

CITY OF TROY

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Year Ended September 30, 2013

Prepared by

ANDERSON BROS. CPA'S, P.A.

Post Falls, Idaho

INTRODUCTORY SECTION

CITY OF TROY, IDAHO

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Troy, 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 Troy, Idaho, as of and for the year ended September 30, 2013, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount 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 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 Troy, Idaho, as of September 30, 2013, 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 budgetary comparison information on pages 33 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 the management 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 Troy, Idaho's basic financial statements. The combining schedule of operating revenues and expenses – proprietary funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of operating revenues and expenses – proprietary funds are 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 schedule of operating revenues and expenses – proprietary funds 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 a report dated June 12, 2014, on our consideration of the City of Troy, Idaho's internal control over financial reporting and 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 the 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 Troy, Idaho's internal control over financial reporting and compliance.



Anderson Bros. CPA's, P.A.

Post Falls, Idaho
June 12, 2014

BASIC FINANCIAL STATEMENTS

CITY OF TROY, IDAHO

STATEMENT OF NET POSITION
September 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 1,517	\$ 995,438	\$ 996,955
Investments	704,424	1,021,066	1,725,490
Receivable			
Accounts	448	47,653	48,101
Delinquent taxes	6,671	-	6,671
Intergovernmental	126,730	-	126,730
Special assessments	14,707	4,591	19,298
Total current assets	<u>854,497</u>	<u>2,068,748</u>	<u>2,923,245</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation			
Land	142,606	29,423	172,029
Buildings	182,309	18,569	200,878
Equipment	27,422	26,817	54,239
Water systems	-	2,266,875	2,266,875
Wastewater systems	-	982,903	982,903
Infrastructure	671,197	-	671,197
Net capital assets	<u>1,023,534</u>	<u>3,324,587</u>	<u>4,348,121</u>
Restricted investments	62,981	355,832	418,813
Total noncurrent assets	<u>1,086,515</u>	<u>3,680,419</u>	<u>4,766,934</u>
Total assets	<u>1,941,012</u>	<u>5,749,167</u>	<u>7,690,179</u>
LIABILITIES			
Current liabilities			
Accounts payable	36,895	9,346	46,241
Accrued interest payable	1,936	10,274	12,210
Accrued payroll taxes payable	23,210	-	23,210
Accrued salaries payable	1,015	1,522	2,537
Accrued vacation payable	2,335	2,334	4,669
Cash in checking overdraft	713,100	-	713,100
Current portion of bonds payable- payable from restricted assets	1,781	12,451	14,232
Unearned revenue	14,707	4,591	19,298
Total current liabilities	<u>794,979</u>	<u>40,518</u>	<u>835,497</u>
Long-term obligations			
Bonds payable	47,124	358,360	405,484
Total liabilities	<u>842,103</u>	<u>398,878</u>	<u>1,240,981</u>
NET POSITION			
Net investment in capital assets	974,629	2,953,776	3,928,405
Restricted for			
Bond covenants	51,665	32,378	84,043
Equipment replacement	11,316	-	11,316
System improvements	-	323,454	323,454
Unrestricted	<u>61,299</u>	<u>2,040,681</u>	<u>2,101,980</u>
Total net position	<u>\$ 1,098,909</u>	<u>\$ 5,350,289</u>	<u>\$ 6,449,198</u>

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
						Total	
Governmental Activities							
General government	\$ 108,294	\$ 5,932	\$ 570	\$ -	\$ (101,792)	\$ -	\$ (101,792)
Public protection	52,731	240	-	4,000	(48,491)	-	(48,491)
Library	9,612	-	-	-	(9,612)	-	(9,612)
Streets	198,606	4,588	48,350	544	(145,124)	-	(145,124)
Park	207,062	9,558	-	218,147	20,643	-	20,643
Interest on long-term debt	2,337	-	-	-	(2,337)	-	(2,337)
Total governmental activities	<u>\$ 578,642</u>	<u>\$ 20,318</u>	<u>\$ 48,920</u>	<u>\$ 222,691</u>	<u>(286,713)</u>	<u>-</u>	<u>(286,713)</u>
Business-Type Activities							
Water	\$ 213,574	\$ 212,347	\$ -	\$ -		(1,227)	(1,227)
Wastewater	168,271	173,782	-	-		5,511	5,511
Sanitation	81,276	96,135	-	-		14,859	14,859
Total business-type activities	<u>\$ 463,121</u>	<u>\$ 482,264</u>	<u>\$ -</u>	<u>\$ -</u>		<u>19,143</u>	<u>19,143</u>
General revenues							
Property taxes, levied for general purposes					176,750	-	176,750
State sales tax not restricted to specific programs					17,653	-	17,653
State liquor taxes					43,216	-	43,216
Franchise taxes					13,729	-	13,729
Other state funding not restricted to specific programs					30,435	-	30,435
Interest earnings					2,398	3,106	5,504
Other general revenues					1,584	-	1,584
Total general revenues					<u>285,765</u>	<u>3,106</u>	<u>288,871</u>
Change in net assets					(948)	22,249	21,301
Net position, beginning					<u>1,099,857</u>	<u>5,328,040</u>	<u>6,427,897</u>
Net position, ending					<u>\$ 1,098,909</u>	<u>\$ 5,350,289</u>	<u>\$ 6,449,198</u>

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2013

	General
ASSETS	
Cash	\$ 1,517
Investments	704,424
Receivables	
Customer accounts	448
Delinquent taxes	6,671
Intergovernmental	126,730
Special assessments	14,707
Restricted investments	62,981
Total assets	\$ 917,478
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 36,895
Accrued interest payable	1,936
Accrued payroll taxes payable	23,210
Accrued salaries payable	1,015
Accrued vacation payable	2,335
Cash in checking overdraft	713,100
Unearned revenue	20,044
Total liabilities	798,535
Fund balances	
Committed for:	
Debt service	51,665
Assigned for:	
Equipment replacement	11,316
Unassigned	55,962
Total fund balances	118,943
Total liabilities and fund balance	\$ 917,478

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

RECONCILIATION OF THE STATEMENT OF NET POSITION
TO BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2013

Total fund balance - Governmental Funds	\$ 118,943
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds:	
Cost of capital assets	1,921,759
Accumulated depreciation	(898,225)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the funds:	
L.I.D. bonds payable	(48,905)
Property taxes receivable to be collected this year; but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	5,337
Total net position - Governmental Activities	<u><u>\$ 1,098,909</u></u>

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended September 30, 2013**

	General
REVENUES	
Property taxes	\$ 176,797
Licenses and permits	5,932
Intergovernmental revenues	139,654
Charges for services	5,132
Earnings on investments	2,398
Other	247,828
Total revenues	577,741
EXPENDITURES	
Current	
General government	104,926
Public protection	50,498
Library	2,945
Streets	174,557
Park	196,843
Capital outlay	15,361
Debt service	4,037
Total expenditures	549,167
Excess (deficiency) revenues over expenditures	28,574
Fund balance at beginning of year	90,369
Fund balance at end of year	\$ 118,943

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

Excess (Deficiency) of Revenues Over Expenditures \$ 28,574

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation:

Current year capital outlay	15,361
Current year depreciation	(46,536)

Amounts borrowed on long-term debt are reported in the governmental funds as other financing sources. Amounts repaid on long-term debt are reported in the governmental funds as expenditures. However, for governmental activities, the borrowing and repayment of funds is reflected as outstanding long-term debt:

Current year repayment	1,700
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Some amounts receivable will not be collected for several months after the fiscal year ends and they are not considered available revenues in the governmental funds. Instead, they are counted as deferred tax revenues. They are however, recorded as revenues in the statement of activities:

Current year taxes receivable	(47)
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Change in net position of Governmental Activities \$ (948)

CITY OF TROY, IDAHO

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Wastewater	Sanitation	Totals
ASSETS				
Current assets				
Cash	\$ 565,080	\$ 399,550	\$ 30,808	\$ 995,438
Investments	879,324	-	141,742	1,021,066
Receivables				
Accounts	22,135	16,168	9,350	47,653
Special assessments	-	4,591	-	4,591
Total current assets	1,466,539	420,309	181,900	2,068,748
Noncurrent assets				
Capital assets, net	2,325,713	998,874	-	3,324,587
Restricted investments	212,222	143,610	-	355,832
Net noncurrent assets	2,537,935	1,142,484	-	3,680,419
Total assets	\$ 4,004,474	\$ 1,562,793	\$ 181,900	\$ 5,749,167
LIABILITIES				
Current liabilities				
Accounts payable	\$ 2,052	\$ 1,536	\$ 5,758	\$ 9,346
Accrued interest payable	4,290	5,984	-	10,274
Accrued salaries payable	761	761	-	1,522
Accrued vacation payable	1,167	1,167	-	2,334
Current portion of bonds payable	5,199	7,252	-	12,451
Unearned revenue	-	4,591	-	4,591
Total current liabilities	13,469	21,291	5,758	40,518
Long-term obligations				
Bonds payable	149,645	208,715	-	358,360
Total liabilities	163,114	230,006	5,758	398,878
NET POSITION				
Net investment in capital assets	2,170,869	782,907	-	2,953,776
Restricted for:				
Bond covenants	14,072	18,306	-	32,378
System improvements	198,150	125,304	-	323,454
Unrestricted	1,458,269	406,270	176,142	2,040,681
Total net position	\$ 3,841,360	\$ 1,332,787	\$ 176,142	\$ 5,350,289

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
Year Ended September 30, 2013**

	Business-Type Activities - Enterprise Funds			
	Water	Wastewater	Sanitation	Totals
OPERATING REVENUES				
Charges for services	\$ 212,347	\$ 173,747	\$ 96,135	\$ 482,229
Permits, fees, and customer installations	-	35	-	35
Total operating revenues	<u>212,347</u>	<u>173,782</u>	<u>96,135</u>	<u>482,264</u>
OPERATING EXPENSES				
Collection and transmission	-	-	80,967	80,967
Depreciation	97,045	60,849	-	157,894
Production and treatment	29,561	17,604	-	47,165
Salaries, benefits and taxes	45,572	50,868	-	96,440
Selling, general and administrative	20,105	18,994	309	39,408
Transmission and distribution	13,838	9,561	-	23,399
Total operating expenses	<u>206,121</u>	<u>157,876</u>	<u>81,276</u>	<u>445,273</u>
Operating income (loss)	<u>6,226</u>	<u>15,906</u>	<u>14,859</u>	<u>36,991</u>
Nonoperating revenues (expenses)				
Interest earnings	2,520	332	254	3,106
Interest expense	(7,453)	(10,395)	-	(17,848)
Total nonoperating revenues	<u>(4,933)</u>	<u>(10,063)</u>	<u>254</u>	<u>(14,742)</u>
Change in net position	1,293	5,843	15,113	22,249
Net position at beginning of year	<u>3,840,067</u>	<u>1,326,944</u>	<u>161,029</u>	<u>5,328,040</u>
Net position at end of year	<u>\$ 3,841,360</u>	<u>\$ 1,332,787</u>	<u>\$ 176,142</u>	<u>\$ 5,350,289</u>

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended September 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Wastewater	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 213,645	\$ 173,024	\$ 95,636	\$ 482,305
Cash paid for operating expenses	(65,436)	(48,039)	(81,579)	(195,054)
Cash paid for payroll	(46,346)	(51,642)	-	(97,988)
Net cash provided by operating activities	101,863	73,343	14,057	189,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Bond principal payments	(4,963)	(6,923)	-	(11,886)
Interest paid	(7,591)	(10,587)	-	(18,178)
Purchase of equipment	(3,500)	-	-	(3,500)
System improvements	(213,647)	-	-	(213,647)
Net cash used by capital financing activities	(229,701)	(17,510)	-	(247,211)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	2,520	332	254	3,106
Purchase of investments	197,720	(257)	(254)	197,209
Net cash provided by investing activities	200,240	75	-	200,315
Net change in cash	72,402	55,908	14,057	142,367
Cash and cash equivalents at beginning of year	492,678	343,642	16,751	853,071
Cash and cash equivalents at end of year	\$ 565,080	\$ 399,550	\$ 30,808	\$ 995,438
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 6,226	\$ 15,906	\$ 14,859	\$ 36,991
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	97,045	60,849	-	157,894
Changes in:				
Accounts receivable	1,298	(758)	(499)	41
Accounts payable	(1,932)	(1,880)	(303)	(4,115)
Accrued salaries payable	(704)	(704)	-	(1,408)
Accrued vacation payable	(70)	(70)	-	(140)
Net cash provided by operating activities	\$ 101,863	\$ 73,343	\$ 14,057	\$ 189,263

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Financial Reporting Entity.

The City of Troy, Idaho was incorporated under the name of Vollmer in 1892, and renamed Troy in 1897. The City of Troy operates under a Council form of government and provides the following services: public safety, public works, culture, recreation, and community development.

Component Units. United States generally accepted accounting principles require the City of Troy's financial statements to include component units. Component units are entities for which the City of Troy is considered to be financially accountable. The City of Troy has no component units.

B. Measurement Focus Basis of Accounting and Basis of Presentation

The financial statements of the City are prepared in accordance with United States generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB Opinions issued after November 30, 1989. The City uses the following two Bases of Accounting in these financial statements.

Economic Resources Measurement Focus and Accrual Basis of Accounting.

Under this measurement focus, 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 gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, 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, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting.

Under this measurement focus, revenues are recorded when they become measurable and available. For this purpose, the City considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year-end. All material revenues are considered measurable and available and are thus susceptible to accrual. Fines and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash. The City reports deferred revenue in its Fund Financial Statements. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus Basis of Accounting and Basis of Presentation (Continued)

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. An exception to this general rule is principal and interest on general long-term obligations, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

Restricted Resources

Program expenses are allocated to restricted program revenue first and then to the next highest level of restricted net position/fund balances when both restricted and unrestricted resources are available. Expenses are allocated to committed, assigned, and then unassigned when all are present.

Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable. Includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

Restricted. Includes amounts that can be spent only for the specific purpose stipulated by external resource providers, constitutional provisions, or enabling legislation.

Committed. Includes amounts that can only be used for the specific purposes determined by a formal action of the government's highest level of decision-making authority (City Council).

Assigned. Includes amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, which can be determined by City Council as a resolution or determined by an outside source.

Unassigned. Residual classification of fund balance that includes all spendable amounts that have not been restricted, committed, or assigned.

Government-wide Statements

The government-wide financial statements include the statements of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes, intergovernmental revenues, and other non-exchange transactions, from business-type activities, generally financed in whole or in part with fees charged to external customers. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the function program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus Basis of Accounting and Basis of Presentation (Continued)

Government-wide Statements (Continued)

particular function. Program revenues include (a) fees and 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. These revenues are subject to externally imposed restrictions to these program uses. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The Government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*, including the reclassification or elimination of internal activity (between or within funds).

Fund Financial Statements

The fund financial statements provide information about the City's fund categories. Separate statements for each fund category-governmental and proprietary-are presented. The emphasis of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. All remaining funds are aggregated and reported as non-major funds. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Funds. All governmental funds are accounted for using the *current financial resources measurement focus and modified accrual basis of accounting*.

The City reports the following major governmental fund:

- 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.

Proprietary Funds. All proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues/expenses generally result from providing services and producing and delivering goods related with the fund's principal ongoing operations. All revenues/expenses not meeting this definition are reported as nonoperating.

Enterprise Funds. Enterprise Funds are used to account for activities that are similar to those often found in the private sector and are included as proprietary funds.

The City reports the following major enterprise funds:

- Water Fund. This activity provides and distributes water primarily to City residents.
- Wastewater Fund. This activity provides sewer collection services primarily to City residents.
- Sanitation Fund. This activity provides sanitation services to all City residents.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the State of Idaho and its agencies, U.S. Treasury and U.S. agencies, City coupon and local improvement district bonds, repurchase agreements, tax and revenue anticipation bonds, notes, and the State Treasurer's Local Government Investment Pool.

Investments are stated at fair value as quoted for the purchase and sale of units.

Deposits in the State Treasurers Local Government Investment Pool are stated at fair value, which is the same as the value of the pool shares. The Idaho State Treasurer oversees the Local Government Investment Pool under the Joint Exercises of Power provisions of *Idaho Code*. The State Treasurer combines deposits from all governmental entities in the State which participate in the Pool and purchases the following types of investments:

- Local Certificates of Deposit
- Repurchase Agreements
- U.S. Government Securities
- Bonds and debentures of "A" rated companies

The entities participating in the Pool own a percentage of each investment held. This percentage is calculated by dividing the individual entity's deposits by the total deposits held in the pool. The purpose of this is to:

- Increase the overall rate of return.
- Reduce the risk of default.
- Place each entity under the FDIC and SLIC limits of \$250,000.

Investments held at year-end are disclosed in Note 2A.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements.

All trade accounts receivable are shown net of an allowance for doubtful accounts. Trade accounts receivable allowance for uncollectibles is calculated based upon past experience and management's assessment of the current receivables. At September 30, 2013, the allowance for uncollectibles is \$8,137. Substantially all property taxes are collected; therefore, no allowance is provided for property taxes.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity (Continued)

2. Receivables and Payables (Continued)

The City's property taxes are levied by Latah County, Idaho in November and payable on December 20 and June 20 following the levy date. Taxes are remitted to the City in the month following collection. The taxes are delinquent and a lien is filed the day following the due date. A tax deed is issued on property three years from the date of delinquency. At fiscal year-end the receivables represent delinquent taxes. Amounts not paid within 60 days are recorded as unearned revenue for the fund financial statements.

3. Restricted Assets

Bond covenants of the City's General, Water, and Wastewater Funds require portions of the debt proceeds as well as other resources to be set aside for various purposes. These amounts are reported as restricted assets.

Patrons who hook up to the water or wastewater collection system are required to pay an equity buy-in fee. State law restricts these fees for future maintenance and replacement of the facilities.

The City has placed funds into depreciation reserves which are to be used for equipment, and infrastructure equipment.

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

4. Capital Assets

The City's property, plant, and equipment with useful lives of more than two years are stated at historical cost. Infrastructure assets are reported at estimated historical cost as determined in 2004. Donated fixed assets are valued at the estimated fair value at the date of donation. The City generally capitalizes assets that meet the following guidelines:

Asset Category	Cost		Life
Equipment and vehicles	\$ 1,000		3-5 years
Buildings	10,000		30 years
Roads	20,000	per City Block	40 years
Bridges	20,000	per bridge	40 years

Equipment with a cost less than \$1,000 is recorded in the general fixed assets for accountability purposes only.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. Amortization of leased assets is included in depreciation expense.

Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed for Proprietary Funds.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity (Continued)

4. Capital Assets (Continued)

Assets are depreciated on the straight-line method over the following estimated useful lives:

Equipment and vehicles	5 years
Computer equipment	3 years
Buildings	30 years
Streets	40 years
Bridges	40 years

Modified Approach for Infrastructure Reporting. In accordance with GASB 34, the City has reported all capital assets including infrastructure in the government-wide statement of net position.

5. Compensated Absences

Full time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Vacation benefits are reported as accrued in the government-wide and proprietary financial statements. Only the amount of vacation benefits expected to be paid from current financial resources are accrued in the governmental fund financial statements. No liability is recorded for accumulating rights to receive sick pay benefits.

6. Restricted Net Position

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose.

7. Cash Flow Statement

The City considers all bank accounts, restricted and unrestricted cash to be cash for statement of cash flow purposes.

8. Use of Estimates

Management of the City uses estimates and assumptions in preparing financial statements in accordance with United States generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that management uses.

2. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Deposits and Investment policies are disclosed in Note 1 C.

The carrying amount of the City's deposits at year-end is covered by federal depository insurance for the first \$250,000.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

2. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

A. Deposits and Investments (Continued)

Cash is classified as follows in the basic financial statements:

Cash, Governmental Activities	\$(711,583)
Cash, Business-Type Activities	<u>995,438</u>
Total cash	<u>\$283,855</u>

Investments made by the City at year-end amounted to \$1,725,490. As of September 30, 2013, the City had the following investments:

	<u>Fair Value</u>
Governmental Activities:	
Idaho State Treasurer's Investment Pool (average weighted yield)	
Current assets	\$704,424
Restricted investments	<u>62,981</u>
Total investments	<u>\$767,405</u>
Business-Type Activities:	
Idaho State Treasurer's Investment Pool (average weighted yield)	
Current assets	1,021,066
Restricted investments	<u>355,832</u>
Total investments	<u>1,376,898</u>
 Total investments	 <u>\$2,144,303</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will reduce the value of the City's investments. As a means of limiting its exposure to losses, no security, which has a variable interest rate, will be purchased or accepted as collateral. Also the use of leveraging (borrowing money to purchase an investment), trading, and speculating are not allowed under the City's investment policy.

Custodial Risk: Custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial risk.

Credit Risk: The City's general investment policy objectives are safety, liquidity, and yield, and its standard of care to be used by investment officials is formulated around the prudent-person rule: investments are made as a prudent person should be expected to make, with discretion and intelligence, to produce reasonable income, preserve capital and, in general, avoid speculative investments. As of September 30, 2013, the City's investment in the Idaho State Treasurer's Local Government Investment Pool is no longer rated by Standard and Poor's Rating Services.

Concentration of Credit Risk: The City places no limit on the amount they may invest in any one issuer.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

2. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

B. Receivables

Delinquent taxes of \$6,671 represent delinquent property amounts due from individuals. Over time, substantially all property taxes are collected.

Accounts receivable represent:

Customer utility billings for street lights Governmental Activities	<u>\$448</u>
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Customer utility billings for water, wastewater Collection, and sanitation	\$55,714
Allowance for doubtful accounts	(8,061)
Business-Type Activities	<u>\$47,653</u>

Intergovernmental receivables represent:

Latah County, property taxes	\$6,901
Latah Soil & Water District	96,034
State of Idaho, shared tax collections	23,795
Governmental Activities	<u>\$126,730</u>

Special assessments represent:

LID No. 1999-1 assessment Governmental Activities	<u>\$14,707</u>
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LID No. 2003-1 assessment Business-Type Activities	<u>\$4,591</u>
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C. Capital Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>
<i>Governmental Activities:</i>					
Capital assets, not being depreciated:					
Land	\$142,606	-	-	\$142,606	-
Capital assets, being depreciated:					
Equipment	290,922	\$11,500	-	302,368	\$275,000
Buildings	363,507	3,861	-	367,368	224,938
Park improvements	187,194	-	-	187,194	147,315
Infrastructure	922,169	-	-	922,169	250,972
	<u>\$1,906,398</u>	<u>\$15,361</u>	-	<u>\$1,921,759</u>	<u>898,225</u>
Capital assets, net					<u>\$1,023,534</u>
<i>Business-Type Activities:</i>					
Land	\$29,423	-	-	\$29,423	-
Buildings	42,858	-	-	42,858	\$24,289
Equipment	276,624	\$3,500	-	280,124	253,307
Water system	3,175,347	213,647	-	3,388,994	1,122,119
Wastewater system	1,947,774	-	-	1,947,774	964,871
	<u>\$5,472,026</u>	<u>\$217,147</u>	-	<u>\$5,689,173</u>	<u>2,364,586</u>
Capital assets, net					<u>\$3,324,587</u>

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

2. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to the following functions:

	<u>Amount</u>
<i>Governmental Activities:</i>	
General government	\$3,368
Public protection	2,233
Library	6,667
Streets	24,049
Park	10,219
Total	\$46,536
 <i>Business-type Activities:</i>	
Water enterprise fund	\$97,045
Wastewater enterprise fund	60,849
Total	\$157,894

D. Bonds Payable

Bonds payable at September 30, 2013, are comprised of the following individual bond issues:

Governmental Activities

\$48,905 – Local Improvement District No. 99-1 Bond. Interest rate of 4.75%. Payments are budgeted and paid from the General Fund.

Maturity Date	Principal	Interest
2014	\$1,781	\$2,323
2015	1,866	2,238
2016	1,954	2,150
2017	2,047	2,057
2018	2,144	1,960
2019-2023	12,350	8,170
2024-2028	15,575	4,945
2029-2031	11,188	1,124
Totals	\$48,905	\$24,967

Business-type Activities

Water Enterprise Fund:

\$154,844 – Water Revenue Series 2002 Bond. Interest rate of 4.75%. Payments are budgeted and paid from the Water Enterprise Fund.

Wastewater Enterprise Fund:

\$215,967 – Sewer Revenue Series 2002 Bond. Interest rate of 4.75%. Payments are budgeted and paid from the Wastewater Enterprise Fund.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

2. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

D. Bonds Payable (Continued)

Business-type Activities

Maturity Date	Principal	Interest
2014	\$12,451	\$17,613
2015	13,042	17,022
2016	13,662	16,402
2017	14,311	15,753
2018	14,990	15,074
2019-2023	86,602	63,718
2024-2028	108,879	41,441
2029-2032	106,874	13,382
Totals	\$370,811	\$200,405

E. Changes in General Long-Term Obligations

The following is a summary of changes in long-term debt for the year ended September 30, 2013:

	10/01/12	Additions	Reductions	9/30/13	Due Within One Year
<i>Governmental Activities</i>					
Local Improvement District	\$50,605	-	\$1,700	\$48,905	\$1,781
<i>Business-type Activities</i>					
Bonds payable	\$382,697	-	\$11,886	\$370,811	\$12,451

Total interest expense amounted to \$2,337 in the Governmental Activities and \$17,848 in the Business-type Activities. All interest is reported as direct program expenses.

3. OTHER INFORMATION

A. Risk Management

1. Comprehensive Liability

The City of Troy purchases liability and property insurance through the Idaho Counties Risk Management Program (ICRMP), which assumes or reinsures all risk covered for claims. All member participants are charged an annual premium. The City has a \$500 annual maintenance deductible.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

1. Comprehensive Liability (Continued)

The general insurance limits are as follows:

Types of Coverage	Coverage Basis	Limits of Coverage	Deductibles
1. Buildings, Structures and Personal Property;	Per Occurrence	Schedule of Values	The First \$500 of any Loss excepting flood & earthquake losses.
<ul style="list-style-type: none"> • Architect's Fees 	Per Occurrence	\$250,000	
<ul style="list-style-type: none"> • Fine Arts 	Per Occurrence or in the aggregate for multiple occurrences	\$500,000	
<ul style="list-style-type: none"> • Ordinance Deficiency 	Per Occurrence	\$5,000,000	
<ul style="list-style-type: none"> • Preservation of Property 	Per Occurrence	\$25,000	
<ul style="list-style-type: none"> • Newly Acquired Property 	Per Occurrence	\$10,000,000	
<ul style="list-style-type: none"> • Property in Course of Construction 			
New	Per Occurrence	\$250,000	
Repairs/Renovations of Existing	Per Occurrence	\$1,000,000	
<ul style="list-style-type: none"> • Service Animals 	Per Occurrence	\$10,000	
<ul style="list-style-type: none"> • Earthquake 	Annual Aggregate	\$50,000,000	10% of listed amounts
<ul style="list-style-type: none"> • Flood Type A 	Annual Aggregate	\$50,000,000	\$100,000 any loss
<ul style="list-style-type: none"> • Flood Type B 	Annual Aggregate	\$5,000,000	\$500,000 per building
2. Automobile - Mobile Equipment Physical Damage	Per Occurrence	\$1,000,000	
	In the aggregate for multiple items when not in use.	\$10,000,000	
3. Operational Disruption Expense	Per Occurrence or in the aggregate for multiple occurrences.	\$1,000,000	
4. Valuable Papers and Records	Per Occurrence or in the aggregate for multiple occurrences.	\$1,000,000	
Overall Aggregate Limits	In the aggregate annually	\$200,000,000	

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

1. Comprehensive Liability (Continued)

Types of Coverage	Coverage Basis	Limits of Claims Brought Pursuant To Title 6, Chapter 9, Idaho Code	Limits For All Other Covered Claims	Deductibles
Section II – General Liability and Premises Medical Payments Insuring Agreement				
1. General Liability	Per Occurrence	\$500,000	\$3,000,000	No Deductible for this Section
<ul style="list-style-type: none"> • City/County Prosecutors Or Appointed City Attorneys serving as Independent contractors 	Per Occurrence	\$500,000	\$500,000	
<ul style="list-style-type: none"> • Sewer Backup Mold & Fungus Abatement & Remediation 	Per Occurrence	\$500,000	\$500,000	
2. Law Enforcement Liability	Per Occurrence	\$500,000	\$3,000,000	
3. Sexual Molestation Coverage	Per Occurrence	\$500,000	\$3,000,000	

Types of Coverage	Coverage Basis	Limits of Claims Brought Pursuant To Title 6, Chapter 9, Idaho Code	Limits For All Other Covered Liability Claims	Deductibles
1. Automobile Liability	Per Occurrence	\$500,000	\$3,000,000	No Deductible for Section III, Coverages A, B & C
2. Automobile Medical Payments	Each Person Each Accident	\$5,000 \$100,000	\$5,000 \$100,000	Each person Each accident
3. Uninsured Underinsured Motorists	Per Occurrence	\$100,000 \$300,000	\$100,000 \$300,000	Each person Each accident

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

1. Comprehensive Liability (Continued)

Types of Coverage	Coverage Basis	Limits of Claims Brought Pursuant To Title 6, Chapter 9, Idaho Code	Limits For All Other Covered Liability Claims	Deductibles
1. Errors and Omissions	Per covered claim	\$500,000	\$3,000,000	No Deductible for this Section
<ul style="list-style-type: none"> City/County Prosecutors Or Appointed City Attorneys serving as Independent contractors 	Per covered claim	\$500,000	\$500,000	
2. Employee Medical Insurance Benefit Liability	Per covered claim	\$500,000	\$3,000,000	
3. Employment Practices Liability	Per covered claim	\$500,000	\$3,000,000	
Types of Coverage	Coverage Basis	Limits of Claims Brought Pursuant To Title 6, Chapter 9, Idaho Code	Deductibles	
Crime Insurance				
1. Employee Dishonesty	Per Occurrence	\$500,000	The First \$500 of any Loss.	
2. Loss Inside the Premises	Per Occurrence	\$500,000		
3. Loss Outside the Premises	Per Occurrence	\$500,000		

Types of Coverage	Coverage Basis	Limits of Coverage	Deductibles
Machinery Breakdown Insurance			
1. Damaged Property			
<ul style="list-style-type: none"> Off-Premise Damage 	Per Occurrence	\$100,000	The First \$500 of any Losses
<ul style="list-style-type: none"> Data or Media (Property) 	Per Occurrence	\$1,000,000	
<ul style="list-style-type: none"> Data or Media (Bus Income & Extra Expense) 	Per Occurrence	\$5,000,000	
<ul style="list-style-type: none"> Ammonia Contamination 	Per Occurrence	\$1,000,000	
<ul style="list-style-type: none"> Consequential Loss 	Per Occurrence	\$1,000,000	
<ul style="list-style-type: none"> Hazardous Substance 	Per Occurrence	\$500,000	

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

1. Comprehensive Liability (Continued)

Types of Coverage	Coverage Basis	Limits of Coverage	Deductibles
Machinery Breakdown Insurance			
1. Damaged Property (Continued)			
• Water Damage	Per Occurrence	\$2,500,000	
• Fungus	Per Occurrence	\$15,000	
2. Expediting Expense	Per Occurrence	\$2,500,000	
3. Business Income & Extra Expense	Per Occurrence	Varies	
4. Spoilage Damage	Per Occurrence	\$1,000,000	
5. Utility Interruption	Per Occurrence	\$2,500,000	
6. Newly Acquired Premises	Per Occurrence	\$5,000,000	
7. Ordinance or Law	Per Occurrence	\$5,000,000	
8. Errors and Omissions	Per Occurrence	\$10,000,000	
Overall Aggregate Equipment Breakdown Limit	In the Aggregate Annually Per Covered Occurrence	\$100,000,000	

Types of Coverage	Coverage Basis	Limits of Indemnification	Deductibles
1. Chemical Spraying Activities Liability	Per Covered occurrence and/or in the aggregate for multiple claims	\$500,000	No deductible for items listed
2. Emergency Clean-Up Expense	Each Person Each Accident	\$5,000 \$100,000	

Endorsements	Coverage Basis	Limits of Coverage	Deductibles
1. Upset and Overturn Endorsements	\$25,000	Per occurrence	The first \$500 of any loss
2. Terrorism Insurance	\$20,000,000	In the aggregate annually	The first \$25,000 of any loss

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

2. Medical Insurance

Effective June 15, 2003, the City of Troy purchased medical insurance through Principal Financial Group. The group benefits selected is as follows:

Service	PPO Providers	Non-PPO Providers
Category A:		
Inpatient hospital services		
Coinsurance	90%	70%
Deductible	\$200	\$200
Copay	None	\$500 per admission, in addition to the calendar year deductible shown above.
Outpatient hospital services		
Coinsurance	90%	70%
Deductible	\$200	\$200
Copay	None	None
Outpatient surgery at hospital		
Coinsurance	90%	70%
Deductible	\$200	\$200
Copay	None	None
Hospital emergency room		
Coinsurance	90%	70%
Copay	None	\$100 per-visit, in addition to the calendar year deductible.
Deductible	\$200	\$200
Category B:		
Physician hospital services		
Coinsurance	90%	70%
Copay	None	None
Deductible	\$200	\$200
Category C:		
Services at physician's office		
Coinsurance	100%	70%
Copay	\$10 per visit	None
Deductible	None	\$200
Category D:		
Ambulance services		
Coinsurance	90%	90%
Copay	None	None
Deductible	\$200	\$200
Other medical services		
Coinsurance	90%	70%
Copay	None	None
Deductible	\$200	\$200

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

B. Segment Information

The City has issued revenue bonds to support the water and wastewater collections services. The fund financial statements report these two funds as major funds and disclose the required segment information.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Public Employee Retirement System of Idaho (PERSI)

The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. Amendments to the Plan must be approved by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute.

The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the Plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. Effective June 30, 2000, the annual service retirement allowance is 2.0 percent (2.3 percent for police/firefighter) of the average monthly salary for the highest consecutive 42 months.

For the year ended September 30, 2013, the required contribution rates as a percentage of covered payrolls were as follows:

<u>Employee Group</u>	<u>Contribution</u>	
	<u>Employer</u>	<u>Employee</u>
General	10.39%	6.23%
Police/Firefighter	10.73%	7.69%

The City of Troy's contributions required and paid were \$18,407, \$17,208, and \$16,802 for the three years ended September 30, 2013, 2012, and 2011, respectively.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

E. Bond Ordinance Disclosures

Governmental Activities

Restricted for bond covenants:

Local Improvement District No. 99-1 Bond:

Ordinance 2001-08, section 8 –

Requires all moneys constituting payment of principal of unpaid installments of assessments for LID No. 99-1 be deposited into this fund. The funds shall be used and applied for the purpose of paying the principal of the Bond and for no other purpose.

Requires all moneys constituting payment of interest on unpaid installments of assessments for LID No. 99-1 be deposited into this fund. The funds shall be used and applied for the purpose of paying the principal of the Bond herein authorized and for no other purpose.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$44,268 and was in compliance with the Ordinance.

Ordinance 2001-08, section 9 –

Requires that sum of \$5,902 be on deposit.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$7,397 and was in compliance with the Ordinance.

Restricted for equipment depreciation reserve:

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$11,316.

Business-type Activities

Water Enterprise Fund

Restricted for bond covenants:

Water Revenue Series 2002 Bond:

Ordinance 2000-03, section 13 –

Requires an amount equal to one-tenth (1/10) of the annual payment of principal and interest on the Bond. The fund is to be maintained until the bond has been paid in full. This ordinance was later amended by Ordinance 2002-01.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$14,072 and was in compliance with the Ordinance.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

E. Bond Ordinance Disclosures (Continued)

Business-type Activities (Continued)

Water Enterprise Fund (Continued)

Restricted for system improvements:

Water Improvement Fund:

Resolution 189, section 1 –

Requires a \$3 charge per customer per month, and a \$1,250 charge per new connection to the water system, be deposited in a separate account. These funds are to be used for line replacement and capital improvements to the City's water supply system.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$91,894 and was in compliance with the Resolution.

Slow Sand Filter Sand Replacement Fund:

Resolution 189, section 1 –

Requires a \$.50 charge per customer per month be deposited in a separate account. These funds are to be used to replace sand at the slow sand filtration plant.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$28,027 and was in compliance with the Resolution.

Restricted for equipment and system depreciation reserve:

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$78,229.

Wastewater Enterprise Fund

Restricted for bond covenants:

Sewer Revenue Series 2002 Bond:

Ordinance 2000-04, section 13 –

Requires an amount equal to one-tenth (1/10) of the annual payment of principal and interest on the Bond. The fund is to be maintained until the bond has been paid in full. This ordinance was later amended by Ordinance 2002-2.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$18,306 and was in compliance with the Ordinance.

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

E. Bond Ordinance Disclosures (Continued)

Business-type Activities (Continued)

Wastewater Enterprise Fund (Continued)

Restricted for system improvements:

Sewer Equipment Reserve Fund:

Resolution 145, section 1 –

Requires a \$.49 charge per customer per month to be deposited in a separate account. These funds are to be used to replace equipment at the wastewater treatment plant.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$31,455 and was in compliance with the Resolution.

Sewer Improvement Fund:

Ordinance 267, section 2 –

Requires a \$1 charge per customer per month, and a \$1,000 charge per new connection to the sewer system, to be deposited in a separate account. These funds are to be used for capital improvements to the City’s sewer system.

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$44,072 and was in compliance with the Ordinance.

Restricted for equipment and system depreciation reserve:

Cash deposited in the restricted investment account at September 30, 2013, amounted to \$49,777.

F. Business-type Activities Rate Charges

The following rates and charges were in effect during the period October 1, 2012, through September 30, 2013:

	Monthly Base Charge	Monthly Additional Charge
Service:		
Water	\$35.27	
	1001-39,999 gal	\$1.80 per additional 1000 gal
	40,000-99,999 gal	\$3.00 per additional 1000 gal
	+100,000 gal	\$5.00 per additional 1000 gal
Wastewater	35.49	
Sanitation	18.99	
Street lights	1.00	
Total charges	\$90.75	

CITY OF TROY

NOTES TO FINANCIAL STATEMENTS (Continued)

3. OTHER INFORMATION (Continued)

G. City Council Members

At September 30, 2013, the members of the City Council were:

Kenneth Whitney, Jr. Mayor
Mike Dimmick
Cynthia Gray
Steven Corr
Mike Yenney

H. Fund Balance Reserves and Designations

Restricted Net Position. Restricted net position on the government-wide statements represent amounts whose use is restricted by creditors, grantors, laws and regulations of other governments, or through enabling legislation. Net position is restricted for debt service by the bond holder on the outstanding bond.

Committed Fund Balance. The fund balance I committed and can only be used for specific purposes pursuant to constraints imposed by formal action and cannot be used for any other purpose unless the City removes the constraint.

Assigned Fund Balance. The fund balance is assigned for use for specific purposes.

Unassigned Fund Balance. The fund balance has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

REQUIRED SUPPLEMENTARY INFORMATION

MAJOR GOVERNMENTAL FUND

GENERAL FUND

The General Fund is used to account for resources traditionally associated with governments, which are not required to be accounted for in another fund. The various components of the General Fund presented in this report include the following:

- General Government**
- Public Protection**
- Library**
- Streets**
- Park**

CITY OF TROY, IDAHO

**BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
Year Ended September 30, 2013**

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget
REVENUES				
Property taxes	\$ 175,317	\$ 175,317	\$ 176,797	\$ 1,480
Licenses and permits	6,200	6,200	5,932	(268)
Intergovernmental revenues	112,000	112,000	139,654	27,654
Charges for services	4,600	4,600	5,132	532
Earnings on investments	2,000	2,000	2,398	398
Other	159,700	409,700	394,828	(14,872)
Total revenues	<u>459,817</u>	<u>709,817</u>	<u>724,741</u>	<u>14,924</u>
EXPENDITURES				
General government	127,741	127,741	104,926	(22,815)
Public protection	42,754	42,754	50,498	7,744
Library	2,300	2,300	2,945	645
Streets	223,684	223,684	174,557	(49,127)
Park	42,838	292,838	196,843	(95,995)
Capital outlay	16,500	16,500	15,361	(1,139)
Debt service	4,000	4,000	4,037	37
Total expenditures	<u>459,817</u>	<u>709,817</u>	<u>549,167</u>	<u>(160,650)</u>
Excess (deficiency) revenues over expenditures	-	-	175,574	175,574
Fund balance at beginning of year	<u>90,369</u>	<u>90,369</u>	<u>90,369</u>	-
Fund balance at end of year	<u>\$ 90,369</u>	<u>\$ 90,369</u>	<u>\$ 265,943</u>	<u>\$ 175,574</u>
Adjustments to conform with GAAP:				
Contingency Reserve included in Fund Balance			<u>(147,000)</u>	
Fund Balance, end of year (GAAP basis)			<u><u>118,943</u></u>	

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

**BUDGETARY COMPARISON SCHEDULE OF REVENUES BY SOURCE -
GENERAL FUND**

Year Ended September 30, 2013

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget
Property taxes	\$ 175,317	\$ 175,317	\$ 176,797	\$ 1,480
Licenses and permits				
Beer and wine licenses	1,200	1,200	1,475	275
Building permits	5,000	5,000	4,457	(543)
Total licenses and permits	6,200	6,200	5,932	(268)
Intergovernmental revenues				
Highway to city	15,000	15,000	19,492	4,492
Highway user	26,000	26,000	28,858	2,858
Liquor apportionment	35,000	35,000	43,216	8,216
Revenue sharing	21,000	21,000	30,435	9,435
Sales tax	15,000	15,000	17,653	2,653
Total intergovernmental revenues	112,000	112,000	139,654	27,654
Charges for services				
Franchise fee	4,600	4,600	4,588	(12)
LID	-	-	544	544
Total charges for services	4,600	4,600	5,132	532
Earnings on investments	2,000	2,000	2,398	398
Other				
Capital grants	-	250,000	222,147	(27,853)
Contingency reserve	147,000	147,000	-	(147,000)
Dog tags	300	300	120	(180)
Donations	-	-	570	570
Fines	400	400	120	(280)
Land Rent	2,400	2,400	13,729	11,329
Miscellaneous	1,600	1,600	1,584	(16)
Summer program	8,000	8,000	9,558	1,558
Total other	159,700	409,700	247,828	(161,872)
Total revenues	\$ 459,817	\$ 709,817	\$ 577,741	\$ (132,076)

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

BUDGETARY COMPARISON SCHEDULE OF EXPENDITURES BY FUNCTION -
GENERAL FUND

Year Ended September 30, 2013

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget
General government				
Accounting fees	\$ 17,500	\$ 17,500	\$ 17,477	\$ (23)
Advertising	200	200	-	(200)
Building inspector	5,000	5,000	8,528	3,528
Computer services	20,000	20,000	-	(20,000)
Contingency reserve	2,700	2,700	2,020	(680)
Custodial	600	600	845	245
Dues	10,000	10,000	4,572	(5,428)
Insurance	6,000	6,000	5,461	(539)
Legal fees	100	100	-	(100)
Legal binding and printing	700	700	597	(103)
Legal publications	2,000	2,000	1,353	(647)
Maintenance and supplies - city hall	2,000	2,000	512	(1,488)
Meeting and training	1,000	1,000	1,598	598
Miscellaneous	2,450	2,450	2,710	260
Newsletter	2,000	2,000	2,031	31
Office supplies	500	500	2,771	2,271
Planning and zoning	700	700	1,210	510
Postage	42,291	42,291	41,399	(892)
Salaries, employee benefits, and taxes	2,500	2,500	2,741	241
Survey	1,000	1,000	794	(206)
Telephone and fax - city hall	4,500	4,500	4,168	(332)
Travel	1,000	1,000	635	(365)
Utilities	3,000	3,000	3,504	504
Total general government	127,741	127,741	104,926	(22,815)
Public protection				
Ambulance support				-
Telephone and fax	200	200	-	(200)
Support	2,000	2,000	2,000	-
Fire department support				-
Support	2,000	2,000	6,982	4,982
Telephone and fax	1,200	1,200	899	(301)
Utilities	3,200	3,200	2,437	(763)
Police				-
Fuel	1,500	1,500	1,351	(149)
Legal	500	500	1,584	1,084
Meeting and training	300	300	-	(300)
Miscellaneous	500	500	375	(125)
Repairs and maintenance - vehicle	1,500	1,500	2,250	750
Salaries, employee benefits and taxes	26,054	26,054	31,001	4,947
Supplies	2,000	2,000	654	(1,346)
Telephone and fax	1,500	1,500	965	(535)
Travel	300	300	-	(300)
Total public protection	42,754	42,754	50,498	7,744
Library				
Janitorial	1,800	1,800	1,650	(150)
Maintenance	500	500	1,295	795
Total library	2,300	2,300	2,945	645

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

**BUDETARY COMPARISON SCHEDULE OF EXPENDITURES BY FUNCTION -
GENERAL FUND (Continued)
Year Ended September 30, 2013**

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget
Streets				
Building repairs	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
Contract labor	5,000	5,000	-	(5,000)
Equipment repairs	3,500	3,500	7,421	3,921
Fuel	10,000	10,000	5,325	(4,675)
Gravel	3,000	3,000	2,328	(672)
Miscellaneous	1,912	1,912	706	(1,206)
Salaries, employee benefits and taxes	73,472	73,472	51,237	(22,235)
Sand	2,000	2,000	962	(1,038)
Small tools	3,000	3,000	200	(2,800)
Street repairs	83,000	83,000	82,174	(826)
Street signs	3,000	3,000	-	(3,000)
Storm sewer repairs	400	400	-	(400)
Supplies	2,000	2,000	2,181	181
Telephone and fax	1,900	1,900	984	(916)
Utilities	27,000	27,000	20,070	(6,930)
Vehicle repairs	1,500	1,500	969	(531)
Total streets	<u>223,684</u>	<u>223,684</u>	<u>174,557</u>	<u>(49,127)</u>
Park				
Equipment rental	-	100,000	89,200	(10,800)
Fuel	-	10,000	5,346	(4,654)
Janitorial	2,200	2,200	-	(2,200)
Maintenance	2,500	7,500	2,358	(5,142)
Miscellaneous			1,000	1,000
Salaries, employee benefits and taxes	16,538	121,538	86,166	(35,372)
Supplies	10,000	40,000	10,468	(29,532)
Support contribution	10,000	10,000	1,510	(8,490)
Utilities	1,600	1,600	795	(805)
Total park	<u>42,838</u>	<u>292,838</u>	<u>196,843</u>	<u>(95,995)</u>
Capital outlay				
General government	500	500	-	(500)
Public protection	1,000	1,000	-	(1,000)
Streets	10,000	10,000	15,361	5,361
Park	5,000	5,000	-	(5,000)
Total capital outlay	<u>16,500</u>	<u>16,500</u>	<u>15,361</u>	<u>(1,139)</u>
Debt service				
Interest	2,500	2,500	2,337	(163)
Principal	1,500	1,500	1,700	200
Total debt service	<u>4,000</u>	<u>4,000</u>	<u>4,037</u>	<u>37</u>
Total expenditures	<u>\$ 459,817</u>	<u>\$ 709,817</u>	<u>\$ 549,167</u>	<u>\$ (160,650)</u>

See accompanying notes to financial statements and auditors' report.

CITY OF TROY

NOTES TO THE BUDGET AND ACTUAL SCHEDULES

Budgetary Information

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

Prior to September 1, the City Clerk submits to the City Council 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 various times during the year to obtain taxpayer comments.

Prior to the second Monday in September, the budget is legally enacted through passage of an ordinance. The budget covers all governmental and proprietary fund types. The City adopts budgets on the modified accrual basis of accounting for all governmental fund types. The City adopts budgets on the accrual basis of accounting for proprietary fund types.

The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, expenditures from the emergency fund or any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control is the fund level. The City Council made supplemental budgetary appropriations during the year of \$250,000 to reflect an increase in general fund expenditures for parks and recreation of \$250,000.

SUPPLEMENTARY INFORMATION

INDIVIDUAL FUND SCHEDULES

CITY OF TROY, IDAHO

COMBINING SCHEDULE OF OPERATING REVENUES -
 PROPRIETARY FUNDS
 Year Ended September 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Wastewater	Sanitation	Total
Charges for services				
Utility charges	\$ 212,347	\$ 173,747	\$ 96,135	\$ 482,229
Permits, fees, & customer installments				
Special assessments	-	35	-	35
Total permits, fees, & customer installments	-	35	-	35
Total operating revenues	\$ 212,347	\$ 173,782	\$ 96,135	\$ 482,264

See accompanying notes to financial statements and auditors' report.

CITY OF TROY, IDAHO

**COMBINING SCHEDULE OF OPERATING EXPENSES -
PROPRIETARY FUNDS
Year Ended September 30, 2013**

	Business-Type Activities - Enterprise Funds			
	Water	Wastewater	Sanitation	Total
Collection and transmission				
Solid waste collection	\$ -	\$ -	\$ 38,783	\$ 38,783
Solid waste disposal	-	-	33,955	33,955
Recycling collection	-	-	8,229	8,229
Total collection and transmission	-	-	80,967	80,967
Depreciation	97,045	60,849	-	157,894
Production and treatment				
Treatment supplies	2,664	3,019	-	5,683
Testing	5,825	5,825	-	11,650
Utilities	21,072	8,760	-	29,832
Total production and treatment	29,561	17,604	-	47,165
Salaries, benefits and taxes	45,572	50,868	-	96,440
Selling, general & administrative				
Accounting fees	8,738	8,738	-	17,476
Bank charges			-	-
Custodial	396	170	-	566
Dues	1,950	70	-	2,020
Insurance	2,232	2,232	-	4,464
Legal	56		-	56
Meeting and training	200		-	200
Miscellaneous	1,428	100	-	1,528
Phone	963	419	50	1,432
Postage	1,168	469	259	1,896
Professional fees	1,480	5,532	-	7,012
Shop supplies	1,494	1,264	-	2,758
Total selling, general & administrative	20,105	18,994	309	39,408
Transmission & distribution				
Equipment repairs	1,077	300	-	1,377
Fuel	4,781	3,525	-	8,306
Small tools	212	200	-	412
System repairs and maintenance	7,768	5,536	-	13,304
Total transmission & distribution	13,838	9,561	-	23,399
Total operating expenses	\$ 206,121	\$ 157,876	\$ 81,276	\$ 445,273

See accompanying notes to financial statements and auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL,
COMPLIANCE, AND OTHER MATTERS**



1810 E Schneidmiller Ave. Ste. 310
Post Falls, Idaho 83854
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INDEPENDENT AUDITORS' 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*

Mayor and City Council
City of Troy, 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 Troy, Idaho as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Troy, Idaho's basic financial statements and have issued our report thereon dated June 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Troy, 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 Troy, Idaho's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Troy'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 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. 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 Troy, Idaho's financial statements are free of 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*.

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.



Anderson Bros. CPA's, P.A.

Post Falls, Idaho

June 12, 2014