

CITY OF DONNELLY, IDAHO

Report on Audited
Basic
Financial Statements
and
Supplemental Information

For the Year Ended September 30, 2016

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Millington Zwygart

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor
and City Council
Donnelly, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Donnelly, Idaho (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Donnelly, Idaho, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the City's proportionate share of Net Pension Liability, and the schedule of City contributions on pages 32 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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 opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Donnelly, Idaho's basic financial statements. The supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statement are 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 January 17, 2017, on our consideration of the City of Donnelly, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Donnelly, Idaho's internal control over financial reporting and compliance.

Millington Zwyzart CPAs, PLLC

Caldwell, Idaho
January 17, 2017

City of Donnelly, Idaho
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 268,361	\$ 107,785	\$ 376,146
Receivables, Net:			
Property Taxes	15,526	-	15,526
Accounts Receivable	-	11,675	11,675
Intergovernmental	2,143	-	2,143
Noncurrent Assets:			
Restricted Cash	-	39,771	39,771
Capital Assets:			
Land and Nondepreciable Infrastructure	115,052	3,503	118,555
Buildings, Net	600,120	10,134	610,254
Improvements, Net	19,873	563,372	583,245
Equipment, Net	42,865	25,546	68,411
Total Capital Assets	<u>777,910</u>	<u>602,555</u>	<u>1,380,465</u>
Total Assets	<u>1,063,940</u>	<u>761,786</u>	<u>1,825,726</u>
Deferred Outflows			
Pension Related Items	<u>40,539</u>	<u>27,848</u>	<u>68,387</u>
Total Deferred Outflows			
Liabilities			
Current Liabilities:			
Accounts Payable	351	4,965	5,316
Salaries and Benefits Payable	2,240	1,044	3,284
Security Deposits	2,400	-	2,400
Accrued Interest	310	6,675	6,985
Long-Term Liabilities:			
Due within One Year:			
Compensated Absences	2,392	1,577	3,969
Bonds and Notes Payable	6,694	21,439	28,133
Due in More than One Year:			
Bonds and Notes Payable	21,872	205,172	227,044
Net Pension Liability	57,878	40,354	98,232
Total Liabilities	<u>94,137</u>	<u>281,226</u>	<u>375,363</u>
Deferred Inflows			
Pension Related Items	<u>18,592</u>	<u>13,535</u>	<u>32,127</u>
Total Deferred Inflows	<u>18,592</u>	<u>13,535</u>	<u>32,127</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	749,344	375,944	1,125,288
Restricted	151,288	39,771	191,059
Unrestricted (Deficit) Surplus	91,118	79,158	170,276
Total Net Position	<u>\$ 991,750</u>	<u>\$ 494,873</u>	<u>\$ 1,486,623</u>

The accompanying notes are an integral
part of the financial statements.

City of Donnelly, Idaho
Statement of Activities
For the Year Ended September 30, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental Activities:							
General and Administrative	\$ 156,817	\$ 39,283	\$ -	\$ -	\$ (117,534)	\$ -	\$ (117,534)
Public Safety	1,313	-	-	-	(1,313)	-	(1,313)
Highways and Streets	70,772	-	-	-	(70,772)	-	(70,772)
Parks and Recreation	44,024	-	-	-	(44,024)	-	(44,024)
Depot	10,374	-	-	-	(10,374)	-	(10,374)
Total Governmental Activities	283,300	39,283	-	-	(244,017)	-	(244,017)
Business-type Activities:							
Water	127,170	103,162	-	-	-	(24,008)	(24,008)
Sewer	105,667	88,366	-	-	-	(17,301)	(17,301)
Total Business-type Activities	232,837	191,528	-	-	-	(41,309)	(41,309)
Total Primary Government	\$ 516,137	\$ 230,811	\$ -	\$ -	(244,017)	(41,309)	(285,326)
General Revenues:							
Property Taxes					89,221	-	89,221
Local Option Tax					48,780	-	48,780
State Sources					100,177	-	100,177
Other					38,107	-	38,107
Unrestricted Investment Earnings					645	345	990
Gain(Loss) on Sale of Assets					-	-	-
Transfer Between Government Activities and Business-type Activities					(893)	893	-
Total General Revenues and Special Items					276,037	1,238	277,275
Change in Net Position					32,020	(40,071)	(8,051)
Net Position, Beginning of Year, Restated					959,730	534,944	1,494,674
Net Position, End of Year					\$ 991,750	\$ 494,873	\$ 1,486,623

The accompanying notes are an integral part of the financial statements.

City of Donnelly, Idaho
 Balance Sheet -
 Governmental Funds
 September 30, 2016

	General	Local Option Tax	Library	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 116,783	\$ 100,797	\$ 50,781	\$ 268,361
Prepaid Items	-	-	-	-
Receivables, Net:				
Property Taxes	15,526	-	-	15,526
Intergovernmental	2,143	-	-	2,143
Interfund Balance	-	-	-	-
Accounts	-	-	-	-
Total Assets	<u>\$ 134,452</u>	<u>\$ 100,797</u>	<u>\$ 50,781</u>	<u>\$ 286,030</u>
Liabilities				
Accounts Payable	\$ 302	\$ -	\$ 49	\$ 351
Interfund Balance	-	-	-	-
Salaries and Benefits Payable	1,999	-	241	2,240
Prepaid Rents	-	-	-	-
Security Deposits	2,400	-	-	2,400
Total Liabilities	<u>4,701</u>	<u>-</u>	<u>290</u>	<u>4,991</u>
Deferred Inflows				
Unavailable Revenue - Property Taxes	11,677	-	-	11,677
Unavailable Revenue - Donations	-	-	-	-
Total Deferred Inflows	<u>11,677</u>	<u>-</u>	<u>-</u>	<u>11,677</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted for:				
Local Option Tax	-	100,797	-	100,797
Library	-	-	50,491	50,491
Unassigned	118,074	-	-	118,074
Total Fund Balances	<u>118,074</u>	<u>100,797</u>	<u>50,491</u>	<u>269,362</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 134,452</u>	<u>\$ 100,797</u>	<u>\$ 50,781</u>	<u>\$ 286,030</u>

The accompanying notes are an integral
 part of the financial statements.

City of Donnelly, Idaho
 Reconciliation of the Balance Sheet of the
 Governmental Funds to the Statement of Net Position
 September 30, 2016

Total Fund Balances - Governmental Funds \$ 269,362

Amounts reported for governmental activities in the Statement of Net Position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. The cost of assets consist of:

Land	\$ 115,052	
Buildings, net of \$352,592 accumulated depreciation	600,120	
Improvements, net of \$18,211 accumulated depreciation	19,873	
Equipment, net of \$28,416 accumulated depreciation	<u>42,865</u>	
		777,910

Property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, and, therefore, are deferred in the funds. 11,677

Long-term liabilities, applicable to the City's governmental activities, are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the Statement of Net Position.

Compensated Absences	\$ (2,392)	
Accrued Interest	(310)	
Municipal Lease Payable	<u>(28,566)</u>	
		(31,268)

The District participates in the Public Employer Retirement System of Idaho, which is a cost-sharing plan. As a participant they are required to report their share of the Net Pension Liability and the related deferred inflows and outflows on their Statement of Net Position.

Net Pension Liability	\$ (57,878)	
Pension Related Deferred Inflows	(18,592)	
Pension Related Deferred Outflows	<u>40,539</u>	
		<u>(35,931)</u>

Net Position of Governmental Activities \$ 991,750

The accompanying notes are an integral
 part of the financial statements.

City of Donnelly, Idaho
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2016

	General	Local Option Tax	Library	Total Governmental Funds
Revenues				
Taxes	\$ 88,316	\$ 48,780	\$ -	\$ 137,096
Licenses and Permits	27,533	-	-	27,533
Intergovernmental	50,177	-	50,000	100,177
Charges for Services	10,753	-	997	11,750
Other	35,448	286	3,085	38,819
Total Revenues	<u>212,227</u>	<u>49,066</u>	<u>54,082</u>	<u>315,375</u>
Expenditures				
Current:				
General and Administrative	91,105	28,331	18,047	137,483
Public Safety	1,313	-	-	1,313
Roads and Streets	108,962	-	-	108,962
Parks and Recreation	37,733	-	-	37,733
Depot Expense	10,374	-	-	10,374
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>249,487</u>	<u>28,331</u>	<u>18,047</u>	<u>295,865</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(37,260)</u>	<u>20,735</u>	<u>36,035</u>	<u>19,510</u>
Other Financing Sources (Uses)				
Debt Proceeds	36,497	-	-	36,497
Transfers In	-	2,892	-	2,892
Transfers Out	(3,785)	-	-	(3,785)
Total Other Financing Sources (Uses)	<u>32,712</u>	<u>2,892</u>	<u>-</u>	<u>35,604</u>
Net Change in Fund Balances	(4,548)	23,627	36,035	55,114
Fund Balances - Beginning	122,622	77,170	14,456	214,248
Fund Balances - Ending	<u>\$ 118,074</u>	<u>\$ 100,797</u>	<u>\$ 50,491</u>	<u>\$ 269,362</u>

The accompanying notes are an integral
part of the financial statements.

City of Donnelly, Idaho
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of the
 Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2016

Total Net Change in Fund Balance - Governmental Funds \$ 55,114

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. In the current period these amounts are:

Capital Outlay	\$ 36,497	
Depreciation Expense	<u>(31,454)</u>	5,043

In the Statement of Activities, the net gain (loss) on the sale/disposal of capital assets is reported, whereas in the governmental funds, only the proceeds from the sale of capital assets is recorded as a financial resource. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold or disposed of. (67)

Long-term liabilities, including municipal leases payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Changes in long-term liabilities at year-end consist of:

Issuance of Municipal Lease	\$ (36,497)	
Municipal Lease Payment	<u>7,621</u>	(28,876)

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. 905

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the net change in compensated absences. (462)

The District participates in the Public Employer Retirement System of Idaho, which is a cost-sharing plan. As a participant they are required to report their share of the Net Pension Liability and the related deferred inflows and outflows on their Statement of net Position. The changes in the Net Pension Liability and the related deferred inflows and outflows does not affect the governmental funds, but are reported in the Statement of Activities. 363

Change in Net Position of Governmental Activities \$ 32,020

The accompanying notes are an integral
 part of the financial statements.

City of Donnelly, Idaho
Statement of Net Position -
Proprietary Funds
September 30, 2016

	Water	Sewer	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 40,233	\$ 67,552	\$ 107,785
Receivables, Net	9,293	2,382	11,675
Noncurrent Assets:			
Restricted Cash	22,217	17,554	39,771
Capital Assets:			
Land and Nondepreciable Infrastructure	3,503	-	3,503
Buildings, Net	4,818	5,316	10,134
Improvements, Net	238,582	324,790	563,372
Equipment, Net	15,207	10,339	25,546
Total Assets	<u>333,853</u>	<u>427,933</u>	<u>761,786</u>
Deferred Outflows			
Pension Related Items	19,286	8,562	27,848
Total Deferred Outflows	<u>19,286</u>	<u>8,562</u>	<u>27,848</u>
Liabilities			
Current Liabilities:			
Accounts Payable	4,909	56	4,965
Salaries and Benefits Payable	806	238	1,044
Accrued Interest	3,449	3,226	6,675
Compensated Absences	939	638	1,577
Current Portion Long-term Debt	10,877	10,562	21,439
Total Current Liabilities	<u>20,980</u>	<u>14,720</u>	<u>35,700</u>
Long-term Liabilities:			
Bonds and Notes Payable	101,836	103,336	205,172
Net Pension Liability	26,820	13,534	40,354
Total Liabilities	<u>149,636</u>	<u>131,590</u>	<u>281,226</u>
Deferred Inflows			
Pension Related Items	7,929	5,606	13,535
Total Deferred Inflows	<u>7,929</u>	<u>5,606</u>	<u>13,535</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	149,397	226,547	375,944
Restricted for Debt Service	22,217	17,554	39,771
Unrestricted	23,960	55,198	79,158
Total Net Position	<u>\$ 195,574</u>	<u>\$ 299,299</u>	<u>\$ 494,873</u>

The accompanying notes are an integral
part of the financial statements.

City of Donnelly, Idaho
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
For the Year Ended September 30, 2016

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$ 103,162	\$ 88,366	\$ 191,528
Total Operating Revenues	<u>103,162</u>	<u>88,366</u>	<u>191,528</u>
Operating Expenses			
Wages	39,295	15,238	54,533
Payroll Taxes and Benefits	13,967	1,475	15,442
Utilities	4,772	700	5,472
Professional Services	3,113	6,213	9,326
Maintenance and Operations	32,313	42,833	75,146
Depreciation	29,040	34,581	63,621
Total Operating Expenses	<u>122,500</u>	<u>101,040</u>	<u>223,540</u>
Operating Income (Loss)	<u>(19,338)</u>	<u>(12,674)</u>	<u>(32,012)</u>
Nonoperating Revenues (Expenses)			
Grant Revenue	-	-	-
Interest Earned	160	185	345
Interest Expense	(4,670)	(4,627)	(9,297)
Total Nonoperating Revenues (Expenses)	<u>(4,510)</u>	<u>(4,442)</u>	<u>(8,952)</u>
Income (Loss) Before Transfers	<u>(23,848)</u>	<u>(17,116)</u>	<u>(40,964)</u>
Transfers In	777	116	893
Transfers Out	-	-	-
Total Transfers	<u>777</u>	<u>116</u>	<u>893</u>
Change in Net Position	(23,071)	(17,000)	(40,071)
Net Position - Beginning, Restated	<u>218,645</u>	<u>316,299</u>	<u>534,944</u>
Net Position - Ending	<u>\$ 195,574</u>	<u>\$ 299,299</u>	<u>\$ 494,873</u>

The accompanying notes are an integral
part of the financial statements.

City of Donnelly, Idaho
Statement of Cash Flows -
Proprietary Funds
For the Year Ended September 30, 2016

	Water	Sewer	Total
Cash Flows From Operating Activities			
Receipts from Customers	\$ 102,322	\$ 94,352	\$ 196,674
Payments to Suppliers	(35,605)	(49,718)	(85,323)
Payments to Employees	(54,980)	(17,036)	(72,016)
Net Cash Provided (Used) by Operating Activities	<u>11,737</u>	<u>27,598</u>	<u>39,335</u>
Cash Flows From Noncapital Financing Activities			
Transfers In (Out)	<u>777</u>	<u>116</u>	<u>893</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>777</u>	<u>116</u>	<u>893</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of Capital Assets	(15,731)	(10,697)	(26,428)
Proceeds from Issuance of Capital Debt	15,731	10,697	26,428
Principal Paid on Capital Debt	(11,031)	(10,555)	(21,586)
Interest Paid on Capital Debt	(4,787)	(4,781)	(9,568)
Net Cash Used by Capital and Related Financing Activities	<u>(15,818)</u>	<u>(15,336)</u>	<u>(31,154)</u>
Cash Flows From Investing Activities			
Interest and Dividends	<u>160</u>	<u>185</u>	<u>345</u>
Net Cash Provided (Used) by Investing Activities	<u>160</u>	<u>185</u>	<u>345</u>
Net Change in Cash and Cash Equivalents	(3,144)	12,563	9,419
Cash and Cash Equivalents - Beginning	<u>65,594</u>	<u>72,543</u>	<u>138,137</u>
Cash and Cash Equivalents - Ending	<u>\$ 62,450</u>	<u>\$ 85,106</u>	<u>\$ 147,556</u>
Displayed As:			
Cash and Cash Equivalents	\$ 40,233	\$ 67,552	\$ 107,785
Restricted Cash	22,217	17,554	39,771
	<u>\$ 62,450</u>	<u>\$ 85,106</u>	<u>\$ 147,556</u>

The accompanying notes are an integral part of the financial statements.

City of Donnelly, Idaho
Statement of Cash Flows -
Proprietary Funds (continued)
For the Year Ended September 30, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (19,338)	\$ (12,674)	\$ (32,012)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	29,040	34,581	63,621
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(840)	5,986	5,146
(Increase) Decrease in Deferred Outflows	(13,131)	(4,377)	(17,508)
Increase (Decrease) in Accounts Payable	4,593	28	4,621
Increase (Decrease) in Salaries and Benefits Payable	(1,710)	(381)	(2,091)
Increase (Decrease) in Compensated Absences	174	118	292
Increase (Decrease) in Net Pension Liability	13,568	4,523	18,091
Increase (Decrease) in Deferred Inflows	(619)	(206)	(825)
Net Cash Provided (Used) by Operating Activities	<u>\$ 11,737</u>	<u>\$ 27,598</u>	<u>\$ 39,335</u>

The accompanying notes are an integral
part of the financial statements.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of the City of Donnelly, Idaho (the City), which has responsibility and control over all activities related to public safety, highways and streets, parks and recreation, planning and zoning, and water and sewer services within the City. The City receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the City is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the City's reporting entity does not contain any component units as defined in Governmental Accounting Standards.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the financial activities of the City, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each identifiable activity of the business-type activities of the City and for each function of the City's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.
- Indirect expenses are expenses of the general government related to the administration and support of the City's programs, such as personnel and accounting (but not interest on long-term debt) and are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and state formula aid, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City'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. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- *General fund.* This is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.
- *Local Option Tax fund.* This fund was established to account for the revenue and expenditures of the Local Option Tax.
- *Depot Center fund.* This fund was established to operate and maintain the City's depot center. The revenue it reports includes rents collected from tenants at the City's depot center.
- *Library fund.* This fund accounts for the operation of the City's library. The revenues it reports include fees for copies and book fines, grants and contributions to be used for the library, and various miscellaneous items.

Proprietary fund operating revenues and expenses are related to providing water and sewer services to the residents and businesses of the City and providing services to other parts of the City government. Revenues and expenses that arise from capital and non-capital financing activities and from investing activities are presented as non-operating revenues or expenses.

The City has the following major enterprise funds:

- *Water fund.* This fund accounts for the activities of the City's water supply system, pumping stations, and collection systems.
- *Sewer fund.* This fund accounts for the activities of the City's sewage treatment plant and collection systems.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The government-wide and proprietary fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Fund Balance Reporting in Governmental Funds

Different measurement focuses and bases of accounting are used in the government-wide Statement of Net Position and in the governmental fund Balance Sheet.

The City uses the following fund balance categories in the governmental fund financial statements:

- *Nonspendable*. Prepaid items that are permanently precluded from conversion to cash.
- *Restricted*. Balances constrained to a specific purpose by enabling legislation, external parties, or constitutional provisions.
- *Unassigned*. Balances available for any purpose.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The remaining fund balance classifications (committed, and assigned) are either not applicable or no formal policy has yet been established to be able to utilize such classifications of fund balance. However, if there had been committed funds, these amounts would have been decided by the City Council, the City's highest level of decision making authority, through a formal action. The City Council would also have the authority to assign funds or authorize another official to do so.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position/fund balances available to finance the program. When both restricted and unrestricted resources are available for use, it is the government's intent to use restricted resources first, then unrestricted resources as they are needed.

There is also no formal policy regarding the use of committed, assigned, or unassigned fund balances. However, it is the City's intent that when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts.

C. Assets and Liabilities

Cash Equivalents

Cash received by the City is deposited into the various cash and investment accounts for each fund and is presented as "Cash and Cash Equivalents" on the Statement of Net Position and governmental fund Balance Sheet by activity or fund.

For presentation in the financial statements, investments in the investment pool and others with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents.

Property Tax Calendar

The City levies its real property taxes through the county on or before the 2nd Monday of September. One-half of the real property taxes are due on or before the 20th of December. The remaining one-half of the real property tax is due on or before June 20th the following year. Property taxes are considered delinquent on January 1 and July 1, at which time the property is subject to lien.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are shown below:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$1,000	Straight-Line	15 – 47 Years
Equipment and Vehicles	\$1,000	Straight-Line	5 – 15 Years

General infrastructure assets acquired prior to October, 2003 are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2003.

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over their estimated useful lives.

Accounts Receivable

The City has created an allowance for doubtful accounts for water and sewer balances deemed uncollectible. The amount in the allowance is currently \$0.

Accounts Payable

Accounts payable represent debts that will be paid in the next billing cycle. Accounts payable are not over 60 days past due.

Pensions

For purposes of measuring the net pension liability 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 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.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Deposits

As of September 30, 2016, the carrying amount of the City's deposits was \$180,233 and the respective bank balances totaled \$196,521. The entire bank balance was insured or collateralized with pool securities held by the pledging institution in the name of the City.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2016, all of the City's deposits were covered by the federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus were not exposed to custodial credit risk. The City does not have a formal policy limiting its exposure to custodial credit risk for deposits. The City had \$537 of cash on hand at the end of the year.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The City does not have a formal policy limiting its custodial credit risk for investments.

Interest Rate Risk

The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

2. CASH AND INVESTMENTS (continued)

Investments

The City voluntarily participates in the State of Idaho Investment Pool which is not rated. The pool is not registered with the Securities and Exchange Commission or any other regulatory body. Oversight of the pool is with the State Treasurer, and Idaho Code defines allowable investments. The fair value of the City's investment in the pool is the same as the value of the pool shares.

The City follows Idaho Statute that outlines qualifying investment options as follows:

Idaho Code authorizes the City to invest any available funds in obligations issued or guaranteed by the United States Treasury, the State of Idaho, local Idaho municipalities and taxing districts, the Farm Credit System, or Idaho public corporations, as well as time deposit accounts and repurchase agreements.

The City's investments at September 30, 2016, are summarized below:

Investment	Fair Value	<u>Investment Maturities (in Years)</u>	
		Less than 1	1 - 5
External Investment Pool	\$ 235,147	\$ 235,147	\$ -

At year-end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 118,194	\$ 62,576	\$ 180,770
Investments categorized as deposits	150,167	84,980	235,147
	\$ 268,361	\$ 147,556	\$ 415,917

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

3. COMPENSATED ABSENCES

The City presently accumulates unused vacation days and sick leave calculated on an individual basis according to an employee's total years worked and total hours-per-week worked. In the event of termination, an employee is reimbursed for accumulated leave. A summary of the current year activity and year-end liability for the government-wide financial statements is as follows:

	<u>9/30/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>9/30/2016</u>	<u>Current Portion</u>
Governmental Activities	\$ 1,930	\$ 3,648	\$ (3,186)	\$ 2,392	\$ 2,392
Business-type Activities	<u>1,285</u>	<u>2,453</u>	<u>(2,161)</u>	<u>1,577</u>	<u>1,577</u>
	<u>\$ 3,215</u>	<u>\$ 6,101</u>	<u>\$ (5,347)</u>	<u>\$ 3,969</u>	<u>\$ 3,969</u>

4. PROPERTY TAXES

The City receives property tax revenue from Valley County. The County is responsible for property valuation and collection of tax levies. The taxes that have not been remitted to the City by the County as of September 30, 2016, are considered by the City as a receivable. Taxes not collected within 60 days after September 30, 2016, are not considered available for use by the City and are recorded as deferred revenue.

5. PENSION PLAN

Plan Description

The City of Donnelly, Idaho 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.

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.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

5. PENSION PLAN (continued)

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.

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.

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 72% for police and firefighters. As of June 30, 2016 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The City of Donnelly, Idaho's contributions were \$17,852 the year ended September 30, 2016.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

5. PENSION PLAN (continued)

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

At September 30, 2016, the City of Donnelly, Idaho reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date, the City of Donnelly, Idaho's proportion of the net pension liability was based on the City of Donnelly, Idaho's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the City of Donnelly, Idaho's proportion was 0.0048457 percent.

For the year ended September 30, 2016, the City of Donnelly, Idaho recognized pension expense/(revenue) of \$17,246. At September 30, 2016, the City of Donnelly, Idaho reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 9,788
Changes in assumptions or other inputs	2,184	-
Net difference between projected and actual earnings on pension plan investments	47,810	22,339
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	13,404	-
City of Donnelly, Idaho's contributions subsequent to the measurement date	4,989	-
Total	\$ 68,387	\$ 32,127

\$4,989 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2015, the beginning of the measurement period ended June 30, 2016, is 5.9 years and 5.5 for measurement period June 30, 2015.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

5. PENSION PLAN (continued)

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:

For the Year Ended September 30:	PERSI
2017	\$ 7,525
2018	2,537
2019	13,833
2020	8,708
2021	2,437
2022	1,220

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 July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25 – 10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expense
Cost-of-living	1.0%

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

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

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

5. PENSION PLAN (continued)

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2015. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

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

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions.

Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	90.00%	0%	0% - 5%
Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

* Expected arithmetic return net of fees and expenses

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

5. PENSION PLAN (continued)

Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	
Portfolio Arithmetic Mean Return	2.00%
Portfolio Standard Deviation	8.42%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	<u>7.10%</u>

Discount Rate

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

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability	\$ 192,692	\$ 98,232	\$ 19,674

Pension plan fiduciary net position

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

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

5. PENSION PLAN (continued)

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.

6. RESTRICTED ASSETS

As of September 30, 2016, \$39,771 was restricted for debt service.

7. DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units (State of Idaho) consist of state revenue sharing of \$2143.

8. RISK MANAGEMENT

The City is exposed to a considerable number of risks of loss including, but not limited to, a) damage to and loss of property and contents, b) employee torts, c) professional liabilities, i.e. errors and omissions, d) environmental damage, e) worker's compensation, i.e. employee injuries, and f) medical insurance costs of its employees. Commercial insurance policies are purchased to transfer the risk of loss for property and content damage, employee torts, and professional liabilities.

9. LEASE COMMITMENTS

The City leases land from the McCall-Donnelly Joint School District. The lease period is for ten years at \$1 per year, which was payable in full at the inception of the lease in March 2003. Use of the land will revert back to the school district at the end of the lease.

The City began leasing a copier in March 2013. The lease period is for five years at \$190 per month. The copier will be returned at the end of the lease. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2017	\$ 2,280
2018	<u>1,330</u>
	<u>\$ 3,610</u>

Rent expenditures for the year ended September 30, 2016, were \$2,264.

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2016, was as follows:

	Balance 9/30/2015	Additions	Disposals	Balance 9/30/2016
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 115,052	\$ -	\$ -	\$ 115,052
Capital Assets Being Depreciated:				
Buildings	952,712	-	-	952,712
Improvements	38,084	-	-	38,084
Equipment	89,559	36,497	54,775	71,281
Total Depreciable Assets	<u>1,080,355</u>	<u>36,497</u>	<u>54,775</u>	<u>1,062,077</u>
Less: Accumulated Depreciation				
Buildings	327,825	24,767	-	352,592
Improvements	15,672	2,539	-	18,211
Equipment	78,976	4,148	54,708	28,416
Total Acc. Depr.	<u>422,473</u>	<u>31,454</u>	<u>54,708</u>	<u>399,219</u>
Net Depreciable Assets:	<u>657,882</u>	<u>5,043</u>	<u>67</u>	<u>662,858</u>
Governmental Activities				
Capital Assets – Net	<u>\$ 772,934</u>	<u>\$ 5,043</u>	<u>\$ 67</u>	<u>\$ 777,910</u>
<u>Business-type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,503	\$ -	\$ -	\$ 3,503
Capital Assets Being Depreciated:				
Buildings	160,125	-	-	160,125
Improvements	2,145,314	-	-	2,145,314
Equipment	63,097	26,428	3,000	86,525
Total Depreciable Assets	<u>2,368,536</u>	<u>26,428</u>	<u>3,000</u>	<u>2,391,964</u>
Less: Accumulated Depreciation				
Buildings	145,936	4,054	-	149,990
Improvements	1,523,257	58,686	-	1,581,943
Equipment	63,098	881	3,000	60,979
Total Acc. Depr.	<u>1,732,291</u>	<u>63,621</u>	<u>3,000</u>	<u>1,792,912</u>
Net Depreciable Assets:	<u>636,245</u>	<u>(37,193)</u>	<u>-</u>	<u>599,052</u>
Business-type Activities				
Capital Assets – Net	<u>\$ 639,748</u>	<u>\$(37,193)</u>	<u>\$ -</u>	<u>\$ 602,555</u>

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

10. CAPITAL ASSETS (continued)

Depreciation expense was charged to the functions of the City as follows:

Governmental Activities:

General and Administrative	\$ 18,872
Highways and Streets	6,291
Parks and Recreation	6,291
	<u>\$ 31,454</u>

11. LONG-TERM OBLIGATIONS

Business-type Activities:

Bonds and notes payable have been issued to provide funds for water and sewer improvement projects.

In 2016 the City leased a John Deere backhoe under a long-term lease agreement. This lease has been recorded as a municipal lease and has been split between the Water, Sewer, and General funds. The municipal lease consists of:

Equipment	\$ 62,925
Less: accumulated amortization (listed as depreciation on the accompanying financial statements)	<u>(2,098)</u>
	<u>\$ 60,827</u>

Changes in long-term obligations for the year ended September 30, 2016, are as follows:

<u>Description</u>	<u>Maturity</u>	<u>Rate</u>	<u>Required Reserve</u>	<u>10/1/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>9/30/2016</u>	<u>Current Portion</u>
<u>Governmental Activities:</u>								
Deer Credit, Inc	2020	4.25%		\$ -	\$ 36,497	\$ 7,931	\$ 28,566	\$ 6,694
<u>Business-Type Activities</u>								
1998 Revenue Bonds	2026	5.00%	\$ 13,012	\$ 108,013	\$ -	\$ 7,612	\$ 100,401	\$ 7,992
1998 Revenue Bonds	2026	4.50%	13,349	113,756	-	8,230	105,526	8,600
Deer Credit, Inc	2020	4.25%	N/A	-	15,732	3,419	12,313	2,885
Deer Credit, Inc	2020	4.25%	N/A	-	10,698	2,325	8,373	1,962
			<u>\$ 26,361</u>	<u>\$ 221,769</u>	<u>\$ 26,430</u>	<u>\$ 21,586</u>	<u>\$ 226,613</u>	<u>\$ 21,439</u>

City of Donnelly, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2016

11. LONG-TERM OBLIGATIONS (continued)

Debt service requirements on long-term debt at September 30, 2016, are as follows:

Year Ending September 30,	<u>Business-type Activities</u>				<u>Governmental Activities</u>	
	<u>Bonds and Notes</u>		<u>Municipal Lease</u>		<u>Municipal Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 16,592	\$ 9,769	\$ 4,847	\$ 897	\$ 6,694	\$ 1,238
2018	17,378	8,983	5,057	686	6,984	948
2019	18,203	8,158	5,277	467	7,286	645
2020	19,066	7,295	5,505	239	7,602	329
2021	19,970	6,853	-	-	-	-
2022-2026	114,718	17,088	-	-	-	-
	<u>\$ 205,927</u>	<u>\$ 58,146</u>	<u>\$ 20,686</u>	<u>\$ 2,289</u>	<u>\$ 28,566</u>	<u>\$ 3,160</u>

Interest incurred on long-term obligations totaled \$9,297, all of which was expensed. No interest was capitalized during the year.

12. LESSOR AGREEMENTS

The City leases business space known as the Donnelly Depot Center to various business owners. All leases are month to month.

Lease income for the year ended September 30, 2016 was \$34,460.

13. INTERFUND TRANSFERS

Amounts transferred between funds consisted of:

Transfers

\$ 3,785	Transferred from the General fund to the Local Option Tax, Sewer, and Water funds to allocate funds.
<u>\$ 3,785</u>	

REQUIRED SUPPLEMENTARY INFORMATION

City of Donnelly, Idaho
 Budgetary (GAAP Basis) Comparison Schedule
 Local Option Tax
 For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Taxes	\$ 40,000	\$ 40,000	\$ 48,780	\$ 8,780
Other	-	-	286	286
Total Revenues	<u>40,000</u>	<u>40,000</u>	<u>49,066</u>	<u>9,066</u>
Expenditures				
Current:				
General and Administrative	40,000	40,000	28,331	11,669
Capital Outlay	-	-	-	-
Total Expenditures	<u>40,000</u>	<u>40,000</u>	<u>28,331</u>	<u>11,669</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>20,735</u>	<u>20,735</u>
Other Financing Sources (Uses)				
Transfers In	-	-	2,892	2,892
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,892</u>	<u>2,892</u>
Net Change in Fund Balances	-	-	23,627	23,627
Fund Balances - Beginning	-	-	77,170	77,170
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,797</u>	<u>\$ 100,797</u>

City of Donnelly, Idaho
 Budgetary (GAAP Basis) Comparison Schedule
 Library
 For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	12,000	12,000	50,000	
Charges for Services	870	870	997	127
Other	3,960	3,960	3,085	(875)
Total Revenues	<u>16,830</u>	<u>16,830</u>	<u>54,082</u>	<u>(748)</u>
Expenditures				
Current:				
General and Administrative	20,030	20,030	18,047	1,983
Capital Outlay	-	-	-	-
Total Expenditures	<u>20,030</u>	<u>20,030</u>	<u>18,047</u>	<u>1,983</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,200)</u>	<u>(3,200)</u>	<u>36,035</u>	<u>1,235</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(3,200)	(3,200)	36,035	1,235
Fund Balances - Beginning	3,200	3,200	14,456	11,256
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,491</u>	<u>\$ 12,491</u>

City of Donnelly, Idaho
Notes to Required Supplementary Information
For the Year Ended September 30, 2016

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- A. Prior to September 1, the City Clerk, Mayor, and City Council prepare a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- B. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- C. Prior to October 1, the budget is legally enacted through passage of an ordinance.
- D. The City is authorized to transfer budgeted amounts between departments within any fund; however, no revision can be made to increase the overall tax supported funds except when federal or state grants are approved. The City, however, must follow the same budgetary procedures as they followed when the original budget was approved. The budget for enterprise funds may also be revised in the same manner as those situations involving federal and state grants.
- E. Formal budgetary integration is employed as a management control device during the year for the General fund and Special Revenue funds.

City of Donnelly, Idaho
 Schedule of the City's Proportionate Share of the
 Net Pension Liability

Public Employees Retirement System of Idaho

Last 10 - Fiscal Years*

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.0048457%	0.0040252%
City's proportionate share of the net pension liability (asset)	\$ 98,230	\$ 53,006
City's covered-employee payroll	\$ 157,573	\$ 111,406
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	62.34%	47.58%
Plan fiduciary net position as a percentage of the total pension liability	82.26%	91.38%

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

Data reported is measured as of June 30, 2016

City of Donnelly, Idaho
Schedule of City Contributions

Public Employees Retirement System of Idaho

Last 10 - Fiscal Years*

	2016	2015
Contractually required contributions	\$ 17,852	\$ 12,623
Contributions in relation to the contractually required contribution	17,852	12,623
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 157,573	\$ 111,406
Contributions as a percentage of covered-employee payroll	11.33%	11.33%

* 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 of Donnelly will present information for those years for which information is available.
 Data reported is measured as of September 30, 2016

SUPPLEMENTAL INFORMATION

City of Donnelly, Idaho
Supplemental Schedule of Revenues by Source -
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended September 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes			
Property Taxes	\$ 83,102	\$ 83,625	\$ 523
Franchise Fees	6,280	4,691	(1,589)
Total Taxes	<u>89,382</u>	<u>88,316</u>	<u>(1,066)</u>
Licenses & Permits			
Licenses & Permits	940	300	(640)
Business License	800	1,425	625
Alcohol Permits	1,100	1,200	100
Catering Permits	60	20	(40)
Community Center Rental	300	640	340
Building Permits	2,000	23,571	21,571
Dog Licenses	100	60	(40)
Sign Permits	300	317	17
Total Licenses and Permits	<u>5,600</u>	<u>27,533</u>	<u>21,933</u>
Intergovernmental			
Grant Revenue	30,000	-	(30,000)
State Revenue Sharing	6,781	10,739	3,958
County Revenue Sharing	3,425	1,835	(1,590)
State Highway Users	5,808	6,370	562
State Liquor Fees	27,500	30,336	2,836
Airport Revenue	1,005	897	(108)
Total Intergovernmental	<u>74,519</u>	<u>50,177</u>	<u>(24,342)</u>
Charges for Services			
Development Fees	1,100	367	(733)
Parks and Rec Fees	7,000	10,386	3,386
Total Other	<u>8,100</u>	<u>10,753</u>	<u>2,653</u>
Other			
Interest Income	100	359	259
Depot Rental	33,000	33,100	100
City Administration	-	-	-
Reimbursement	-	-	-
Land Lease	100	610	510
Miscellaneous	650	1,379	729
Total Other	<u>33,850</u>	<u>35,448</u>	<u>1,598</u>
Total Revenue	<u>\$ 211,451</u>	<u>\$ 212,227</u>	<u>\$ 776</u>

City of Donnelly, Idaho

Supplemental Schedule of Expenditures by Object of Expenditure -
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended September 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General and Administrative			
Personnel	\$ 56,459	\$ 51,195	\$ 5,264
Administration	<u>98,864</u>	<u>39,910</u>	<u>58,954</u>
Total General and Administrative	<u>155,323</u>	<u>91,105</u>	<u>64,218</u>
Public Safety	<u>1,000</u>	<u>1,313</u>	<u>(313)</u>
Roads and Streets	<u>74,389</u>	<u>108,962</u>	<u>(34,573)</u>
Parks and Recreation	<u>33,745</u>	<u>37,733</u>	<u>(3,988)</u>
Depot Expenses	<u>33,510</u>	<u>10,374</u>	<u>23,136</u>
Total Expenditures	<u>\$ 297,967</u>	<u>\$ 249,487</u>	<u>\$ 48,480</u>

FEDERAL REPORTS



Millington Zwygart

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's 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

Honorable Mayor
and City Council
Donnelly, Idaho

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the City of Donnelly, Idaho, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Donnelly, Idaho's basic financial statements and have issued our report thereon dated January 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Donnelly, Idaho's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Donnelly, Idaho's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Donnelly, Idaho'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the following paragraph that we consider to be significant deficiencies.

2016-001: Segregation of Duties:

Inherent in an adequate internal control structure is a segregation of duties governing the overall administration and stewardship of assets. The City lacks a segregation of duties over cash and cash equivalents and the reporting of transactions in these accounts. This is a result of oversights and staffing limitations necessitated by budget constraints common to a city of this size. The lack of an ideal segregation of duties may increase the risk that loss of assets would not be detected and prevented in a timely manner and in the normal course of operations. Management should look into the cost benefit of implementing oversight and realigning job descriptions and duties to accomplish proper internal control procedures over cash and cash equivalents and the related transactions and implement these changes accordingly, if possible.

Compliance and Other Matters

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

City of Donnelly, Idaho's Response to Findings

The City of Donnelly, Idaho's response to the findings identified in our audit is described in the accompanying management's response to findings. The City of Donnelly, Idaho'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.

Millington Zwyzart CPAs, PLLC

Caldwell, Idaho
January 17, 2017

City of Donnelly, Idaho
Management's Response to Findings
For the Year Ended September 30, 2016

2016-001: Segregation of Duties

As soon as possible, the City will look into realigning job duties and/or adding mitigating controls to accomplish proper internal control procedures over cash and cash equivalents and the related transactions and implement these changes according, if possible.

If there are any questions on management's response to findings please contact the city at (208) 325-8859