

# **City of Priest River**

FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

(WITH INDEPENDENT AUDITOR'S REPORT)

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# Williams & Parsons, PC

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## CERTIFIED PUBLIC ACCOUNTANTS

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708 Superior Street Suite A, Sandpoint, ID 83864 · (208) 265-5959

### INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Priest River  
Priest River, Idaho

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund of the City of Priest River as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards 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 general-purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The body that determines generally accepted accounting principles has determined that Management's Discussion and Analysis (MD&A) is necessary to supplement the basic financial statements. The City of Priest River has elected not to present MD&A.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund of City of Priest River as of September 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated February 8, 2013 on our consideration of City of Priest River's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants  
February 8, 2013

**City of Priest River  
Idaho**

***Statements of net assets***

**September 30, 2012**

	<b>Governmental activities</b>	<b>Business type activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash	\$ 226,107	\$ 638,313	\$ 864,420
Restricted cash	-	219,308	219,308
Taxes receivable	82,966	-	82,966
Accounts receivable	69,704	105,694	175,398
Prepaid items	22,094	8,417	30,511
Grant receivable	1,475	163,640	165,115
Property and equipment, net of depreciation	3,906,399	9,219,585	13,125,984
Total assets	<u>4,308,745</u>	<u>10,354,957</u>	<u>14,663,702</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	5,973	241,564	247,537
Accrued payroll and burden	9,743	-	9,743
Accrued interest payable	-	50,836	50,836
Bond deposit payable	103,044	-	103,044
Current portion of long term debt	18,413	135,843	154,256
Non-current liabilities			
Long term debt	33,021	4,413,043	4,446,064
Compensated absences	36,127	23,630	59,757
Total liabilities	<u>206,321</u>	<u>4,864,916</u>	<u>5,071,237</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,873,378	4,670,699	8,544,077
Restricted spendable	-	219,308	219,308
Restricted nonexpendable	1,475	163,640	165,115
Unrestricted	227,570	436,394	663,964
Total net assets	<u>\$ 4,102,423</u>	<u>\$ 5,490,041</u>	<u>\$ 9,592,464</u>

**City of Priest River  
Idaho**

***Statement of activities***

**Year ended September 30, 2012**

			<b>Program revenues</b>
	<b>Expenses</b>	<b>Charges for service</b>	<b>Operating Grants</b>
<b>Functions/programs</b>			
<i>Governmental activities:</i>			
General government	\$ 352,237	\$ 40,015	\$ 4,048
Streets	323,050	3,070	-
Public safety	347,266	14,663	-
Parks and recreation	41,399	-	-
Interest on long-term debt	2,891	-	-
Total government activity	<u>1,066,843</u>	<u>57,748</u>	<u>4,048</u>
<i>Business type activities:</i>			
Wastewater	416,026	345,330	
Water	390,361	570,187	
	<u>-806,387</u>	<u>915,517</u>	

**General revenues**

Property taxes  
Transfers from state government  
Investment earnings  
Total general revenues  
Transfers  
Total general revenues and transfers  
Change in net assets  
Net assets beginning of period  
Net assets end of period

Capital Grants	Net		Total
	Governmental activities	Business activities	
\$ -	\$ (308,174)		\$ (308,174)
127,940	(192,040)		(192,040)
694	(331,909)		(331,909)
-	(41,399)		(41,399)
-	(2,891)		(2,891)
<u>128,634</u>	<u>(876,413)</u>		

1,091,533

\$ 1,020,837	1,020,837
179,826	179,826
<u>1,200,663</u>	<u>324,250</u>

654,417	654,417
261,550	261,550
1,175	2,228
<u>917,142</u>	<u>918,195</u>
(25,045)	-
892,097	918,195
15,684	1,242,445
4,086,739	8,350,019
<u>\$ 4,102,423</u>	<u>\$ 9,592,464</u>

**City of Priest River  
Idaho**

***Balance sheet-governmental funds***

**September 30, 2012**

	<u>General fund</u>	<u>Street fund</u>	<u>LID 98</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 111,997	\$ 80,524	\$ 33,586	\$ 226,107
Taxes receivable	63,054	19,912	-	82,966
Accounts receivable	45,907	23,797	-	69,704
Prepaid items	18,919	3,175	-	22,094
Grant receivable	-	-	1,475	1,475
	<u>\$ 239,877</u>	<u>\$ 127,408</u>	<u>\$ 35,061</u>	<u>\$ 402,346</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 2,676	\$ 3,297	\$ -	5,973
Accrued payroll and burden	8,074	1,669	-	9,743
Bond	103,044	-	-	103,044
Deferred revenue	60,397	20,474	1,231	82,102
Total liabilities	<u>174,191</u>	<u>25,440</u>	<u>1,231</u>	<u>200,862</u>
<b>FUND BALANCES</b>				
Unreserved	65,686	101,968	\$ 33,830	201,484
Total fund balances	<u>65,686</u>	<u>101,968</u>	<u>33,830</u>	<u>201,484</u>
	<u>\$ 239,877</u>	<u>\$ 127,408</u>	<u>\$ 35,061</u>	<u>\$ 402,346</u>



**City of Priest River  
Idaho**

***Statement of revenues, expenditures  
and changes in fund balance  
Governmental Funds***

**Year ended September 30, 2012**

	<b>General fund</b>	<b>Street fund</b>	<b>LID 98</b>	<b>Total</b>
<b>REVENUE</b>				
Property taxes	\$ 473,987	\$ 180,430	\$ -	\$ 654,417
Transfers from state government	160,552	100,998	-	261,550
User fees and charges	21,864	-	-	21,864
Assessments	-	-	3,494	3,494
Capital grant	694	127,940	-	128,634
Operating grant	4,048	-	-	4,048
Donation	-	-	-	-
Fines	14,663	-	-	14,663
Franchise fees	11,150	-	-	11,150
Other	7,555	3,070	-	10,625
Investment earnings	361	722	92	1,175
Total revenue	<u>694,874</u>	<u>413,160</u>	<u>3,586</u>	<u>1,111,620</u>
<b>EXPENDITURES</b>				
General government:	119,909	-	798	120,707
Police	326,370	-	-	326,370
Highways and streets	-	297,754	-	297,754
Recreation	36,372	-	-	36,372
Code enforcement	37,061	-	-	37,061
Building and zoning	53,014	-	-	53,014
Urban renewal	38,241	-	-	38,241
Capital outlay	84,803	406,943	-	491,746
Debt service:				
Principal	16,350	5,764	47,000	69,114
Interest	115	1,432	2,891	4,438
Total expenditures	<u>712,235</u>	<u>711,893</u>	<u>50,689</u>	<u>1,474,817</u>
Excess (deficiency) of revenues over expenditur	<u>(17,361)</u>	<u>(298,733)</u>	<u>(47,103)</u>	<u>(363,197)</u>
<b>OTHER FINANCING SOURCE</b>				
Proceeds from debt financing	<u>39,159</u>	<u>31,462</u>	<u>-</u>	<u>70,621</u>
Net other financing sources and uses	<u>39,159</u>	<u>31,462</u>	<u>-</u>	<u>70,621</u>
Net change in fund balance	21,798	(267,271)	(47,103)	(292,576)
Fund balance, beginning	43,888	369,239	80,933	494,060
<b>Fund balance, ending</b>	<b><u>\$ 65,686</u></b>	<b><u>\$ 101,968</u></b>	<b><u>\$ 33,830</u></b>	<b><u>\$ 201,484</u></b>

See accountants' report and accompanying notes

**City of Priest River  
Idaho**

***Statement of revenues and expenditures  
budget versus actual  
Governmental Funds***

**Year ended September 30, 2012**

***General Fund***

	<u>Actual</u>	<u>Original budget</u>	<u>Revised budget</u>	<u>Variance</u>
<b>REVENUES:</b>				
Total revenues	\$ 734,033	\$ 709,221	\$ 709,221	\$ 24,812
<b>EXPENDITURES:</b>				
Total expenditures	712,235	709,221	709,221	(3,014)
Excess (deficiency) of revenues over expenditures	<u>\$ 21,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,798</u>

***Street fund***

<b>REVENUES:</b>				
Total revenues	444,622	373,939	700,026	\$ (255,404)
<b>EXPENDITURES:</b>				
Total expenditures	711,893	373,939	700,026	(11,867)
Excess (deficiency) of revenues over expenditures	<u>\$ (267,271)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (267,271)</u>

***LID A-98***

<b>REVENUES:</b>				
Total revenues	3,586	50,421	50,421	\$ (46,835)
<b>EXPENDITURES:</b>				
Total expenditures	50,689	50,421	50,421	(268)
Excess (deficiency) of revenues over expenditures	<u>\$ (47,103)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,103)</u>

The budget amounts presented above are the original and final budget amounts. The city reopened the budget one time during the year and increased Street Fund expenditures to allow for certain road improvement projects.

**City of Priest River  
Idaho**

***Reconciliations***

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***Reconciliation of fund balance (governmental funds)  
to net assets (governmental funds)***

<b>Total fund balance--governmental funds</b>	<b>\$ 201,484</b>
<i>Amounts reported for governmental activities in the statements of net assets are different because:</i>	
Capital assets are not financial resources (cash) and accordingly can not be used as financial resources to meet current obligations and are therefore not reported in the funds	3,906,399
The amount of the tax and special assessment receivable that is not available to pay current period expenditures these amounts are deferred in the funds	82,102
Compensated absences that are not due in the current period and not reported in the fund basis accounting	(36,127)
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds	(51,434)
Other change	-
<b>Net assets of governmental activities</b>	<b>\$ 4,102,424</b>

***Reconciliation of statement revenues expenditure and changes in fund  
balance to the statements of activities***

*Amounts reported for governmental activities in the statements of net assets are different because:*

<b>Total changes in fund balances for the year ended</b>	<b>(292,576)</b>
Capital outlay	491,746
Depreciation expense	(144,885)
Debt principal payments	69,114
Change in compensated absence	(16,526)
Difference between property tax and special assessment revenue on modified accrual (governmental ) basis versus tax revenue on a full accrual basis	(2,498)
Proceeds from debt financing recorded as income in the fund statements	(70,621)
Collection of LID principal	(2,764)
Other	9,739
Transfer of assets	(25,045)
<b>Change in net assets of governmental activities</b>	<b>\$ 15,684</b>

**City of Priest River  
Idaho**

***Combining statements of net assets  
All proprietary funds***

**September 30, 2012**

	<b>Wastewater fund</b>	<b>Water fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash	\$ 211,866	\$ 426,447	\$ 638,313
Restricted cash	-	219,308	219,308
Accounts receivable	34,392	71,302	105,694
Capital grant receivable	-	163,640	163,640
Prepaid expense	4,750	3,667	8,417
Total current assets	<u>251,008</u>	<u>884,364</u>	<u>1,135,372</u>
Noncurrent assets			
Property and equipment, net of depreciation	<u>2,991,602</u>	<u>6,227,983</u>	<u>9,219,585</u>
Total assets	<u>\$ 3,242,610</u>	<u>\$ 7,112,347</u>	<u>\$ 10,354,957</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 10,631	\$ 230,933	\$ 241,564
Accrued interest payable	5,775	45,061	50,836
Current portion of long term debt	<u>34,882</u>	<u>100,961</u>	<u>135,843</u>
Total current liabilities	<u>51,288</u>	<u>376,955</u>	<u>428,243</u>
Non-current liabilities			
Long term debt	745,846	3,667,197	4,413,043
Compensated absences	<u>11,798</u>	<u>11,832</u>	<u>23,630</u>
Total non-current liabilities	<u>757,644</u>	<u>3,679,029</u>	<u>4,436,673</u>
Total liabilities	<u>808,932</u>	<u>4,055,984</u>	<u>4,864,916</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,210,874	2,459,825	4,670,699
Unrestricted	<u>222,804</u>	<u>596,538</u>	<u>819,342</u>
Total net assets	<u>2,433,678</u>	<u>3,056,363</u>	<u>5,490,041</u>
	<u>\$ 3,242,610</u>	<u>\$ 7,112,347</u>	<u>\$ 10,354,957</u>

See accountants' report and accompanying notes

**City of Priest River  
Idaho**

***Combining statement of proprietary fund  
revenues, expenditures and changes in net  
assets, All proprietary funds***

**Year ended September 30, 2012**

	<b>Wastewater fund</b>	<b>Water fund</b>	<b>Capital Total</b>
<b>OPERATING REVENUE</b>			
Charges for services	\$ 345,330	\$ 570,187	\$ 915,517
Total revenue	<u>345,330</u>	<u>570,187</u>	<u>915,517</u>
<b>OPERATING EXPENSE</b>			
Wages and burden	123,244	136,310	259,554
Depreciation	99,935	39,333	139,268
Utilities	39,849	58,106	97,955
Other	54,013	63,842	117,855
Maintenance	62,597	67,940	130,537
Total expense	<u>379,638</u>	<u>365,531</u>	<u>745,169</u>
<b>Income from operations</b>	<u>(34,308)</u>	<u>204,656</u>	<u>170,348</u>
<b>NON OPERATING REVENUE (EXPENSE)</b>			
Interest income	267	786	1,053
Capital grant revenue		1,091,533	1,091,533
Interest expense	<u>(36,388)</u>	<u>(24,830)</u>	<u>(61,218)</u>
Total non-operating revenue (expense)	<u>(36,121)</u>	<u>1,067,489</u>	<u>1,031,368</u>
Transfers in and (out) from other funds	25,045		25,045
Change in net assets	<u>(45,384)</u>	<u>1,272,145</u>	<u>1,226,761</u>
<b>NET ASSETS BEGINNING</b>	1,527,409	2,735,871	4,263,280
Prior period adjustment	951,653	(951,653)	-
<b>NET ASSETS ENDING</b>	<u>\$ 2,433,678</u>	<u>\$ 3,056,363</u>	<u>\$ 5,490,041</u>

**City of Priest River  
Idaho**

***Statements of cash flows,  
All proprietary funds***

**Year ended September 30, 2012**

	<b>Wastewater fund</b>	<b>Water fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 343,566	\$ 572,815	\$ 916,381
Payments to suppliers	(149,746)	(190,490)	(340,236)
Payments to employees and related costs	(120,308)	(133,340)	(253,648)
Net cash provided (used)	73,512	248,985	322,497
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from construction financing	-	2,351,516	2,351,516
Repayment of loan principal	(33,380)	(17,945)	(51,325)
Cash paid for interest	(36,635)	(4,874)	(41,509)
Capital grant proceeds	-	927,893	927,893
Transfers to/from other funds	919	-	919
Acquisition and construction of capital assets	(12,533)	(3,275,563)	(3,288,096)
Net cash provided (used)	(81,629)	(18,973)	(100,602)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	267	786	1,053
Net increase in cash	(7,850)	230,798	222,948
<b>Cash at beginning of year</b>	219,716	414,957	634,673
<b>Cash at end of year</b>	<u>\$ 211,866</u>	<u>\$ 645,755</u>	<u>\$ 857,621</u>
<b>Other cash flow information</b>			
Cash paid for interest	36,635	786	37,421
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Net income (loss) from operations	(34,308)	204,656	170,348
Adjustments to reconcile net income to cash provided by operations:			-
Depreciation	99,935	39,333	139,268
Changes in operating assets and liabilities:			-
Accounts receivable	(1,764)	2,628	864
Prepaid expense	(1,707)	(602)	(2,309)
Accounts payable	8,420	-	8,420
Accrued interest payable	2,936	2,970	5,906
Net cash provided (used) by operations	<u>\$ 73,512</u>	<u>\$ 248,985</u>	<u>\$ 322,497</u>
<b>Cash paid for interest</b>	\$ 38,368	\$ 68,109	\$ 106,477
<b>Non cash activity</b>			
Acquired equipment for a capital lease obligation		35,980	

## **CITY OF PRIEST RIVER**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### *The Reporting Entity*

The City of Priest River (the City) operates under a Mayor/Council form of government. The City's major operations include general government, street maintenance, a sewer system and a municipal water system, and general administrative services.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Priest River. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Priest River.

The financial statements of the City potentially include those of a separately administered organization that is controlled by or is dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, fund and appointment of the respective governing body.

City passed an ordinance which created the Priest River Urban Renewal Agency (the Agency), a legally separate entity from the City. The Agency was established to promote urban development and improvement in blighted areas in and around the City. A board of three directors, which was initially appointed by the City Council, governs the Agency. The relationship between the City and the Urban Renewal Agency are such that the Agency would meet the definition of a Component unit and should be discreetly presented in the accompanying financial statements of the City as a component unit. The presentation of the agency as a component unit has not been made in the accompanying financial statements due to the immateriality of the Agency. See additional information regarding the Agency in the subsequent events section, following.

The City complies with Generally Accepted Accounting Principles (GAAP). The City's governmental funds apply all Governmental Accounting Standards Board (GASB) pronouncements except as noted in the auditor's report. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before September 30, 1989, unless those pronouncements conflict with GASB, in which case, GASB pronouncements are utilized.

##### *Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues (the General and Street funds), are reported separately from

## **CITY OF PRIEST RIVER**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.**

business-type activities (the Water and Waste Water funds), which rely to a significant extent on user fees and charges for support.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of inter-fund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statements of net assets and the Statements of activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary and fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### *Measurement Focus, basis of Accounting and Financial Statement Presentation*

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

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with 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 after year end. Expenditures are recorded



## **CITY OF PRIEST RIVER**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.**

when the related fund liability is incurred. However, expenditures related to debt service, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

##### **General Fund**

This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

##### **Street Fund (a special revenue fund)**

This accounts for the revenues and expenditures as they relate to the maintenance and operation of the streets of the City.

##### **LID 98**

This fund was a debt service fund that was used to report collection of the Local Improvement District (LID) assessments and the payment of the related debt. As of September 30, 2012 it is paid in full.

##### **Proprietary Funds**

The Sewer and Water Funds account for the provision of sewer and water services to individuals and commercial users. All activities necessary to provide such services are accounted for in these funds, including (but not limited to) administration, operations, maintenance, financing, and related debt service.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering of goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services; the primary expenses are payroll, repair and maintenance, depreciation and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

If both restricted and unrestricted resources are available to use for the same purpose, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.**

**Deposits and Investments**

The City invests idle funds in banks or State of Idaho Local Government Investment Pool (LGIP). The City has not adopted formal policies regarding allowable depository institutions, allowable investments, risks associated with cash and investment custody and other investment risks. Informally the City restricts its cash investments to FDIC insured bank deposits and the LGIP.

The City's cash in bank checking and saving accounts is covered by FDIC insurance on deposits up to \$250,000 per account that is held with a bank. One bank account exceeded the FDIC insurance limits at various points during 2012. The cash amounts invested with the State investment Pool are fully collateralized by investments held in the Pool's name.

For purposes of the statements of cash flows, the enterprise fund considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

*Property Tax Receivables*

Prior to September 1 each year, the District prepares a proposed operating budget and holds public hearings to obtain taxpayers' comments. Once the budget is adopted, it is filed with the Bonner County Treasurer's office. The District's ad valorem property tax is levied by Bonner County each November 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

Taxes are due in two equal installments on or before December 20 and on or before June 20. Taxes are collected by Bonner County and remitted to the District monthly. Property taxes are distributed to the various funds on the ratio of the levies of the funds. These ratios are changed to the current year in December when the tax money for the new year is received.

*Inter-fund Receivables and Payables*

Long-term inter-fund loans are classified as "advances to/from other funds". Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

*Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.**

than \$500 and an estimated useful life in excess of two years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation. The costs of normal maintenance and repairs that do not add to the value of capacity of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest costs incurred during the construction phase of assets accounted for in business type activities is capitalized as a cost of the asset being constructed. Interest in the amount of \$63,235 was capitalized as part of the water improvement project during the year ended September 30, 2012.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of ~~activities with accumulated depreciation reflected in the Statement of net assets.~~ A composite depreciation rate is used for infrastructure assets. Depreciation on the remaining capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	15-35 years
Improvements	15-30 years
Water and Sewer systems	20-50 years
Machinery & Equipment	3-15 years
Vehicles	3-7 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

*Long Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities.

*Compensated Absences*

All employees are eligible for vacation and sick leave. Full time employees accrue up to 240 hours of vacation per year and part time employees can accrue up to 120 hours of vacation. Any in excess will be forfeited. Upon termination, an employee will be paid for unused vacation.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Cont.**

The City's sick leave policy allows employees to accrue 8 hours of sick pay per month with no maximum. Employees are not paid for unused sick pay on termination with the exception of employees hired before June 1, 2001. These employees would be paid for unused sick leave upon termination to a maximum of 600 hours.

The City has started a sick leave bank. Employees may "donate" accrued, unused sick leave hours to the bank. Employees who contribute hours to the bank are then eligible to request sick bank hours after using all their vacation and sick time. The City has recorded an estimate of the liability for compensated absences (unused vacation, sick leave and the sick leave pool) in the accompanying statements of net assets.

*Fund Equity*

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - Consists of the net assets with constraints placed on the use either by (1) external groups such as creditors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Restricted net assets are further subdivided between those that are "spendable"—cash and those that are "not spendable"—not cash.
- Unrestricted net assets - All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserved fund balances are legally segregated for a specific future use or that do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

*Use of Estimates*

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make statements and assumptions that affect various reported amounts and disclosures. Accordingly, actual results will differ from those estimates.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS**

*Legal Compliance – Budgets*

Annual operating budgets are adopted each fiscal year for all funds on the cash basis of accounting, through passage of an annual budget ordinance. Modification in the adopted budget can be made upon request of and approval by the City Council. All annual appropriations lapse at fiscal year end. The City's budgets are adopted on a basis substantially in compliance with Generally Accepted Accounting Principles, consistent with the modified accrual basis of accounting applicable to governmental funds, with the exception that cash carried over from prior years and expected to be expended in the current year is treated as revenue in the city's budget.

Obligations under capital leases are budgeted in each of the respective funds on a fiscal year basis. Each capital lease agreement has a nonappropriation clause which generally states that each fiscal year's lease payments are subject to City Council approval. The lease payment appropriations are included in the operating budget.

**Cash**

The City's cash is on deposit with banks and the State of Idaho Local Government Investment Pool. The carrying amount of the City's deposits and investments with financial institutions on September 30, 2012 was \$1,083,729 and the bank and state pool balances totaled \$1,308,929. The differences between the book carrying amounts and the bank balances are checks and deposits not yet clearing the banks as of September 30, 2012.

The balances in the LGIP are uninsured, and are collateralized by securities held by the LGIP, but the collateral is not held in the name of the City.

**Receivables and Deferred Revenue**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes collected by Bonner County and taxes collected by the State of Idaho.

Business-type activities report water and sewer billings as their major receivables.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to pay liabilities of the current period. Under the modified accrual basis of accounting, only revenue which is measurable and available is recognized in financial statements of governmental funds. Because property taxes levied in a year may not be paid by the taxpayer for up to three years, the taxes are not available as a spendable resource until received. Property taxes levied but not recorded by the City within 60 days after September 30 are reflected on the accompanying financial statements as deferred revenue.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

**Capital Assets**

**Capital asset activity for governmental activities**

	Balance at Sept 30, 2011	Additions	Disposals	Transfers	Balance at Sept 30, 2012
Land	\$94,048	\$ -	\$ -	\$ -	\$94,048
Buildings	916,125	12,269	-	-	928,394
Machinery and Equipment	810,974	100,344	(93,973)	(47,610)	769,735
Infrastructure	5,049,712	379,132	-	6,032	5,434,876
Total	6,870,859	491,745	(93,973)	(41,578)	7,227,053
Accumulated depreciation	(3,287,839)	(144,654)	93,973	17,462	(3,320,654)
Governmental activities--					
Capital assets, net	\$ 3,583,020				\$ 3,906,399

**Capital asset activity for business-type activities**

	Balance at Sept 30, 2011	Additions	Disposals	Transfers	Balance at Sept 30, 2012
Land	\$ 123,481	\$ -	\$ -	\$ -	\$ 123,481
Buildings	3,821,845	2,834,064	-	-	6,655,909
Machinery and Equipment	144,331	50,435	(3,500)	47,610	238,876
Systems	3,543,992	642,070	-	(6,032)	4,180,030
Total	7,633,649	3,526,569	(3,500)	41,578	11,198,296
Accumulated depreciation	(1,825,481)	(139,268)	3,500	(17,462)	(1,978,711)
Business type activities--					
Capital assets, net	\$ 5,808,168				\$ 9,219,585

Land is not being depreciated.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

**Long-term debt**

**Changes in long-term debt**

	Balance at Sept 30, 2011	Additions	Payment	Balance at Sept 30, 2012
<b><i>Governmental Activities:</i></b>				
LID A-98	\$ 47,000	\$ -	\$ 47,000	\$ -
Lease purchases	3,170		3,170	-
PNC lease purchase		39,159	13,454	25,735
John Deere lease-50% street	-	31,463	5,764	25,699
Total governmental activities	\$ 50,170	\$ 70,622	\$ 69,358	\$ 51,434

***Business-type activities:***

Sewer revenue bond of 2001	\$ 814,108	\$ -	\$ 33,380	\$ 780,728
Interim financing	1,328,484	2,351,516	3,680,000	-
USDA-Water revenue bond	-	3,680,000	-	3,680,000
Water revenue bond of 1996	76,471	-	14,011	62,460
John Deere Financial-50% water	-	31,463	5,764	- 25,699
Total business-type activities	\$ 2,219,063	\$6,062,979	\$3,733,155	\$ 4,548,887

Governmental fund compensated absences increased by \$4,056 to \$36,127 at September 30, 2012.

**Governmental Fund Debt**

Obligations payable at September 30, 2012, are comprised of the following issues:

- Capital lease obligation \$25,735; payable in annual installments of approximately \$13,619, including interest at 3.46%.

**Governmental & Enterprise Fund Debt**

Obligations payable at September 30, 2012, are comprised of the following issues:

- John Deere Financial lease-the asset and lease obligation is split 50% street; 50% water, \$51,398; payable in annual installments of \$14,392, including interest at 4.55%.

**Enterprise Fund Debt**

Bonds payable at September 30, 2012, are comprised of the following issues:

- Sewer Revenue Bonds of 2001 \$780,728; in annual installments of \$70,015, including interest at 4.5%.
- Water Revenue Bonds of 1996 \$62,460; payable in yearly installments of \$17,452, including interest at 4.5%.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

- USDA-water revenue bond for water system improvements, \$3,680,000. The term of the agreement is 30 years; interest accrues on the obligation at 2.75%. The note is payable in annual installments of \$181,756, starting in April 2013.

On May 27, 2008, the issuance of water revenue bonds not to exceed \$3,680,000 was approved by special election. The purpose of the financing is to construct an enhanced water filtration and distribution system. The project is in progress and is expected to be completed in the summer of 2013. Interim financing was secured with US Bank on September 21, 2009, for up to \$3,496,000 at a variable rate of 73% of prime which was 3.39% at September 30, 2009 (the rate was 2.37%). During the year ended September 30, 2012, the City drew the remainder of the interim financing from US Bank. The USDA purchased the water revenue bond and the interim financing was paid in full. Interest on the interim financing of \$63,235 was capitalized during the year.

The City has entered into annually cancelable capital lease agreements (the balances are included in the above table of changes in long-term debt) under which the related equipment will become the property of the City when all payments required under the lease agreements are met. The equipment acquired under lease is treated as owned by the City and the cost is included in the property and equipment balances in the accompanying statements of net assets and depreciation is computed with other assets.

Governmental fund debt service requirements to maturity are as follows:

<u>Years Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 18,413	2,322	38,784
2014	19,113	1,622	19,671
2015	6301	895	13,370
2016	6588	608	6,782
2017	6782	309	-



**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

Enterprise fund debt service requirements to maturity are as follows:

<u>Years Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 135,843	140,576	4,418,807
2014	140,550	135,869	4,278,257
2015	145,430	130,990	4,132,827
2016	150,310	125,931	3,982,517
2017	138,169	120,723	3,844,348
2018	135,729	116,043	3,708,619
2019	140,222	111,549	3,568,397
2020	144,873	106,898	3,423,524
2021-25	800,078	458,779	2,623,446
2026-30	787,649	319,400	1,835,797
2031-35	693,464	215,315	1,142,333
2036-40	794,205	114,606	348,128
2041-42	348,128	14,411	-

**Contingencies**

In the normal course of operations, the City receives grant funds from various state and federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. In the opinion of the City, any liability for reimbursement, which may arise as a result of these audits, is not believed to be material.

**Fair Value of Financial Instruments**

The City's financial instruments are cash, cash equivalents, receivables, accounts payable, debt and other obligations. The recorded values of these assets and liabilities approximate fair value.

**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 is a member in the Idaho Counties Risk Management Program (ICRMP). ICRMP was created to provide risk management and insurance services to public entities in Idaho. ICRMP itself is a public entity. The City pays an annual premium for all risks of physical loss or damage to real and personal property, general liability, City Council legal liability and employee dishonesty. The effective coverage period is October 1 to September 30. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

**Pension Plan**

The City participates in the Public Employees Retirement System of Idaho (PERSI). The Idaho State Legislature created PERSI, a cost sharing multiple-employer public retirement system. It is a defined benefit plan requiring that both the employee and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and school City employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request. Copies of plan summaries and financial information can be obtained by contacting PERSI directly at PERSI, PO Box 83720, Boise, ID 83720.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% for police) of the average monthly salary for the highest consecutive 42 months.

The required contribution rate for employees was 10.39% and 6.23% of covered payroll for the City and its employees, respectively (7.69 and 10.73 for police). The City makes periodic contributions on behalf of those employees who qualify for participation in PERSI. Essentially all full time permanent employees of the City are covered. The City's contributions required and paid were \$54,227, \$59,160 and \$65,794 for the years ended September 30, 2012, 2011 and 2010, respectively.

**Prior Period Adjustment**

The City maintains a system to track fixed assets and depreciation. Certain assets had been misclassified by fund in prior years. These assets were reclassified during the year. The net result of proper classification of these assets is that the net fixed assets of the wastewater Fund increased by \$951,653 and the net assets of the Water fund decreased by the same amount.

**Subsequent Events**

The City received notification that it had been awarded a grant in the amount of \$10,500, for the acquisition of a new police vehicle. The city expects to acquire the new vehicle for a total purchase price of approximately \$31,000 early in the 2012-2013 fiscal year.

Effective October 1, 2012 the City dissolved the board of the Urban Renewal Agency and designated the elected City councilors as the governing body of the Agency. The Agency had approximately \$60,000 in assets as of September 30, 2012, consisting principally of

**CITY OF PRIEST RIVER**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – DETAILED NOTES ON ALL FUNDS-continued**

cash and land. The Agency receives approximately \$38,000 annually in property taxes; the taxes are collected by Bonner County and passed through the City to the Agency.

The City is in the process of an upgrade to its water treatment and distribution system. The total project is expected to cost approximately \$5,900,000. The reservoir portion of the project was completed in the fall of 2010; the treatment plant component was finished in the summer of 2012. The improvements to the distribution system are still under construction and are expected to be completed in the summer of 2013. The City expects to spend approximately \$500,000 during the year ended September 30, 2013 to complete the project.

Our Auditors have evaluated subsequent events through February 8, 2013.

# Williams & Parsons, PC

CERTIFIED PUBLIC ACCOUNTANTS

708 Superior Street Suite A, Sandpoint, ID 83864 · (208) 265-5959

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

The Honorable Mayor and City Council  
City of Priest River  
Priest River, Idaho

We have audited the general-purpose financial statements of City of Priest River as of and for the years ended September 30, 2012, and have issued our report thereon dated February 8, 2013. 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.

### Compliance

As part of obtaining reasonable assurance about whether City of Priest River's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Priest River's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor and City Council and management, is not intended to be, and should not be used by anyone other than these specified parties.



Certified Public Accountants

February 8, 2013

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

***Section I – Summary of audit results***

The independent auditor's report expressed an unqualified opinion on the basic financial statements of the City.

The audit did not disclose any compliance findings that we consider to be material to the financial statements of the City.

The audit of the financial statements did not disclose any significant deficiencies in internal control.

There are no significant deficiencies that are considered material weaknesses.

***Section II – Compliance finding***

This section identifies the compliance deficiencies that are required to be reported under Government Auditing Standards.

There are no compliance deficiency findings.

***Section III – Internal control findings***

This section identifies the internal control deficiencies that are required to be reported under Government Auditing Standards.

There are no internal control deficiency findings.

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## Single Audit Section

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# Williams & Parsons, PC

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## CERTIFIED PUBLIC ACCOUNTANTS

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708 Superior Street Suite A, Sandpoint, ID 83864 · (208) 265-5959

### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and City Council  
City of Priest River, Idaho

#### Compliance

We have audited the compliance of the City of Priest River with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2012. City of Priest River's major federal programs are ~~identified in the summary of auditor's results section of the accompanying schedule of~~ findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the City of Priest River complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

#### Internal Control Over Compliance

The management of the City of Priest River is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with



requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on internal control over compliance, 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 the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant* deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor and City Council, management, the State of Idaho, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to be "W. H. & J. A. K.", is written over the printed name of the firm.

Certified Public Accountants  
February 8, 2013

# City of Priest River

Idaho

## *Schedule of expenditures of federal awards*

**September 30, 2012**

<u>Federal grantor, program and title</u>	<u>CFDA Number</u>	<u>Contract/Grant Identifying number</u>	<u>Federal Expenditure</u>
Pass through from State of Idaho			
<b>US Department of Commerce</b>			
Community Development Block Grant	14.228	B09DY160001	\$ 27,000
<b>US Department of Agriculture</b>			
Water and Waste Water Disposal Systems for Rural Communities-ARRA      Loan program	10.781		2,351,516
Water and Waste Water Disposal Systems for Rural Communities-ARRA      Grant program	10.781		1,064,533
<b>Federal Emergency Management Agency</b>			
Disaster Recovery	97.036	DR 1987	66,266
<b>Department of Justice</b>			
Bulletproof Vest Program	16.607	OMB 1121-0235	694
Total Federal expenditures			<u>\$ 3,510,009</u>

City of Priest River  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2012

**1. Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents all federal financial assistance received by City of Priest River. The District's reporting entity is defined in Note 1 to the District's financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included in the schedule.

**2. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the District's financial statements.

**3. Federal Debt**

As described in the footnotes to the financial statements above, the City borrowed \$2,351,516 from interim financing that was later permanently financed with a loan under the US Department of Agriculture, Water and Wastewater Disposal Systems for Rural Communities program (CFDA 10.781). The total outstanding under this loan as of September 30, 2012 is \$3,680,000.

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2012

**A. Summary of Auditor's Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Priest River.
2. No deficiencies relating to the audit of the financial statements are reported in the 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.
3. No instances of noncompliance material to the financial statements of the City of Priest River, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No deficiencies relating to the audit of the major federal award program was reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

5. The auditor's report on compliance for the major federal award program for the City of Priest River expresses an unqualified opinion.
6. Internal control findings related to federal award programs for the City of Priest River that we are required to report are included in this schedule (there were no findings).
7. The program tested as major programs was the US Department of Agriculture Water and Wastewater Disposal Systems of Rural Communities (CFDA 10.781).
8. The threshold for distinguishing Types A and B programs was \$300,000 in expenditures.
9. The City of Priest River was not determined to be a low-risk auditee.

#### **B. Findings – Financial Statement Audit**

There were no findings in the financial statement audit.

#### **C. Findings and Questioned Costs – Major Federal Award Programs Audit**

##### **Compliance finding**

None

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#### **Status of Prior Year Comments**

##### **Major Federal Award Programs**

###### ***Finding 2011-1***

**Condition**—The City was obligated to undergo a Single Audit for the year ended September 30, 2010. The City did contract with a firm to prepare a Single Audit and that audit was performed. However the prior auditor did not comply with the requirements to file the single audit report with the Federal Audit Clearinghouse. Accordingly the single audit report for the year ended September 30, 2010 was not filed with the Federal Audit Clearinghouse within the required time frame.

**Status**—The City contacted the prior auditor and the delinquent reports were filed in early 2012.