10,948	$ -	$ 3,159	$ -	$ 12,906	$ 27,013
Total liabilities	10,948	-	3,159	-	12,906	27,013
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	5,231	-	-	-	-	5,231
Total deferred inflows of resources	5,231	-	-	-	-	5,231
FUND BALANCES						
Restricted	-	-	46,535	-	-	46,535
Committed	37,592	18,000	285,343	-	-	340,935
Assigned	375,497	760,979	351,270	-	33,672	1,521,418
Total fund balances	413,089	778,979	683,148	-	33,672	1,908,888
Total liabilities, deferred inflows of resources, and fund balances	$ 429,268	$ 778,979	$ 686,307	$ -	$ 46,578	$ 1,941,132

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2017

	Recreation	Impact Fees	Parks Improvement	Bonner Business Center	Fiber Optic Network	Total
REVENUES						
Property taxes	$ 180,334	$ -	$ -	$ -	$ -	$ 180,334
Impact fees	-	518,369	-	-	-	518,369
Interest	3,540	6,388	4,891	-	-	14,819
Charges for services	93,005	-	331,320	-	49,612	473,937
Miscellaneous revenues	1,530	-	55,483	-	39,848	96,861
Total revenues	278,409	524,757	391,694	-	89,460	1,284,320
EXPENDITURES						
General government	-	-	-	-	53,681	53,681
Highways and streets	-	185,569	-	-	-	185,569
Culture and recreation	277,860	-	47,255	-	-	325,115
Capital outlay	-	127,901	117,797	-	79,495	325,193
Total expenditures	277,860	313,470	165,052	-	133,176	889,558
(Deficiency) excess of revenues (under) over expenditures	549	211,287	226,642	-	(43,716)	394,762
OTHER FINANCING SOURCES (USES)						
Transfers in	52,296	-	-	-	77,388	129,684
Transfers (out)	(2,855)	(37,977)	-	(25,821)	-	(66,653)
Total other financing sources (uses)	49,441	(37,977)	-	(25,821)	77,388	63,031
Net change in fund balances	49,990	173,310	226,642	(25,821)	33,672	457,793
Fund balances - beginning	363,099	605,669	456,506	25,821	-	1,451,095
Fund balances - ending	$ 413,089	$ 778,979	$ 683,148	$ -	$ 33,672	$ 1,908,888

City of Sandpoint

NONMAJOR BUSINESS-TYPE FUNDS
September 30, 2017

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. During the year ended September 30, 2017, the City closed this fund.

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, 2017

	Street Lights	Sanitation	Total
ASSETS			
Cash and investments	$ -	$ 206,245	$ 206,245
Receivables	-	79,498	79,498
Total assets	-	285,743	285,743
LIABILITIES			
Accounts payable and accrued expenses	-	28,228	28,228
Total liabilities	-	28,228	28,228
NET POSITION			
Restricted - other	-	15,324	15,324
Unrestricted	-	242,191	242,191
Total net position	$ -	$ 257,515	$ 257,515

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Street Lights	Sanitation	Total
Operating revenues:			
Charges for services	$ -	$ 457,174	$ 457,174
Total operating revenues	-	457,174	457,174
Operating expenses:			
Contractual services	-	317,873	317,873
Heat, lights, and power	-	16,332	16,332
Total operating expenses	-	334,205	334,205
Operating income	-	122,969	122,969
Nonoperating revenues:			
Interest income	-	1,666	1,666
Total nonoperating revenues	-	1,666	1,666
Income before transfers	-	124,635	124,635
Transfers (out)	(194,939)	(80,881)	(275,820)
Change in net position	(194,939)	43,754	(151,185)
Total net position - beginning	194,939	213,761	408,700
Total net position - ending	$ -	$ 257,515	$ 257,515

City of Sandpoint

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Street Lights	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 50	$ 429,731	$ 429,781
Payments to suppliers	-	(333,420)	(333,420)
Net cash provided by operating activities	50	96,311	96,361
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers (out)	(115,457)	(80,881)	(196,338)
Net cash (used) by noncapital financing activities	(115,457)	(80,881)	(196,338)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income, net	-	1,666	1,666
Net cash provided by investing activities	-	1,666	1,666
Net (decrease) increase in cash and investments	(115,407)	17,096	(98,311)
Cash and investments - beginning	115,407	189,149	304,556
Cash and investments - ending	$ -	$ 206,245	$ 206,245
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$ -	$ 122,969	$ 122,969
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in assets and liabilities:			
Decrease (increase) in receivables	50	(27,443)	(27,393)
(Decrease) increase in vouchers payable	-	785	785
Net cash provided by operating activities	$ 50	$ 96,311	$ 96,361

SINGLE AUDIT SECTION

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, 2017, and the related notes to the financial statements, which collectively comprise City of Sandpoint's basic financial statements, and have issued our report thereon dated February 22, 2018. 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.*

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

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

Purpose of this Report

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

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Co., P.A.

February 22, 2018

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of City of Sandpoint with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017. City of Sandpoint's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Sandpoint's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sandpoint's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Sandpoint's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Sandpoint complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE (CONCLUDED)

Report on Internal Control over Compliance

Management of City of Sandpoint is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Sandpoint's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Sandpoint's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

February 22, 2018

2100 NW Blvd., Suite 400, Coeur d'Alene, ID 83814 mmcocpa.com // p 208-765-9500 // f 208-667-9174

City of Sandpoint

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2017

Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Direct Award			
Cooperative Forestry Assistance	10.664		$ 6,391
Total U.S. Department of Agriculture			6,391
U.S. Department of Justice			
Direct Award			
Bulletproof Vest Partnership Program	16.607		2,122
Total U.S. Department of Justice			2,122
U.S. Department of Transportation			
Passed through Idaho Transportation Board			
Highway Planning and Construction	20.205	826000258	1,570,791
Total U.S. Department of Transportation			1,570,791
U.S. Department of Health and Human Services			
Passed through Idaho Commerce			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	826000258	9,785
Total U.S. Department of Health and Human Services			9,785
Total Federal Awards Expended			$ 1,589,089

See accompanying notes to the schedule of expenditures of federal awards.

City of Sandpoint

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2017

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Sandpoint under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Sandpoint, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Sandpoint.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. City of Sandpoint has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

City of Sandpoint

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es) _____ Yes __X__ None Reported

Noncompliance material to financial statements noted? _____ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes __X__ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes __X__ No

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? _____ Yes __X__ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

Section II. - Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards

We noted no findings relating to the financial statement which are required in accordance with generally accepted government auditing standards.

Section III. – Findings and Questioned Costs for Federal Awards

We noted no findings relating to the financial statement which are required in accordance with generally accepted government auditing standards.

Section IV. – Summary of Prior Year Audit Findings Relating to Federal Awards

There were no findings relating to prior year audit findings relating to federal awards in accordance with generally accepted government auditing standards.