

# CITY OF PRIEST RIVER

FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022

**CITY OF PRIEST RIVER**

September 30, 2022

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**CITY OF PRIEST RIVER**  
**September 30, 2022**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
City of Priest River  
Priest River, ID 83856

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities, the business-type activities, the blended component unit, and each major fund of the City of Priest River as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Priest River's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the blended component unit, and each major fund, and the aggregate remaining fund information of the City of Priest River, as of September 30, 2022, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Priest River, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Priest River's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### ***Auditor's Responsibilities for the Audit of the Financial Statements (Concluded)***

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Priest River's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Priest River's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and certain GASB No. 68 pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

## **INDEPENDENT AUDITOR'S REPORT (CONCLUDED)**

### ***Required Supplementary Information (Concluded)***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Priest River's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2023 on our consideration of the City of Priest River'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 solely 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 effectiveness of the City of Priest River's 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 the City of Priest River's internal control over financial reporting and compliance.

*Magnuson, McHugh & Company, P.A.*

Magnuson, McHugh, & Company, P.A.

June 27, 2023

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS



## City of Priest River

### STATEMENT OF NET POSITION

September 30, 2022

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 606,414	\$ 719,320	\$ 1,325,734
Receivables	196,904	154,405	351,309
Prepaid items	30,614	20,779	51,393
Restricted assets:			
Cash and investments	-	1,053,752	1,053,752
Right-of-use lease assets, net of accumulated amortization	126,983	263,083	390,066
Land	1,367,282	123,481	1,490,763
Construction in process	506,747	4,504,513	5,011,260
Capital assets, net of accumulated depreciation	5,778,888	9,618,245	15,397,133
Total assets	8,613,832	16,457,578	25,071,410
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Proportionate share of collective deferred outflows of resources	319,526	156,574	476,100
Total deferred outflows of resources	319,526	156,574	476,100
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	22,108	42,547	64,655
Accrued payroll and payroll burden	19,959	7,135	27,094
Accrued interest payable	-	89,950	89,950
Deferred revenue	-	16,955	16,955
Bond deposit payable	31,115	-	31,115
Current portion of long term debt	-	234,850	234,850
Lease liabilities, due within one year	19,667	48,856	68,523
Noncurrent liabilities:			
Long term debt	-	7,012,948	7,012,948
Lease liabilities, due beyond one year	109,483	218,946	328,429
Compensated absences	79,866	37,063	116,929
Net pension liability	585,931	297,090	883,021
Total liabilities	868,129	8,006,340	8,874,469
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Proportionate share of collective deferred inflows of resources	810	1,788	2,598
Total deferred inflows of resources	810	1,788	2,598
<b>NET POSITION</b>			
Net investment in capital assets and leases	7,650,750	6,993,722	14,644,472
Restricted for debt service	-	334,397	334,397
Nonspendable	30,614	20,779	51,393
Unrestricted	383,055	1,257,126	1,640,181
Total net position	\$ 8,064,419	\$ 8,606,024	\$ 16,670,443

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

# City of Priest River

## STATEMENT OF ACTIVITIES For the Year Ended September 30, 2022

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Capital Grants
Governmental activities:			
General government	\$ 409,511	\$ 23,124	\$ -
Public safety	548,775	192,731	-
Streets	570,269	22,694	-
Parks and recreation	172,388	560	-
Interest on long-term debt	5,304	-	-
Change in net pension liability	154,380	-	-
Unallocated actual PERSI contributions	(70,543)	-	-
Total governmental activities	1,790,084	239,109	-
Business-type activities:			
Water	780,807	894,386	-
Wastewater	669,828	807,630	-
Total business-type activities	1,450,635	1,702,016	-
Total primary government	\$ 3,240,719	\$ 1,941,125	\$ -

General revenues:  
 Property taxes and special assessments  
 Franchise fees  
 Investment earnings  
 Grants  
 Intergovernmental revenue  
 Miscellaneous  
 Donations of land  
 Total general revenues and transfers

Change in net position

Net position - beginning

Prior period adjustment

Net position - ending

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

**Net (Expense) Revenue and Changes in Net Assets**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (386,387)	\$ -	\$ (386,387)
(356,044)	-	(356,044)
(547,575)	-	(547,575)
(171,828)	-	(171,828)
(5,304)	-	(5,304)
(154,380)	-	(154,380)
70,543	-	70,543
<u>(1,550,975)</u>	<u>-</u>	<u>(1,550,975)</u>
-	113,579	113,579
-	137,802	137,802
-	<u>251,381</u>	<u>251,381</u>
<u>(1,550,975)</u>	<u>251,381</u>	<u>(1,299,594)</u>
925,765	-	925,765
34,401	-	34,401
5,707	10,348	16,055
34,269	884,251	918,520
503,283	-	503,283
16,335	8,556	24,891
996,740	-	996,740
<u>2,516,500</u>	<u>903,155</u>	<u>3,419,655</u>
965,525	1,154,536	2,120,061
<u>6,921,171</u>	<u>9,265,898</u>	<u>16,187,069</u>
<u>177,723</u>	<u>(1,814,410)</u>	<u>(1,636,687)</u>
<u>\$ 8,064,419</u>	<u>\$ 8,606,024</u>	<u>\$ 16,670,443</u>

**City of Priest River**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
September 30, 2022**

	<b>General</b>	<b>Street</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments	\$ 552,186	\$ 54,228	\$ 606,414
Taxes receivable	34,142	11,381	45,523
Accounts receivable	71,421	79,960	151,381
Prepaid items	22,994	7,620	30,614
Total assets	\$ 680,743	\$ 153,189	\$ 833,932
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 14,229	\$ 7,879	\$ 22,108
Accrued payroll	17,125	2,834	19,959
Bond deposit payable	31,115	-	31,115
Total liabilities	62,469	10,713	73,182
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property taxes	33,206	11,068	44,274
Total deferred inflows of resources	33,206	11,068	44,274
<b>FUND BALANCES</b>			
Non-spendable	22,994	7,620	30,614
Unassigned	562,074	123,788	685,862
Total fund balances	585,068	131,408	716,476
Total liabilities, deferred inflows of resources and fund balances	\$ 680,743	\$ 153,189	\$ 833,932

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

## City of Priest River

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION September 30, 2022

Total fund balance at September 30, 2022 - Governmental Funds		\$ 716,476
Cost of capital assets	\$ 13,117,756	
Less: Accumulated depreciation	<u>(5,464,839)</u>	7,652,917
Right-of-use lease asset	148,147	
Less: accumulated amortization	<u>(21,164)</u>	126,983
Elimination of deferred inflows of resources		44,274
Lease liabilities, due within one year		(19,667)
Long-term liabilities:		
Compensated absences	(79,866)	
Lease liabilities, due beyond one year	<u>(109,483)</u>	(189,349)
Items related to GASB 68 and reporting net pension liability:		
Proportionate share of collective deferred outflows of resources	319,526	
Proportionate share of collective deferred inflows of resources	(810)	
Net pension liability	<u>(585,931)</u>	<u>(267,215)</u>
 Net position at September 30, 2022		 <u><u>\$ 8,064,419</u></u>

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

## City of Priest River

### GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2022

	<u>General</u>	<u>Street</u>	<u>Total</u>
<b>REVENUES</b>			
Taxes and special assessments	\$ 661,375	\$ 249,348	\$ 910,723
Intergovernmental revenues	285,896	217,387	503,283
User fees and charges	237,709	1,400	239,109
Capital grants	-	34,269	34,269
Fines	10,572	-	10,572
Franchise fees	3,335	31,066	34,401
Other	5,565	198	5,763
Investment earnings	4,053	1,654	5,707
Total revenues	<u>1,208,505</u>	<u>535,322</u>	<u>1,743,827</u>
<b>EXPENDITURES</b>			
General government	175,451	-	175,451
Police	534,975	-	534,975
Highway and streets	-	313,136	313,136
Recreation	162,340	-	162,340
Code enforcement	27,364	-	27,364
Building and zoning	177,431	-	177,431
Urban renewal	10,657	-	10,657
Capital outlay	103,550	354,515	458,065
Debt service:			
Principal retirement	-	18,997	18,997
Interest expense	-	5,304	5,304
Total expenditures	<u>1,191,768</u>	<u>691,952</u>	<u>1,883,720</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,737</u>	<u>(156,630)</u>	<u>(139,893)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	15,000	15,000
Transfers (out)	(15,000)	-	(15,000)
Total other financing sources (uses)	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>
Net change in fund balance	1,737	(141,630)	(139,893)
Fund balances - beginning	<u>583,331</u>	<u>273,038</u>	<u>856,369</u>
Fund balances - ending	<u>\$ 585,068</u>	<u>\$ 131,408</u>	<u>\$ 716,476</u>

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

## City of Priest River

### 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, 2022

Total net changes in fund balances for the year ended September 30, 2022	\$ (139,893)
Add: Capital outlay which is considered expenditures	458,065
Less: Depreciation expense	(265,774)
Add: Debt and lease principal payments considered as expenditures	18,997
Less: Amortization expense on right-of-use lease assets	(21,164)
Add: Donations of land	996,740
Less: Change in compensated absences	(12,651)
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	15,042
Less: Change in net pension liability	(154,380)
Add: Unallocated actual PERSI contributions	<u>70,543</u>
Change in net position for year ended September 30, 2022	<u><u>\$ 965,525</u></u>

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

**City of Priest River**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**September 30, 2022**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 226,922	\$ 492,398	\$ 719,320
Accounts receivable	91,799	62,606	154,405
Prepaid items	12,721	8,058	20,779
Restricted cash and investments	566,089	487,663	1,053,752
Total current assets	<u>897,531</u>	<u>1,050,725</u>	<u>1,948,256</u>
Noncurrent assets:			
Right-of-use lease assets, net of accumulated amortization	131,542	131,541	263,083
Land	120,074	3,407	123,481
Construction in process	1,821,423	2,683,090	4,504,513
Capital assets, net of accumulated depreciation	4,415,646	5,202,599	9,618,245
Total noncurrent assets	<u>6,488,685</u>	<u>8,020,637</u>	<u>14,509,322</u>
Total assets	<u>7,386,216</u>	<u>9,071,362</u>	<u>16,457,578</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Proportionate share of collective deferred outflows of resources	91,607	64,967	156,574
Total deferred outflows of resources	<u>91,607</u>	<u>64,967</u>	<u>156,574</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	27,258	15,289	42,547
Accrued payroll and benefits	4,138	2,997	7,135
Accrued interest payable	38,817	51,133	89,950
Deferred revenue	16,955	-	16,955
Current portion of long term debt	126,549	108,301	234,850
Lease liabilities, due within one year	24,428	24,428	48,856
Total current liabilities	<u>238,145</u>	<u>202,148</u>	<u>440,293</u>
Noncurrent liabilities:			
Long term debt	3,715,529	3,297,419	7,012,948
Lease liabilities, due beyond one year	109,473	109,473	218,946
Compensated absences	21,441	15,622	37,063
Net pension liability	170,257	126,833	297,090
Total noncurrent liabilities	<u>4,016,700</u>	<u>3,549,347</u>	<u>7,566,047</u>
Total liabilities	<u>4,254,845</u>	<u>3,751,495</u>	<u>8,006,340</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Proportionate share of collective deferred inflows of resources	-	1,788	1,788
Total deferred inflows of resources	<u>-</u>	<u>1,788</u>	<u>1,788</u>
<b>NET POSITION</b>			
Net investment in capital assets and leases	2,512,706	4,481,016	6,993,722
Restricted for debt service	316,945	17,452	334,397
Nonspendable	12,721	8,058	20,779
Unrestricted	380,606	876,520	1,257,126
Total net position	<u>\$ 3,222,978</u>	<u>\$ 5,383,046</u>	<u>\$ 8,606,024</u>

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



## City of Priest River

### PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended September 30, 2022

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 737,303	\$ 619,145	\$ 1,356,448
Hook-up charges	157,083	188,485	345,568
Miscellaneous	5,162	3,394	8,556
Total operating revenues	<u>899,548</u>	<u>811,024</u>	<u>1,710,572</u>
<b>OPERATING EXPENSES</b>			
Wages and payroll burden	217,809	162,906	380,715
Depreciation	119,495	155,673	275,168
Amortization	26,634	26,634	53,268
Utilities	88,642	53,747	142,389
Other services and charges	85,127	114,396	199,523
Maintenance	113,003	32,672	145,675
Change in net pension liability	44,780	33,431	78,211
Total operating expenses	<u>695,490</u>	<u>579,459</u>	<u>1,274,949</u>
Operating income	<u>204,058</u>	<u>231,565</u>	<u>435,623</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	4,460	5,888	10,348
Grant income	720,487	163,764	884,251
Interest expense	(85,317)	(90,369)	(175,686)
Total nonoperating revenues (expenses)	<u>639,630</u>	<u>79,283</u>	<u>718,913</u>
Income (loss) before contributions and transfers	<u>843,688</u>	<u>310,848</u>	<u>1,154,536</u>
Change in net position	843,688	310,848	1,154,536
Total net position - beginning	3,985,503	5,280,395	9,265,898
Prior period adjustment	(1,606,213)	(208,197)	(1,814,410)
Total net position - ending	<u>\$ 3,222,978</u>	<u>\$ 5,383,046</u>	<u>\$ 8,606,024</u>

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

**City of Priest River**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
For the Year Ended September 30, 2022**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 975,544	\$ 911,907	\$ 1,887,451
Payments to employees	(229,502)	(185,305)	(414,807)
Payments to suppliers	(344,358)	(208,249)	(552,607)
Net cash provided (used) by operating activities	<u>401,684</u>	<u>518,353</u>	<u>920,037</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Grants received	720,487	163,764	884,251
Net cash provided (used) provided by noncapital financing activities	<u>720,487</u>	<u>163,764</u>	<u>884,251</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of fixed assets	(1,621,562)	(160,751)	(1,782,313)
Proceeds from new debt	1,986,656	-	1,986,656
Repayment of long-term debt	(1,176,953)	(104,812)	(1,281,765)
Repayment of lease liabilities	(24,500)	(24,500)	(49,000)
Interest paid	(84,491)	(91,617)	(176,108)
Net cash provided (used) by capital and related financing activities	<u>(920,850)</u>	<u>(381,680)</u>	<u>(1,302,530)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	4,460	5,888	10,348
Net cash provided (used) by investing activities	<u>4,460</u>	<u>5,888</u>	<u>10,348</u>
Net increase in cash and investments	205,781	306,325	512,106
Cash and investments, beginning	587,230	673,736	1,260,966
Cash and investments, ending	<u>\$ 793,011</u>	<u>\$ 980,061</u>	<u>\$ 1,773,072</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating income	\$ 204,058	\$ 231,565	\$ 435,623
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	119,495	155,673	275,168
Amortization	26,634	26,634	53,268
Changes in assets and liabilities:			
(Increase) decrease in:			
Receivables	75,996	100,883	176,879
Prepaid expense	(1,854)	(926)	(2,780)
Increase (decrease) in:			
Accounts payable	(55,732)	(6,508)	(62,240)
Accrued payroll	(5,756)	(5,127)	(10,883)
Deferred revenue	16,955	-	16,955
Compensated absences	(2,430)	(1,996)	(4,426)
Items related to net pension liability	24,318	18,155	42,473
Net cash provided (used) by operating activities	<u>\$ 401,684</u>	<u>\$ 518,353</u>	<u>\$ 920,037</u>
<b>Reconciliation of cash to the statement of net position:</b>			
Cash/investments	\$ 226,922	\$ 492,398	\$ 719,320
Restricted cash/investments	566,089	487,663	1,053,752
	<u>\$ 793,011</u>	<u>\$ 980,061</u>	<u>\$ 1,773,072</u>

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

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Reporting Entity

The City of Priest River (the "City") is an incorporated city of the State of Idaho. 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 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.

##### *Component Unit*

The accompanying financial statements include financial statements for related organizations as required by Generally Accepted Accounting Principles. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

Component units can be treated as one of the following:

**Blended component units**, although legally separate entities, are, in substance, part of the City's operations. Blended component units provide services exclusively or almost exclusively for the City.

**Discretely presented component units** are reported in a separate column in the combined financial statements to emphasize their legal separateness from the City.

The City passed an ordinance which created the Priest River Urban Renewal Agency (the Agency), a legally separate entity from the City. The Priest River Urban Renewal Agency (the "Agency") was established to promote development and improvement in blighted areas in and around the City. The Agency is governed by a Board of Directors, which includes one individual from the City Council and four others who are appointed by the City Council. Agency revenues consist entirely of tax revenue collected by Bonner County but passing through the City. The relationship between the City and the Urban Renewal Agency is such that the Agency is required to be presented as a blended component unit and is accounted for within the general fund in the accompanying financial statements of the City. Component unit financial statements may be obtained from the City.

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.

(Continued)

# City of Priest River

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### A. Reporting Entity (Concluded)

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 and proprietary funds. The City, at this time, does not report internal service funds.

#### 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 *Street Fund* is used to account for the revenues and expenditures as they relate to the maintenance and operation of the streets of the City.

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 *Wastewater Fund* accounts for the provision of sewer 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.

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.

(Continued)

# City of Priest River

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Basis of Presentation – Fund Financial Statements (Concluded)

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.

#### 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.

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. 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.

(Continued)

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **D. Measurement Focus and Basis of Accounting (Concluded)**

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 recognizes 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.

##### **E. Cash and Cash Equivalents**

The City has a formal policy regarding allowable depository institutions. The City has not adopted a formal policy regarding allowable investments or other investment risks.

The City's cash in bank checking and savings accounts is covered by FDIC insurance on deposits up to \$250,000 per account that is held with a bank. The cash amounts invested with the State Investment Pool are fully collateralized by investments held in the Pool's name. The City has overnight availability to those funds.

For the 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.

##### **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. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

(Continued)

**City of Priest River**

**NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2022**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Capital Assets (Concluded)**

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

<u>Assets</u>	<u>Years</u>
Buildings	25 – 35
Improvements	20 – 30
Water and Sewer Systems	20 – 100
Machinery & Equipment	3 – 15
Vehicles	3 – 7

**G. 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.

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.

The City has 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.

**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 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.

(Continued)

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### I. Deferred Outflows/Inflows of Resources (Concluded)

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.

##### 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.

(Continued)



# City of Priest River

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### J. Fund Balance Classifications (Concluded)

*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.

*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.

#### 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 and leases, net of related debt consists of capital assets and leases, net of accumulated depreciation and amortization, 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.

(Continued)

# City of Priest River

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

#### 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, 2022, which were collected and held by the county at September 30, 2022, but not yet remitted to the City until after September 30, 2022.

#### 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.

#### P. New Pronouncements

In 2017, the Governmental Accounting Standards Board (GASB) issued Summary of Statement Number 87 Leases (GASB 87), which is required to be adopted for entities with fiscal years beginning after June 15, 2021. The objective of GASB 87 is to improve reporting for certain operating and finance leases. The City has considered the effect that GASB 87 will have on the financial statements and has adopted and implemented the requirement of GASB 87 for the year ended September 30, 2022.

### 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 City prepares 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.

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONCLUDED)

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

- 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.

#### 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.

(Continued)

**City of Priest River**

**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2022**

**NOTE 3: CASH AND INVESTMENTS (CONCLUDED)**

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, 2022, 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	\$ 177,223
Amount collateralized with securities held in trust, but not to the City's name	<u>2,267,322</u>
Total deposits without exposure to custodial credit risk	<u><u>\$ 2,444,545</u></u>

The following is a recap of the carrying amount:

Statement of net position:	
Cash and investments	\$ 1,325,734
Restricted cash	<u>1,053,752</u>
	<u><u>\$ 2,379,486</u></u>

Fair value:

The City invests in a 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 consists 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.

Credit risk:

The Idaho State Investment Pool does 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 can be obtained by contacting the Idaho State Treasurer.

(Continued)

# City of Priest River

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

### NOTE 4: CHANGES IN FIXED ASSETS

Land, construction-in-process, capital assets and accumulated depreciation are as follows:

	Beginning Balance	Prior Period Adjustment	Increases	GASB 87 Adjustment	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 370,542	\$ -	\$ 996,740	\$ -	\$ 1,367,282
Construction in progress	-	377,798	128,949	-	506,747
Total capital assets, not being depreciated	<u>370,542</u>	<u>377,798</u>	<u>1,125,689</u>	<u>-</u>	<u>1,874,029</u>
Capital assets, being depreciated:					
Buildings and improvements	1,094,417	(23,664)	-	-	1,070,753
Machinery and equipment	1,236,451	147,796	20,026	(148,147)	1,256,126
Infrastructure	9,009,827	(402,069)	309,090	-	8,916,848
Total capital assets being depreciated	<u>11,340,695</u>	<u>(277,937)</u>	<u>329,116</u>	<u>(148,147)</u>	<u>11,243,727</u>
Less accumulated depreciation	<u>5,276,937</u>	<u>(77,872)</u>	<u>265,774</u>	<u>-</u>	<u>5,464,839</u>
Total capital assets, being depreciated, net	<u>6,063,758</u>	<u>(200,065)</u>	<u>63,342</u>	<u>(148,147)</u>	<u>5,778,888</u>
Governmental activities capital assets, net	<u>\$ 6,434,300</u>	<u>\$ 177,733</u>	<u>\$ 1,189,031</u>	<u>\$ (148,147)</u>	<u>\$ 7,652,917</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 123,481	\$ -	\$ -	\$ -	\$ 123,481
Construction in progress	-	2,746,502	1,758,011	-	4,504,513
Total capital assets, not being depreciated	<u>123,481</u>	<u>2,746,502</u>	<u>1,758,011</u>	<u>-</u>	<u>4,627,994</u>
Capital assets being depreciated:					
Buildings and improvements	6,881,759	86,382	-	-	6,968,141
Machinery and equipment	656,295	(73,014)	-	(329,114)	254,167
Infrastructure	11,350,453	(4,748,684)	24,302	-	6,626,071
Total capital assets being depreciated	<u>18,888,507</u>	<u>(4,735,316)</u>	<u>24,302</u>	<u>(329,114)</u>	<u>13,848,379</u>
Less accumulated depreciation	<u>4,143,806</u>	<u>(185,558)</u>	<u>275,168</u>	<u>(3,282)</u>	<u>4,230,134</u>
Total capital assets being depreciated, net	<u>14,744,701</u>	<u>(4,549,758)</u>	<u>(250,866)</u>	<u>(325,832)</u>	<u>9,618,245</u>
Business type activities capital assets, net	<u>\$ 14,868,182</u>	<u>\$ (1,803,256)</u>	<u>\$ 1,507,145</u>	<u>\$ (325,832)</u>	<u>\$ 14,246,239</u>

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

<b>Governmental activities:</b>	
General government	\$ 6,420
Streets	235,506
Public Safety	13,800
Parks and recreation	10,048
Total depreciation expense - governmental activities	<u>\$ 265,774</u>
<b>Business-type activities:</b>	
Wastewater	\$ 155,673
Water	119,495
Total depreciation expense - business-type activities	<u>\$ 275,168</u>

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

**NOTE 5: LONG-TERM DEBT**

USDA loans consisted of the following at September 30, 2022:

In 2001 the City obtained a sewer revenue bond (USDA 92-05) with an original debt balance of \$1,140,300. The bond is payable in 30 annual installments of \$70,015, including interest of 4.50%.

In 2012 the City obtained a water revenue bond (USDA 91-07) with an original debt balance of \$3,680,000. The bond is payable in 30 annual installments of \$181,756, including interest of 2.75%.

In 2018 the City obtained a sewer revenue bond (USDA 92-11) with an original debt balance of \$2,650,000. The bond is payable in 40 annual installments of \$101,177, including interest of 2.25%.

In 2020 the City obtained a sewer revenue bond (USDA 92-13) with an original debt balance of \$550,000. The bond is payable in 40 annual installments of \$19,668, including interest of 1.875%.

In 2022 the City obtained a water revenue bond (USDA 91-15) with an original debt balance of \$1,075,000. The bond is payable in 40 annual installments of \$34,325, including interest of 1.25%.

In 2021 the City obtained interim financing of \$1,074,120 through the Idaho Department of Environmental Quality. The financing was repaid in its entirety during the year ended September 30, 2022.

Revenue bond debt service requirements to maturity are as follows:

Year Ending September 30,	Principal	Interest
2023	\$ 234,850	\$ 172,091
2024	241,636	165,305
2025	248,641	158,300
2026	255,872	151,069
2027	263,338	143,603
2028-2032	1,123,910	618,961
2033-2037	1,204,286	480,344
2038-2042	1,357,499	326,156
2043-2047	572,907	202,943
2048-2052	631,481	144,369
2053-2057	696,332	79,518
2058-2062	417,046	14,978
	\$ 7,247,798	\$ 2,657,638

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 6: LEASES

The City entered into a lease agreement as lessee for an excavator in August 2020. The lease is for 36 months with monthly payments of \$967.13 and an interest rate of 3.8735%.

The City entered into a lease agreement as lessee for a Vactor combo truck in August 2021. The lease is for 7 years with annual payments of \$72,903.04 and an interest rate of 3.580%.

The right-of-use lease assets are listed as follows:

	Beginning Balance	Adjustment	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>					
Asset - right of use lease	\$ -	\$ 148,147	\$ -	\$ -	\$ 148,147
Accumulated amortization	-	-	(21,164)	-	(21,164)
Asset - right of use lease, net amortization	<u>\$ -</u>	<u>\$ 148,147</u>	<u>\$ (21,164)</u>	<u>\$ -</u>	<u>\$ 126,983</u>
<b>Business-type activities:</b>					
Asset - right of use leases	\$ -	\$ 329,114	\$ -	\$ -	\$ 329,114
Accumulated amortization	-	(12,763)	(53,268)	-	(66,031)
Asset - right of use leases, net amortization	<u>\$ -</u>	<u>\$ 316,351</u>	<u>\$ (53,268)</u>	<u>\$ -</u>	<u>\$ 263,083</u>

Future minimum lease payments are as follows:

For the year ended,	Equipment	
	Principal	Interest
2023	\$ 68,523	\$ 14,040
2024	61,146	11,757
2025	63,335	9,568
2026	65,602	7,301
2027	67,951	4,952
2028	70,395	2,520
	<u>\$ 396,952</u>	<u>\$ 50,138</u>

#### NOTE 7: CHANGES IN LONG-TERM DEBT AND LEASES

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 67,215	\$ 12,651	\$ -	\$ 79,866	\$ -
Lease liabilities	148,147	-	18,997	129,150	19,667
	<u>\$ 215,362</u>	<u>\$ 12,651</u>	<u>\$ 18,997</u>	<u>\$ 209,016</u>	<u>\$ 19,667</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 41,489	\$ -	\$ 4,426	\$ 37,063	\$ -
USDA loans payable	6,380,443	1,075,000	207,645	7,247,798	234,850
IDEQ interim financing	162,464	911,656	1,074,120	-	-
Lease liabilities	315,130	-	47,328	267,802	48,856
	<u>\$ 6,899,526</u>	<u>\$ 1,986,656</u>	<u>\$ 1,333,519</u>	<u>\$ 7,552,663</u>	<u>\$ 283,706</u>

(Continued)

**City of Priest River**

**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2022**

**NOTE 8: INTERFUND TRANSACTIONS:**

Interfund transfers (net) during the fiscal year ended September 30, 2022 were as follows:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 15,000
Street Fund	15,000	-
	\$ 15,000	\$ 15,000

**NOTE 9: DEFINED BENEFIT PENSION PLAN**

*Plan Description*

The City of Priest River 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](http://www.persi.idaho.gov).

Responsibility for administration of the Base Plan 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 provides 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 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.

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.

(Continued)



**City of Priest River**

**NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2022**

**NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Member and Employer Contributions*

Member and employer contributions paid to the Base Plan 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 contribution rates for employees are set by statute at 60% of the employer rate for general employees and 74% for police and firefighters. As of June 30, 2022, it was 7.16% for general employees and 9.13% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.94% for general employees and 12.28% for police and firefighters. The City's contributions were \$106,281 for the year ended September 30, 2022.

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

At September 30, 2022, the City reported a liability for its proportionate share on the net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022 the City's proportion was 0.02241874 percent.

For the year ended September 30, 2022, the City of Priest River recognized pension expense (offset) of \$(70,453). At September 30, 2022 the City of Priest River reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 203,172	\$ -
Changes of assumptions	143,959	-
Net difference between projected and actual earnings on pension plan investments	106,435	13,276
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	(10,678)
City of Priest River's contributions subsequent to the measurement date	22,534	-
Total	<u>\$ 476,100</u>	<u>\$ 2,598</u>

\$22,534 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, 2022.

(Continued)

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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, 2022, the beginning of the measurement period ended June 30, 2021 is 4.6 and 4.6 for the measurement period June 30, 2022.

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 September 30:

2023	\$ (105,289)
2024	\$ (114,302)
2025	\$ (52,864)
2026	\$ (167,834)

#### *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.

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases including inflation	3.05%
Investment rate of return	6.35%, net of investment expenses
Cost-of-living adjustments	1.00%

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, 2015, through June 30, 2020, which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2022 is based on the results of an actuarial valuation date July 1, 2022.

(Continued)

# City of Priest River

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

### NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### *Actuarial Assumptions (Concluded)*

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

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

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of 2022.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Nominal Rate of Return (Arithmetic)</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Core Fixed Income	30.00%	1.80%	-0.20%
Broad US Equities	55.00%	8.00%	6.00%
Developed Foreign Equities	15.00%	8.25%	6.25%
Assumed Inflation - Mean		2.00%	2.00%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.18%	4.18%
Portfolio Standard Deviation		12.29%	12.29%
Portfolio Long-Term (Geometric) Expected Rate of Return		5.55%	3.46%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.15%	3.06%
Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.14%
Portfolio Standard Deviation			14.16%
<b>Valuation Assumptions Chosen by PERSI Board</b>			
Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.05%
Assumed Inflation			2.30%
<b>Long-Term Expected Geometric Rate of Return, Net of Investment Expenses</b>			<b><u>6.35%</u></b>

**City of Priest River**

**NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2022**

**NOTE 9: DEFINED BENEFIT PENSION PLAN (CONCLUDED)**

*Discount Rate*

The discount rate used to measure the total pension liability was 6.35%. 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.

*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 (asset) calculated using the discount rate of 6.35 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 (5.35 percent) or 1-percentage-point higher (7.35 percent) than the current rate:

	<u>1% Decrease (5.35%)</u>	<u>Discount Rate (6.35%)</u>	<u>1% Increase (7.35%)</u>
City's net pension liability	\$ 1,558,444	\$ 883,021	\$ 330,203

*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](http://www.persi.idaho.gov).

*Payables to the pension plan*

At September 30, 2022, the City reported no payables to the defined benefit pension plan for legally required employer contributions and no payables for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

**NOTE 10: 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.

(Continued)

## City of Priest River

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

#### NOTE 11: COMMITMENTS

The city entered into two compliance agreements with the Idaho Department of Environmental Quality in the spring of 2021. Both compliance agreements relate to the City's water system. The first compliance agreement relates to surface water discharge the City had used to clean certain filters. The second agreement relates to the failure of the City's current water tank. The water tank has certain rust and structural issues, and the city's engineering contractor has determined that the best course of action is replacement of the existing tank.

The compliance agreements require the City to implement a system whereby water discharge will be run through the city sewer system, that upgrade is required to be completed by December 31, 2021. The City also agreed to replace the water tank by December 31, 2022. The discharge project was complete by December 20, 2021, and the storage tank project was complete by December 15, 2022. The City met the requirements for both Compliance Agreement Schedules.

The total cost of the two projects, plus the installation of a generator at the water treatment plant and the replacement of a water main within the intersection of Wisconsin Street and Highway 2, is expected to be \$2,000,700. To provide funding for these two projects, the voters of the City approved a bond issue in the winter of 2020 in the amount of \$2,000,000. The city has also sought grant funding from the Idaho Department of Commerce through an Idaho Community Development Block Grant in the amount of \$500,000 for the completion of the two projects. The city expects to have the discharge related project completed in the near future, and to have the water tank project completed by October 2022.

The City had maintained a landfill in the past; that landfill was closed in the 1970s. In a prior year, the City transferred the landfill site to a separate non-profit organization; the City and that non-profit obtained an Idaho Department of Environmental Quality grant to fund remediation on the landfill site. That remediation has been completed. During 2015 the City committed to pay any ongoing maintenance costs associated with the former landfill site. There were no expenditures paid during the year ended September 30, 2022. The City cannot reasonably estimate the cost of future year maintenance.

#### NOTE 12: 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 of the Idaho Counties Risk Management Program (ICRMP).

#### NOTE 13: PRIOR PERIOD ADJUSTMENT

During the fiscal year ending September 30, 2022, beginning net position was decreased by \$10 in the governmental funds and decreased by \$11,154 in the enterprise funds in order to implement GASB 87.

(Continued)

**City of Priest River**

**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2022**

**NOTE 13: PRIOR PERIOD ADJUSTMENT (CONCLUDED)**

During the fiscal year ending September 30, 2022, the City restated construction in process, fixed assets, and accumulated depreciation to properly report balances. Construction in process and fixed assets increased by \$99,861 in the governmental funds and decreased \$1,988,814 in the enterprise funds. Accumulated depreciation decreased by \$77,872 in the governmental funds and by \$185,558 in the enterprise funds.

	GASB 87	Fixed Assets	Accumulated Depreciation	Total
Governmental funds	\$ (10)	\$ 99,861	\$ 77,872	\$ 177,723
Enterprise funds	(11,154)	(1,988,814)	185,558	(1,814,410)
	\$ (11,164)	\$ (1,888,953)	\$ 263,430	\$ (1,636,687)

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

## City of Priest River

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2022

	Original Budget Amounts *	Actual Amounts	Variance With Final Budget
<b>REVENUES</b>			
Taxes and special assessments	\$ 674,529	\$ 661,375	\$ (13,154)
Intergovernmental revenues	274,894	285,896	11,002
User fees and charges	135,354	237,709	102,355
Grants	7,500	-	(7,500)
Fines	6,900	10,572	3,672
Franchise fees	4,700	3,335	(1,365)
Other	5,000	5,565	565
Investment earnings	1,188	4,053	2,865
Total revenues	<u>1,110,065</u>	<u>1,208,505</u>	<u>98,440</u>
<b>EXPENDITURES</b>			
General government	393,512	175,451	218,061
Police	560,032	534,975	25,057
Recreation	105,376	162,340	(56,964)
Code enforcement	27,924	27,364	560
Building and zoning	115,042	177,431	(62,389)
Urban renewal	6,673	10,657	(3,984)
Capital outlay	169,324	103,550	65,774
Total expenditures	<u>1,377,883</u>	<u>1,191,768</u>	<u>186,115</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(267,818)</u>	<u>16,737</u>	<u>284,555</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	181,400	-	(181,400)
Transfers (out)	-	(15,000)	(15,000)
Total other financing sources (uses)	<u>181,400</u>	<u>(15,000)</u>	<u>(196,400)</u>
Net change in fund balances	(86,418)	1,737	88,155
Fund balances - beginning	<u>86,418</u>	<u>583,331</u>	<u>496,913</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 585,068</u>	<u>\$ 585,068</u>

\* The original budget was not amended.



**City of Priest River**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
STREET FUND**

**For the Year Ended September 30, 2022**

	<b>Original Budget Amounts *</b>	<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
<b>REVENUES</b>			
Taxes and special assessments	\$ 250,176	\$ 249,348	\$ (828)
Intergovernmental revenues	163,719	217,387	53,668
User fees and charges	1,500	1,400	(100)
Grants	756,774	34,269	(722,505)
Franchise fees	32,000	31,066	(934)
Other	10,000	198	(9,802)
Investment earnings	1,600	1,654	54
Total revenues	<u>1,215,769</u>	<u>535,322</u>	<u>(680,447)</u>
<b>EXPENDITURES</b>			
Highways and streets	367,193	313,136	54,057
Capital outlay	1,154,210	354,515	799,695
Debt service:			
Principal retirement	18,998	18,997	1
Interest expense	5,304	5,304	-
Total expenditures	<u>1,545,705</u>	<u>691,952</u>	<u>853,753</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(329,936)</u>	<u>(156,630)</u>	<u>173,306</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	329,936	15,000	(314,936)
Total other financing sources (uses)	<u>329,936</u>	<u>15,000</u>	<u>(314,936)</u>
Net change in fund balances	-	(141,630)	(141,630)
Fund balances - beginning	-	273,038	273,038
Fund balances - ending	<u>\$ -</u>	<u>\$ 131,408</u>	<u>\$ 131,408</u>

\* The original budget was not amended.

**City of Priest River**

**GASB 68 Required Supplementary Information  
For the Year Ended September 30, 2022**

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

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Employer's portion of the net pension liability	0.0224187%	0.0214610%	0.0206217%
Employer's proportionate share of the net pension liability	\$ 883,021	\$ 16,948	\$ 478,863
Employer's covered-employee payroll	\$ 911,706	\$ 818,119	\$ 750,561
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	96.85%	2.07%	63.80%
Plan fiduciary net position as a percentage of the total pension liability	83.09%	100.36%	88.22%

\* 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, 2022.

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

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Statutorily required contribution	\$ 106,281	\$ 98,397	\$ 90,456
Contributions in relation to the statutorily required contribution	106,281	98,397	90,092
Contribution deficiency (excess)	\$ -	\$ -	\$ 364
Employer's covered-employee payroll of its covered employee payroll	\$ 911,706	\$ 818,119	\$ 750,561
Contributions as a percentage of covered-employee payroll	11.66%	12.03%	12.00%

\* 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, 2022.

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
0.0218684%	0.0220506%	0.0227466%	0.0214788%
\$ 249,622	\$ 325,250	\$ 357,537	\$ 435,408
\$ 749,388	\$ 716,265	\$ 689,299	\$ 641,885
33.31%	45.41%	51.87%	67.83%
93.79%	91.69%	90.68%	87.26%

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
\$ 85,705	\$ 81,032	\$ 78,071	\$ 73,467
85,705	81,032	78,071	73,084
\$ -	\$ -	\$ -	\$ 383
\$ 749,388	\$ 716,265	\$ 689,299	\$ 641,885
11.44%	11.31%	11.33%	11.39%

REPORT REQUIRED BY GAO

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

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
City of Priest River  
Priest River, ID 83856

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 blended component unit, and each major fund of the City of Priest River as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Priest River's basic financial statements, and have issued our report thereon dated June 27, 2023.

***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City of Priest River's internal control over financial reporting (internal control) as a basis for designing 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 the City of Priest River's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Priest River'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Priest River'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**City of Priest River's Response to Findings**

The City of Priest River's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Priest River's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 & Company, P.A.

June 27, 2023

**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 Priest River  
Priest River, ID 83856

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the City of Priest River's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Priest River's major federal programs for the year ended September 30, 2022. The 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.

In our opinion, the City of Priest River 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, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Priest River and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Priest River's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Priest River's federal programs.

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

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Priest River's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Priest River's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Priest River's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Priest River's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City of Priest River's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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.



**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 (Concluded)**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

June 27, 2023

SINGLE AUDIT SECTION

## City of Priest River

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2022

Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Department of Housing and Urban Development</u>			
Passed through Idaho Community Development:			
<i>Block Grant Program</i>	14.228	B20DC160001	\$ 438,775
Total U.S. Department of Health and Human Services			<u>438,775</u>
<u>U.S. Department of Agriculture - Rural Development</u>			
Direct Award			
<i>Water and Waste Disposal Systems for Rural Communities</i>	10.760		
Loan program - beginning balance			202,600
Loan draws			<u>872,400</u>
Total loans			1,075,000
Grant program - water			173,612
Grant program - wastewater			<u>160,752</u>
Total U.S. Department of Agriculture			<u>1,409,364</u>
<u>Environmental Protection Agency</u>			
Direct Award			
Drinking Water State Revolving Fund Cluster:			
<i>Water Project - IDEQ Interim Financing Loan</i>	66.468		351,641
Total Drinking Water State Revolving Fund Cluster			<u>351,641</u>
Total Environmental Protection Agency			<u>351,641</u>
Total Federal Awards Expended			<u>\$ 2,199,780</u>

## City of Priest River

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2022

#### NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Priest River under programs of the federal government for the year ended September 30, 2022. 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 the City of Priest River, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Priest River.

#### NOTE 2: 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. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through entity identifying numbers are presented where available.

**City of Priest River**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2022**

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major programs: Unmodified

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

Identification of major programs:

*Assistance Listing Number(s)*

*Name of Federal Program or Cluster*

10.760

Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee?  Yes  No

## City of Priest River

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2022

#### **Section II – Findings – Financial Statement Audit**

##### **2022–001 Internal Controls Over Capital Assets and Related Depreciation**

**Criteria:** There is an expectation that the financial statements should be materially accurate when an auditor begins their final fieldwork on the audit after year-end. Minor adjustments are expected but overall, the balances should materially reflect the financial position of the entity.

**Condition:** During our fieldwork, an adjusting journal entry was posted in order to properly state construction in process, capital assets, and accumulated depreciation, and agree the balances to available records and documentation.

**Context:** We observed inadequate controls over financial reporting by reviewing the financial records and supporting documentation for account balances, and assessing accuracy of related accumulated depreciation.

**Cause:** The City did not reconcile the construction in process, capital assets, and accumulated depreciation balances in the audited financial statements to internal records.

**Effect or Potential Effect:** The financial records were misstated when the auditor began fieldwork.

**Recommendation:** It is our recommendation that the City take corrective action in response to the identified problems or relevant risks identified. The City should implement a process to ensure that supporting documentation for construction in process, capital assets, and accumulated depreciation agree to the audited financial statements.

**Views of the responsible officials and planned corrective actions:** A large portion of the discrepancy in construction in process, capital assets, and accumulated depreciation began with the fiscal year ended September 30, 2011. During that audit cycle, the city's retained audit firm determined that the city's Fixed Asset Management Program (FAMP) was understated in assets. They assumed the understatement of assets belonged to the business-type funds as infrastructure with an asset life of 50-years and made an adjustment to the city's financial statements to reflect it. They did not request that an adjustment be made to the city's FAMP. The city continued with the same audit firm through the fiscal year ended September 30, 2021. After that date and during the audit for the fiscal year ended September 30, 2022, it became apparent that the prior auditor carried over the discrepancy from year to year and made an adjustment in their records to account for it, unbeknownst to city staff. City staff became aware of the carry-over and adjustments after asking the prior auditor for their work papers to try and reconcile the asset overstatement discrepancy found by the current auditor.

The prior auditor also did not report the construction in process separate from the other depreciable capital assets, which also added to the difficulty in trying to reconcile the discrepancies.

The city retains auditors due to requirements in Idaho Code, but also to ensure that city staff is accurately recording and reporting the city's financials from year to year. City staff has always accepted the advice of the auditors to ensure that we are properly recording assets, liabilities, equity, revenues, expenditures, and capital assets. Had the prior auditor asked for an adjustment to be made in the city's FAMP to account for the discrepancy, the adjustment would have been made. Eleven years later, city staff found it impossible to reconcile and correct the city's FAMP to the prior auditor's assumption and carry-over amounts.

While the city does not agree with the finding, we accept it and understand that city staff should have recognized that there was a discrepancy eleven years ago and corrected it at that time. City staff spent countless hours reviewing eleven years of files and records, but ultimately could only prove the capital assets as listed in the FAMP. Moving forward, city staff will strive to ensure that capital assets are balanced every year, and no discrepancies exist between the city's financial software, the FAMP, and the auditor's review.

## City of Priest River

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2022

#### **Section III – Findings and Questioned Costs – Major Federal Award Programs Audit**

We noted no findings relating to the Federal Awards Programs, which are required to be reported in accordance with generally accepted *Government Auditing Standards*.

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

There were no findings in the prior period.