

CITY OF DALTON GARDENS

FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

**City of Dalton Gardens
September 30, 2017**

TABLE OF CONTENTS

FINANCIAL SECTION:

Independent Auditor’s Report.....1 – 2

Management’s Discussion and Analysis3 – 7

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position8

Statement of Activities9

Fund Financial Statements:

Balance Sheet – Governmental Funds10

Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Position11

Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds12

Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities13

Notes to the Financial Statements14 – 28

Required Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:

General Fund29

Schedule of Employers’ Share of Net Pension Liability30

Schedule of Employer Contributions.....30

Other Supplementary Information:

Schedule of Expenditures – Budget and Actual:

General Fund31

GOVERNMENT AUDIT SECTION:

Report Required by the 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.....32 – 33

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Dalton Gardens
Dalton Gardens, ID 83815

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of the City of Dalton Gardens as of and for the year ended September 30, 2017, 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 and each major fund of the City of Dalton Gardens, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dalton Gardens' basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents 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 January 30, 2018 on our consideration of the City of Dalton Gardens internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Dalton Gardens' internal control over financial reporting and compliance.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

January 30, 2018

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Dalton Gardens

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2017

The discussion and analysis of the City of Dalton Gardens' (the "City") financial performance provides an overview and analysis of the City's financial activities for the fiscal year ending September 30, 2017.

Financial Highlights

- The assets of the City of Dalton Gardens exceeded its liabilities by \$8,106,018 (net position). Of this amount, \$2,213,373 (unrestricted net position) may be used to meet the government's ongoing obligation to its citizens and creditors.
- The City's net position increased by \$364,594.
- The City has been able, with careful planning, to maintain one of the lowest levy rates in the State as compared to other Cities.

Overview of the Financial Statements

The management's discussion and analysis serves as an introduction to the City of Dalton Gardens' basic financial statements. The City of Dalton Gardens' basic financial statements are comprised of government-wide financial statements, fund financial statements, and notes to the financial statements. A supplementary schedule is also contained in this report.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Dalton Gardens' finances, in a manner which is similar to a private-sector business.

The statement of net position presents information on all of the City of Dalton Gardens' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Dalton Gardens is improving or deteriorating.

The statement of activities presents information showing how the City's net position has changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

Normally, the government-wide financial statements are divided into three kinds of activities: 1) governmental activities, 2) business-type activities, and 3) component units. All of the City's activities are considered governmental activities. The City has no business-type activities or component units.

The government-wide financial statements can be found on pages 8-9.

City of Dalton Gardens

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2017

Fund Financial Statements

The City's fund financial statements include the balance sheet – governmental funds and the statement of revenues, expenses and changes in fund balances – governmental funds.

Governmental funds: The focus of the fund financial statements is on short-term fiscal accountability, reporting on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, this would allow a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements demonstrate compliance with the City's adopted and, if necessary, the final revised budget.

The basic governmental fund financial statements may be found on pages 10-13 of this report.

Notes to the Financial Statements

Notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements may be found on pages 14-28 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget for the general fund. Required supplemental information may be found on pages 29-30 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Dalton Gardens, assets exceeded liabilities by \$8,106,018 at the close of the current fiscal year.

General Fund Budgetary Highlights

The City actual revenues came in \$113,156 over budgeted revenues. The primary cause for the excess in revenues over budget was due to an increase in building permits revenue and interest income. Actual expenditures came in \$322,719 lower than budgeted expenditures. General government expenditures and street expenditures were \$36,435 and \$265,350 less than anticipated, respectively. General government expenditures were less than budgeted mainly due to \$150,000 in budgeted design for 4th Street which was not used. Across the board the City was under in all expenditures.

City of Dalton Gardens

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2017

FINANCIAL ANALYSIS

The City as a Whole

Net Position – Table 1 below provides a summary of the City's net position for the year ended September 30, 2017 as compared to 2016. Net position increased by \$364,594 in the current year, this was due to \$300,000 in donated assets to include the Fire Station.

**Table 1
Statements of Net Position
September 30, 2017 and 2016**

	2017	2016
ASSETS		
Current and other assets	\$ 3,436,185	\$ 2,228,594
Capital assets, net	6,027,304	5,861,373
Total assets	9,463,489	8,089,967
DEFERRED OUTFLOWS OF RESOURCES		
Proportionate share of collective deferred outflows of resources	15,073	51,336
Total deferred outflows of resources	15,073	51,336
LIABILITIES		
Current liabilities	52,577	67,355
Long term liabilities	1,229,023	195,909
Net pension liability	77,073	102,945
Total liabilities	1,358,673	366,209
DEFERRED INFLOWS OF RESOURCES		
Proportionate share of collective deferred inflows of resources	13,871	33,670
Total deferred inflows of resources	13,871	33,670
NET POSITION		
Net investment in capital assets	4,771,407	5,639,854
Restricted for debt service	1,121,238	63,819
Unrestricted	2,213,373	2,037,751
Total net position	\$ 8,106,018	\$ 7,741,424

City of Dalton Gardens

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2017

Governmental Activities:

The City's general revenues increased slightly when compared to the prior year with the exception of donated assets of \$300,000. The City's expenses decreased \$50,457 over the prior year primarily due to the timing of large road maintenance projects.

Table 2
Change in Net Position
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
General revenues:		
Property taxes	\$ 142,873	\$ 138,811
State revenue sharing	150,149	145,062
Liquor tax	93,143	88,438
State highway funds	111,270	110,397
Local bridge and road tax	54,853	48,166
Utility franchise tax	53,624	45,220
Sales tax	33,929	30,342
Traffic citations	10,502	759
Other	27,495	11,701
Investment earnings	16,105	7,620
Donated assets	300,000	-
Total general revenues	<u>993,943</u>	<u>626,516</u>
Program revenues		
Charges for services	84,176	94,039
Total program revenues	<u>84,176</u>	<u>94,039</u>
EXPENSES:		
General government	303,791	267,690
Streets and street maintenance	320,786	391,366
Parks and recreation	48,908	59,309
Fire and inspection	14,020	16,617
Public art fund	680	-
Law enforcement	25,981	21,759
Interest expense	6,887	8,075
Change in net pension liability	6,439	16,685
Unallocated actual PERSI contributions	(15,847)	(17,519)
Loss on disposal of assets	1,880	-
Total expenses	<u>713,525</u>	<u>763,982</u>
Change in net position	<u>\$ 364,594</u>	<u>\$ (43,427)</u>

City of Dalton Gardens

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2017

Capital Assets and Debt Administration

Capital Assets: The City's investment in capital assets as of September 30, 2017 amounts to \$6,027,304 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, furniture and equipment, infrastructure and the sewer system. The total increase in net capital assets for the current fiscal year was \$165,931 due to \$300,000 in donated property, \$30,963 of CIP and depreciation expense of \$163,152 on these assets. Additional information on the City's capital assets can be found in Note 4 on page 22.

Long-term Debt: At the end of the fiscal year, the City had total bonded debt outstanding of \$185,909. This debt was issued in fiscal year 2015. This debt is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remaining long-term obligations of the City are comprised of compensated absence liabilities in the amount of \$7,103 and interim financing for Local Improvement District #2 in the amount of \$1,069,988. Additional information on the City's long-term debt can be found in Notes 5 and 6 on pages 22-23.

Economic Factors and Next Year's Budget and Rates

- Interest rates have continued to increase so investment interest has been budgeted to reflect this trend.
- Revenue sharing as well as all state appropriated funds are continually being challenged at the state level. Cities are at a risk of a percentage calculation change and or elimination by the State.
- Building permits issued in the City of Dalton Gardens have picked up and are expected to continue to increase as the economy grows.
- All of these factors were considered in preparing the City's budget for the 2017/18 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of Dalton Gardens' finances for all of those with an interest in the government's finances. Questions on any of the information provided in this report or requests for additional information should be addressed to the Office of the City Clerk/Treasurer, City of Dalton Gardens, 6360 N. 4th St, Dalton Gardens, Idaho 83815.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Dalton Gardens

STATEMENT OF NET POSITION

September 30, 2017

ASSETS

Cash and cash equivalents	\$ 2,086,298
Restricted cash - bond reserve	33,968
Prepaid expenses	1,022,192
Franchise fees receivable	15,839
Due from other governments	89,911
Interest receivable	1,826
Special assessment receivable	186,151
Construction in progress	30,963
Land	161,047
Capital assets, net of accumulated depreciation	5,835,294
Total assets	<u>9,463,489</u>

DEFERRED OUTFLOWS OF RESOURCES

Proportionate share of collective deferred outflows of resources	15,073
Total deferred outflows of resources	<u>15,073</u>

LIABILITIES

Accounts payable	127
Accrued wages and benefits	13,503
Accrued interest payable	4,970
Long-term liabilities:	
Due within one year - compensated absences	7,103
Due within one year - LID #1 bonds payable	26,874
Due in more than one year - LID #2 interim financing	1,069,988
Due in more than one year - LID #1 bonds payable	159,035
Net pension liability	77,073
Total liabilities	<u>1,358,673</u>

DEFERRED INFLOWS OF RESOURCES

Proportionate share of collective deferred inflows of resources	13,871
Total deferred inflows of resources	<u>13,871</u>

NET POSITION

Net investment in capital assets	4,771,407
Restricted for debt service	1,121,238
Unrestricted	2,213,373
Total net position	<u>\$ 8,106,018</u>

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

City of Dalton Gardens

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017**

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Capital Grants	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
General government	\$ 303,791	\$ 84,176	\$ -	\$ (219,615)
Streets and street maintenance	320,786	-	-	(320,786)
Parks and recreation	48,908	-	-	(48,908)
Fire and inspection	14,020	-	-	(14,020)
Public art fund	680	-	-	(680)
Law enforcement	25,981	-	-	(25,981)
Interest expense	6,887	-	-	(6,887)
Change in net pension liability	6,439	-	-	(6,439)
Unallocated actual PERSI contributions	(15,847)	-	-	15,847
Loss on disposal of assets	1,880	-	-	(1,880)
Total governmental activities	<u>\$ 713,525</u>	<u>\$ 84,176</u>	<u>\$ -</u>	<u>(629,349)</u>
General revenues:				
Donated assets				300,000
Property taxes				142,873
State revenue sharing				150,149
Liquor tax				93,143
State highway funds				111,270
Local bridge and road tax				54,853
Utility franchise tax				53,624
Sales tax				33,929
Traffic citations				10,502
Other				27,495
Investment earnings				16,105
Total general revenues				<u>993,943</u>
Change in net position				364,594
Net position - beginning				7,741,424
Net position - ending				<u>\$ 8,106,018</u>

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

City of Dalton Gardens

GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2017

	General Fund	LID #1 Fund	LID #2 Fund	LID Guarantee Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,988,093	\$ 48,245	\$ 49,960	\$ -	\$ 2,086,298
Restricted cash - bond reserve	-	-	-	33,968	33,968
Prepaid construction deposit	-	-	1,019,988	-	1,019,988
Prepaid insurance	2,204	-	-	-	2,204
Franchise fees receivable	15,839	-	-	-	15,839
Due from other governments	89,911	-	-	-	89,911
Due from other funds	30,923	-	-	-	30,923
Interest receivable	1,826	-	-	-	1,826
Special assessment receivable	-	186,151	-	-	186,151
Total assets	<u>\$ 2,128,796</u>	<u>\$ 234,396</u>	<u>\$ 1,069,948</u>	<u>\$ 33,968</u>	<u>\$ 3,467,108</u>
LIABILITIES					
Accounts payable	\$ 127	\$ -	\$ -	\$ -	\$ 127
Accrued wages and benefits	13,503	-	-	-	13,503
Due to other funds	-	-	30,923	-	30,923
Total liabilities	<u>13,630</u>	<u>-</u>	<u>30,923</u>	<u>-</u>	<u>44,553</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-special assessments	-	186,151	-	-	186,151
Total deferred inflows of resources	<u>-</u>	<u>186,151</u>	<u>-</u>	<u>-</u>	<u>186,151</u>
FUND BALANCES					
Non-spendable prepaid expenses	2,204	-	-	-	2,204
Restricted for debt service	-	48,245	1,039,025	33,968	1,121,238
Assigned	493,067	-	-	-	493,067
Unassigned	1,619,895	-	-	-	1,619,895
Total fund balance	<u>2,115,166</u>	<u>48,245</u>	<u>1,039,025</u>	<u>33,968</u>	<u>3,236,404</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,128,796</u>	<u>\$ 234,396</u>	<u>\$ 1,069,948</u>	<u>\$ 33,968</u>	<u>\$ 3,467,108</u>

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

City of Dalton Gardens

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION September 30, 2017

Total fund balances - Governmental Funds, September 30, 2017		\$ 3,236,404
Cost of capital assets, September 30, 2017	\$ 9,506,366	
Less: Accumulated depreciation, September 30, 2017	<u>(3,479,062)</u>	6,027,304
Compensated absences		(7,103)
LID bonds payable		(185,909)
Loan payable - interim financing on LID 2		(1,069,988)
Accrued interest payable		(4,970)
Elimination of unavailable revenue-special assessments		186,151
Pension liabilities and deferred outflows of resources and deferred inflows of resources related to pensions:		
City's proportionate share of the net pension liability		(77,073)
Proportionate share of collective deferred outflows of resources		15,073
Proportionate share of collective deferred inflows of resources		<u>(13,871)</u>
Net position, September 30, 2017		<u><u>\$ 8,106,018</u></u>

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

City of Dalton Gardens

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

	General Fund	LID #1 Fund	LID #2 Fund	LID Guarantee Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 142,873	\$ -	\$ -	\$ -	\$ 142,873
State revenue sharing	150,149	-	-	-	150,149
Liquor tax	93,143	-	-	-	93,143
State highway funds	111,270	-	-	-	111,270
Local bridge and road tax	54,853	-	-	-	54,853
Utility franchise tax	53,624	-	-	-	53,624
Building/sign/trip permits	71,766	-	-	-	71,766
Sales tax	33,929	-	-	-	33,929
Business licenses/fees	7,850	-	-	-	7,850
Traffic citations	10,502	-	-	-	10,502
Rents	4,560	-	-	-	4,560
Other	18,756	-	-	-	18,756
Interest earnings	15,986	-	-	119	16,105
Assessments collected	-	53,050	-	-	53,050
Penalty and interest	-	8,739	-	-	8,739
Total revenues	<u>769,261</u>	<u>61,789</u>	<u>-</u>	<u>119</u>	<u>831,169</u>
EXPENDITURES					
General government	280,936	43	-	-	280,979
Streets and street maintenance	187,350	-	-	-	187,350
Parks and recreation	53,360	-	-	-	53,360
Fire and inspection	14,020	-	-	-	14,020
Public art fund	680	-	-	-	680
Law enforcement	25,981	-	-	-	25,981
Capital outlay	-	-	30,963	-	30,963
Debt service:					
Principal retirement	-	35,610	-	-	35,610
Interest	-	7,861	-	-	7,861
Bond issuance costs	-	-	-	-	-
Total expenditures	<u>562,327</u>	<u>43,514</u>	<u>30,963</u>	<u>-</u>	<u>636,804</u>
Excess (deficiency) of revenues over expenditures	<u>206,934</u>	<u>18,275</u>	<u>(30,963)</u>	<u>119</u>	<u>194,365</u>
OTHER FINANCING SOURCES (USES):					
LID #2 loan proceeds	-	-	1,069,988	-	1,069,988
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,069,988</u>	<u>-</u>	<u>1,069,988</u>
Net change in fund balance	206,934	18,275	1,039,025	119	1,264,353
Fund balance - beginning	<u>1,908,232</u>	<u>29,970</u>	<u>-</u>	<u>33,849</u>	<u>1,972,051</u>
Fund balance - ending	<u>\$ 2,115,166</u>	<u>\$ 48,245</u>	<u>\$ 1,039,025</u>	<u>\$ 33,968</u>	<u>\$ 3,236,404</u>

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

City of Dalton Gardens

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2017

Total net changes in fund balances for the year ended September 30, 2017	\$ 1,264,353
Add: Capital outlay, which is considered expenditures	30,963
Less: Depreciation expense for the year ended September 30, 2017	(163,152)
Less: Difference between revenue earned on assessments on modified accrual basis versus revenue on assessments on accrual basis	(53,050)
Less: Proceeds on interim financing	(1,069,988)
Add: Donated capital assets	300,000
Less: Loss on disposal of assets	(1,880)
Add: Change in accrued interest payable	974
Add: Change in compensated absences	11,356
Add: Principal payments on LID bond	35,610
Add: Change in net pension liability	<u>9,408</u>
Change in net position for the year ended September 30, 2017	<u><u>\$ 364,594</u></u>

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

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dalton Gardens, Idaho (the "City") operates under a mayor-council form of government. The City's major operations include streets, social services, culture and recreation, public improvements, planning and zoning, and general administrative services. The City is governed by an elected mayor and city council. The City provides a wide range of municipal services.

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. Based on the criteria for determining the reporting entity, the City is considered to be a primary government and has no component units.

The financial statements of the City of Dalton Gardens have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City's financial statements.

B. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. Separate financial statements are provided for governmental funds. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

C. Basis of Presentation – Fund Financial Statements

These statements provide information about the City's government. The emphasis of fund financial statements is on major funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other funds. The City only has the following fund type:

Governmental Funds – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities is reported as fund balance.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In order to provide more readable and less complex financial statements, the City has chosen to treat all governmental funds as major funds in the presentation of its financial statements.

- The General Fund - is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- LID #1 Fund – This debt service fund was created in the fiscal year ended in September 30, 2013, to account for the assessment and debt service of funds used to finance sewer lines.
- LID #2 Fund - This debt service fund was created in the fiscal year ended in September 30, 2017, to account for the financing and debt service through a local improvement district the design, construction, acquisition and installation of sewer service in a certain area within the City.
- LID Guarantee Fund – This debt service fund was established by ordinance to provide additional security for the LID debt.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/due to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

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 the 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.

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.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Concluded)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The City does not charge indirect expenses to programs or functions. Program revenues include charges for services (primarily user fees, assessments, permits, fines, and grants that are restricted to a particular function). Generally, restricted revenues are used first to pay expenses incurred when both restricted and unrestricted funds are available. Revenues that are not received from a specific purpose and classified as program revenues are reported as general revenues. These include all property taxes, entitlement revenue, investment earnings, permits and licenses (i.e., local business licenses and alcohol beverage licenses and permits).

E. Budgets and Budgetary Accounting

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

- Prior to September 1, the City Clerk/Treasurer, the Mayor, and the City Council prepare a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted at the city hall to obtain taxpayer comments.
- Prior to October 1, the budget is legally enacted through passage of an ordinance.
- 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.
- 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.
- 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 expenditure. The City budgets for the payment on these capital leases only and not the total cost of the equipment.
- Budgeted amounts are as originally adopted or as amended by the City Council.

The City does not use the encumbrance method of accounting.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

G. Investments

Investments are stated at cost, which approximates market. Investments on hand at September 30, 2017, meet the guidelines as set by regulations of the State of Idaho.

H. Capital Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. Fixed assets acquired in governmental funds are accounted for as expenditures in the fund when the asset is purchased. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are valued at estimated fair market value at time of acquisition. Where historical cost is not known, assets are recorded at estimated historical costs. The City maintains a capitalization threshold of \$5,000 for equipment. Improvements are capitalized; however, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	Straight-line	30-50 years
Infrastructure	Straight-line	20-50 years

I. Annual and Sick Leave

Employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure and hours per week. Generally, after one year of service, employees are entitled to their accrued vacation leave upon separation of service. After 5 years of service, employees are entitled to a percentage of their sick leave balance upon separation of service. Compensated absences are reported as accrued liabilities in the government-wide financial statements.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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 Kootenai County auditor's office. Kootenai County collects all property tax revenue for the City.

K. 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.

L. 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 statement of net position, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. 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 statement of net position. The government-wide statement of net position reports proportionate share of collective deferred inflows of resources from one source: accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Non-spendable Fund Balance — includes amounts that are: (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance — includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance — includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned Fund Balance — includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by: (a) City Council, or (b) a body (a budget, finance committee, or City Manager and Chief Financial Officer) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as non-spendable, restricted, or committed.

Unassigned Fund Balance — includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the general fund.

N. 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.

O. Net Position Flow Assumptions

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

O. Net Position Flow Assumptions (Concluded)

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.

P. 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.

NOTE 2: CASH AND CASH EQUIVALENTS

General:

State statutes authorize the City's investments and deposits. The City is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred during the year.

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the City's deposits and investments may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2017, the City's deposits were not exposed to custodial credit risk:

Deposits without exposure to custodial credit risk:

Deposits:	
Amounts insured by FDIC	\$ 275,149
Amount collateralized with securities held in trust, but not in the City's name	1,899,478
Total deposits without exposure to custodial credit risk	<u>\$2,174,627</u>

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 2: CASH AND CASH EQUIVALENTS (CONCLUDED)

Cash and cash equivalents at September 30, 2017, are classified in the accompanying financial statements as follows:

Cash	
Deposit with financial institutions	\$ 186,820
Cash equivalents:	
Short-term certificate of deposit	33,968
Idaho State Investment Pool	1,899,478
Total cash and cash equivalents	<u>\$2,120,266</u>

Fair value:

The City's investments in 2a-7-like pools are valued based upon the value of pool shares. The City invests in one 2a-7-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 Idaho 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.

Following GASB 72, ¶69 and ¶B62 the balances that the City has in the Idaho State Investment Pool are carried at its cost of \$1,899,478, which materially approximates fair market value.

The City considers funds held in the Idaho State Investment Pool to be cash equivalents, as the average maturity of the underlying securities is less than 90 days.

NOTE 3: SPECIAL ASSESSMENT RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2017:

Beginning assessment - principal	\$ 239,201
Assessments collected - principal *	(53,050)
Ending assessment - principal **	<u>\$ 186,151</u>

*Installment payments of principal and interest due from property owners are billed annually.

**Principal amounts are deferred amounts not currently due, but due at a future date.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 30,963	\$ -	\$ 30,963
Land	161,047	-	-	161,047
Total capital assets, not being depreciated	<u>161,047</u>	<u>30,963</u>	<u>-</u>	<u>192,010</u>
Capital assets, being depreciated:				
Buildings	501,532	275,000	22,968	753,564
Land improvements	42,344	-	-	42,344
Furniture and equipment	261,710	25,000	16,109	270,601
Infrastructure	7,804,464	-	-	7,804,464
Sewer system	443,383	-	-	443,383
Total capital assets being depreciated	<u>9,053,433</u>	<u>300,000</u>	<u>39,077</u>	<u>9,314,356</u>
Less accumulated depreciation:				
Buildings	334,335	15,637	21,088	328,884
Land improvements	24,510	1,798	-	26,308
Furniture and equipment	174,183	9,783	16,109	167,857
Infrastructure	2,782,539	127,067	-	2,909,606
Sewer system	37,540	8,867	-	46,407
Total accumulated depreciation	<u>3,353,107</u>	<u>163,152</u>	<u>37,197</u>	<u>3,479,062</u>
Total capital assets, being depreciated, net	<u>5,700,326</u>	<u>136,848</u>	<u>1,880</u>	<u>5,835,294</u>
Governmental activities capital assets, net	<u>\$ 5,861,373</u>	<u>\$ 167,811</u>	<u>\$ 1,880</u>	<u>\$ 6,027,304</u>

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

Governmental activities:	
General government	\$ 22,812
Street	133,436
Parks and recreation	6,904
Total	<u>\$ 163,152</u>

NOTE 5: CHANGES IN LONG-TERM LIABILITIES

Changes in governmental long-term liabilities are as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Amount Due Within One Year
LID #1 bond	\$ 221,519	\$ -	\$ 35,610	\$ 185,909	\$ 26,874
LID #2 - interim financing	-	1,069,988	-	1,069,988	-
Compensated absences	18,459	-	11,356	7,103	7,103
	<u>\$ 239,978</u>	<u>\$ 1,069,988</u>	<u>\$ 46,966</u>	<u>\$ 1,263,000</u>	<u>\$ 33,977</u>

Compensated absences are paid from the general fund in the form of vacation pay. The entire balance of compensated absences is considered due within one year.

(Continued)

City of Dalton Gardens

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 6: LOCAL IMPROVEMENT DISTRICT NO. 1 BONDS PAYABLE

During the fiscal year ended September 30, 2013, the City issued \$384,116 in bonds to finance sewer lines. The interest rate is 3.5 percent and the maturity date is December 29, 2027. These bonds will be repaid through a Local Improvement District Assessment that was levied against the property owners benefitting from these improvements. The debt service requirements for these bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 26,874	\$ 6,597	\$ 33,471
2019	27,827	5,644	33,471
2020	28,815	4,656	33,471
2021	29,837	3,634	33,471
2022	30,896	2,575	33,471
Thereafter	41,660	1,821	43,481
	<u>\$ 185,909</u>	<u>\$ 24,927</u>	<u>\$ 210,836</u>

NOTE 7: LOCAL IMPROVEMENT DISTRICT NO. 2 - INTERIM FINANCING

The City of Dalton Gardens adopted Certified Ordinance No. 2015-243 creating LID No. 2 on August 6, 2015. During the fiscal year ended September 30, 2017, for the purpose of providing interim financing of the Improvements pending their completion and the issuance of the Bonds, the Council authorized the issuance and sale of its local improvement district warrant in the aggregate principal amount of up to \$1,200,000 (the "Warrant"), subject to principal draws thereunder (the "Draws"), with final maturity thereof two (2) years from the date of issuance.

Washington Trust Bank purchased Local Improvement District No. 2 Warrant, 2016, (the "Warrant") on December 13, 2016. Outstanding draws shall bear interest at the interest rate accruing from the date of each Draw, which accrued interest thereon shall be payable quarterly commencing March 31, 2017, and quarterly on the last business days of June, September, December, and March thereafter, until maturity. Interest payments shall be paid by a Draw on the Warrant on each Interest Payment Date. Interest on the Warrant shall be calculated on the basis of a 365-360 day year. The fixed interest rate for the LID Warrant is 2.17% and the financing amount will be \$1,200,000. The principal balance will be due at the maturity date of December 13, 2018. The interest will be due quarterly and paid from the financing commitment.

The balance of the interim financing for LID No. 2 is \$1,069,988 at September 30, 2017.

NOTE 8: FUND BALANCE CLASSIFICATIONS

The assigned fund balance in the general fund represents tentative management plans that are subject to change. Following is detail of the assigned fund balance at September 30, 2017:

Road projects	\$458,742
Parks	14,325
Equipment replacement	<u>20,000</u>
Total	<u>\$493,067</u>

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 9: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Dalton Gardens 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.

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.

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. 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) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% (72%) of the employer rate. As of June 30, 2017 it was 6.79% (8.36%). The employer contribution rate is set by the Retirement Board and was 11.32% (11.66%) of covered compensation. The City's contributions were \$15,847 for the year ended September 30, 2017.

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

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

At September 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2017, the City's proportion was 0.0049034 percent.

For the year ended September 30, 2017, the City recognized pension expense of \$6,439. At September 30, 2017 the City 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	\$ -	\$ 4,618
Changes of assumptions	1,425	-
Net difference between projected and actual earnings on pension plan investments	10,677	6,944
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	2,309
City of Dalton Gardens's contributions subsequent to the measurement date	2,971	-
Total	\$ 15,073	\$ 13,871

\$2,971 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, 2017.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2016 the beginning of the measurement period ended June 30, 2016 is 4.9 and 5.5 for the measurement period June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended June 30:

2018	\$ (4,190)
2019	\$ 7,241
2020	\$ 2,055
2021	\$ (4,565)
2022	\$ -

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2017 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 expenses
Cost-of-living adjustments	1%

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

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

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2017 is based on the results of an actuarial valuation date of July 1, 2017.

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

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

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2017.

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

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

* Expected arithmetic return net of fees and expenses

Actuarial Assumptions

Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	<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 net pension liability (asset) - Employer	\$ 179,134	\$ 77,073	\$ (7,742)

(Continued)

City of Dalton Gardens

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

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.

Payables to the pension plan

At September 30, 2017, the City reported payables to the defined benefit pension plan of \$1,224 for legally required employer contributions and \$734 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 federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement from grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City management believes such disallowances, if any, will be immaterial. The City is a party to legal actions arising in the ordinary course of its business. In management's opinion, the City has adequate legal defenses and/or insurance coverage regarding these legal actions and does not believe that they will materially affect the City's operations or financial position.

NOTE 11: RISK MANAGEMENT

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

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

City of Dalton Gardens

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - GENERAL FUND GOVERNMENTAL FUNDS For the Year Ended September 30, 2017

	*		
	Final	Actual	Variance with
	Budgeted	Amounts	Final Budget
	Amounts	Amounts	Final Budget
REVENUES			
Property taxes	\$ 140,620	\$ 142,873	\$ 2,253
State revenue sharing	148,400	150,149	1,749
Liquor tax	86,000	93,143	7,143
State highway funds	103,685	111,270	7,585
Local bridge and road tax	45,000	54,853	9,853
Utility franchise tax	46,000	53,624	7,624
Building/sign/trip permits	36,300	71,766	35,466
Sales tax	32,000	33,929	1,929
Business licenses/fees	7,600	7,850	250
Traffic citations	2,000	10,502	8,502
Rents	4,500	4,560	60
Other	1,000	18,756	17,756
Interest earnings	3,000	15,986	12,986
Total revenues	656,105	769,261	113,156
EXPENDITURES			
General government	317,371	280,936	36,435
Streets and street maintenance	452,700	187,350	265,350
Parks and recreation	63,255	53,360	9,895
Fire and inspection	16,620	14,020	2,600
Public art fund	1,100	680	420
Law enforcement	34,000	25,981	8,019
Total expenditures	885,046	562,327	322,719
Net change in fund balances	(228,941)	206,934	435,875
Fund balance - beginning	-	1,908,232	1,908,232
Fund balance - ending	\$ (228,941)	\$ 2,115,166	\$ 2,344,107

*Budget was not amended.

City of Dalton Gardens

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

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

	2017	2016	2015
Employer's portion of the net pension liability	0.0049034%	0.0050783%	0.0054952%
Employer's proportionate share of the net pension liability	\$ 77,073	\$ 102,945	\$ 72,363
Employer's covered-employee payroll	\$ 139,983	\$ 154,761	\$ 148,978
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	55.06%	66.52%	48.57%
Plan fiduciary net position as a percentage of the total pension liability	90.68%	87.26%	91.38%

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 July 1, 2017 (measurement date).

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

	2017	2016	2015
Statutorily required contribution	\$ 15,847	\$ 17,519	\$ 16,865
Contributions in relation to the statutorily required contribution	15,847	17,519	16,865
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ 139,983	\$ 154,761	\$ 148,978
Contributions as a percentage of covered-employee payroll	11.32%	11.32%	11.32%

full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of September 30, 2017.

FINANCIAL SECTION

OTHER SUPPLEMENTARY INFORMATION

City of Dalton Gardens

**SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2017**

	*			
	Final		Actual	Variance with
	Budgeted		Amounts	Final Budget
	Amounts			
GENERAL GOVERNMENT				
Salaries:				
Clerk	\$ 49,036		\$ 49,118	\$ (82)
Attorney	35,873		35,873	-
Council	19,200		19,200	-
Clerk - assistant	16,800		15,689	1,111
Mayor	10,200		10,200	-
Total salaries	<u>131,109</u>		<u>130,080</u>	<u>1,029</u>
Payroll taxes and benefits	55,412		55,430	(18)
Other professional services	24,000		29,381	(5,381)
Telephone and utilities	9,000		7,824	1,176
Audit and accounting	5,250		4,750	500
Insurance	6,500		6,324	176
Capital outlay	17,000		15,861	1,139
Building maintenance	19,200		16,624	2,576
Office supplies and postage	4,500		4,409	91
Legal publishing	4,000		2,073	1,927
Other	31,600		1,811	29,789
Dues and subscriptions	3,000		2,651	349
Travel and meetings	6,800		3,718	3,082
Total general government	<u>317,371</u>		<u>280,936</u>	<u>36,435</u>
STREETS AND STREET MAINTENANCE				
Road construction	216,200		31,197	185,003
Snow and ice control	35,000		24,998	10,002
Contracted maintenance	200,000		130,270	69,730
Maintenance supplies	1,500		885	615
Total streets and street maintenance	<u>452,700</u>		<u>187,350</u>	<u>265,350</u>
PARKS AND RECREATION				
Salaries and wages	11,500		16,274	(4,774)
Other	6,500		3,300	3,200
Payroll taxes and benefits	2,355		2,473	(118)
Supplies	5,000		2,040	2,960
Contracted services	35,000		28,752	6,248
Maintenance and repairs	2,500		251	2,249
Utilities	400		270	130
Total parks and recreation	<u>63,255</u>		<u>53,360</u>	<u>9,895</u>
FIRE AND INSPECTION				
Fire hydrants	3,000		400	2,600
Building inspector services	13,620		13,620	-
Total fire and inspection	<u>16,620</u>		<u>14,020</u>	<u>2,600</u>
PUBLIC ART FUND				
Advertising	1,100		680	420
Total public art fund	<u>1,100</u>		<u>680</u>	<u>420</u>
LAW ENFORCEMENT				
Salary	15,000		16,340	(1,340)
Code enforcement clean-up	3,000		-	3,000
Prosecuting attorney	2,000		1,740	260
Special law enforcement expenses	14,000		7,901	6,099
Total law enforcement	<u>34,000</u>		<u>25,981</u>	<u>8,019</u>
Total expenditures	<u>\$ 885,046</u>		<u>\$ 562,327</u>	<u>\$ 322,719</u>

*Budget was not amended.

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 Dalton Gardens
Dalton Gardens, ID 83815

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 and each major fund of the City of Dalton Gardens, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Dalton Gardens basic financial statements, and have issued our report thereon dated January 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Dalton Gardens internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Dalton Gardens internal control. Accordingly, we do not express an opinion on the effectiveness of City of Dalton Gardens internal control.

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Magnuson, McHugh & Company, P.A.

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

January 30, 2018