

City of Kootenai
Audited Financial Statements

YEAR ENDED SEPTEMBER 30, 2019

City of Kootenai

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Financial Section

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Kootenai
Kootenai, Idaho

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Kootenai, Idaho, as of and for the year ended September 30, 2019, 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

The City's 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted the 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Kootenai, as of September 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity 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 budgetary information on pages 23-24 and the schedules of employer's share of net pension liability and employer contributions on page 25 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis (MD&A) 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 financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 15, 2020, on my consideration of the City of Kootenai's internal control over financial reporting and on my tests of its compliance with certain provisions, laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Scott P. Hoover, CPA

Scott P. Hoover, CPA, PLLC
Liberty Lake, WA

January 15, 2020

Financial Section

Basic Financial Statements

City of Kootenai

STATEMENT OF NET POSITION
September 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 519,482	\$ -	\$ 519,482
Receivables:			
Accounts (net)	2,332	-	2,332
Property taxes	87	-	87
Other receivables	36,345	-	36,345
Prepaid expenses	3,051	-	3,051
Capital assets:			
Land	90,161	-	90,161
Capital assets, net of accumulated depreciation	1,081,923	-	1,081,923
Total assets	<u>1,733,381</u>	<u>-</u>	<u>1,733,381</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension outflows	4,331	-	4,331
Total deferred outflows of resources	<u>4,331</u>	<u>-</u>	<u>4,331</u>
LIABILITIES			
Accounts payable	7,250	-	7,250
Wages and payroll taxes payable	2,069	-	2,069
Compensated absences payable	4,154	-	4,154
Non-current liabilities:			
Net pension liability	18,096	-	18,096
Total liabilities	<u>31,569</u>	<u>-</u>	<u>31,569</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	8,298	-	8,298
Total deferred inflows of resources	<u>8,298</u>	<u>-</u>	<u>8,298</u>
NET POSITION			
Net investment in capital assets	1,172,084	-	1,172,084
Unrestricted	525,761	-	525,761
Total net position	<u>\$ 1,697,845</u>	<u>\$ -</u>	<u>\$ 1,697,845</u>

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

City of Kootenai

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 115,544	\$ -	\$ -	\$ -	\$ (115,544)	\$ -	\$ (115,544)
Planning and zoning	51,426	54,294	-	-	2,868	-	2,868
Highways and Streets	54,892	-	-	372,388	317,496	-	317,496
Pension plan expense	3,571	-	-	-	(3,571)	-	(3,571)
Total governmental activities	<u>225,433</u>	<u>54,294</u>	<u>-</u>	<u>372,388</u>	<u>201,249</u>	<u>-</u>	<u>201,249</u>
Business-type activities:							
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 225,433</u>	<u>\$ 54,294</u>	<u>\$ -</u>	<u>\$ 372,388</u>	<u>201,249</u>	<u>-</u>	<u>201,249</u>
General revenues:							
Property taxes					92,954	-	92,954
Penalties, interest, and fines					631	-	631
Other governmental revenues					137,708	-	137,708
Franchise fees					22,109	-	22,109
Interest earnings					7,753	-	7,753
Rental income					6,040	-	6,040
Total general revenues					<u>267,195</u>	<u>-</u>	<u>267,195</u>
Change in net position					468,444	-	468,444
Net position- beginning					<u>1,229,401</u>	<u>-</u>	<u>1,229,401</u>
Net position- ending					<u>\$ 1,697,845</u>	<u>\$ -</u>	<u>\$ 1,697,845</u>

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

City of Kootenai

GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2019

	General Fund	Street Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 519,482	\$ -	\$ 519,482
Receivables:			
Accounts receivable (net)	2,332	-	2,332
Property taxes	87	-	87
Other receivables	25,174	11,171	36,345
Prepaid expenses	1,751	1,300	3,051
Due from other funds	81,322	-	81,322
Total assets	<u>\$ 630,148</u>	<u>\$ 12,471</u>	<u>\$ 642,619</u>
LIABILITIES			
Accounts payable	\$ 3,975	\$ 3,275	\$ 7,250
Wages and payroll taxes payable	2,069	-	2,069
Due to other funds	-	81,322	81,322
Total liabilities	<u>6,044</u>	<u>84,597</u>	<u>90,641</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue- property taxes	87	-	87
Total deferred inflows of resources	<u>87</u>	<u>-</u>	<u>87</u>
FUND BALANCES			
Nonspendable- prepaids	1,751	1,300	3,051
Unassigned	622,266	(73,426)	548,840
Total fund balances	<u>624,017</u>	<u>(72,126)</u>	<u>551,891</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 630,148</u>	<u>\$ 12,471</u>	<u>\$ 642,619</u>

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

City of Kootenai

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2019

Total fund balances - Governmental Funds, September 30, 2019		\$	551,891
Cost of capital assets, September 30, 2019	\$	1,502,468	
Less: Accumulated depreciation as of September 30, 2019		<u>(330,384)</u>	
			1,172,084
Elimination of unavailable revenue- property taxes			87
Accrued compensated absences liability			(4,154)
Pension liabilities and deferred outflows of resources and deferred inflows of resources related to pensions:			
City's proportionate share of collective deferred outflows of resources			4,331
Proportionate share of collective deferred inflows of resources			(8,298)
City's proportionate share of the net pension liability			(18,096)
			<u> </u>
Net position, September 30, 2019		\$	<u>1,697,845</u>

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

City of Kootenai

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2019

	General Fund	Street Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 51,152	\$ 42,893	\$ 94,045
Penalties, interest, and fines	349	282	631
Rental income	6,040	-	6,040
Other governmental	95,228	42,480	137,708
Licenses and permits	52,694	1,600	54,294
Franchise fees	22,109	-	22,109
Interest income	6,946	807	7,753
Grant revenues	-	372,388	372,388
Total revenues	<u>234,518</u>	<u>460,450</u>	<u>694,968</u>
EXPENDITURES			
Current:			
General government	108,484	-	108,484
Planning and zoning	51,426	-	51,426
Highways and streets	-	33,909	33,909
Capital outlay	-	386,331	386,331
Total expenditures	<u>159,910</u>	<u>420,240</u>	<u>580,150</u>
Excess (deficiency) of revenues over (under) expenditures	<u>74,608</u>	<u>40,210</u>	<u>114,818</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	74,608	40,210	114,818
Fund balance- beginning	<u>549,409</u>	<u>(112,336)</u>	<u>437,073</u>
Fund balance- ending	<u>\$ 624,017</u>	<u>\$ (72,126)</u>	<u>\$ 551,891</u>

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

City of Kootenai

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, 2019

Total net changes in fund balances for the year ended September 30, 2019	\$ 114,818
Add: Capital outlay, which is considered expenditures	386,331
Less: Depreciation expense for the year ended September 30, 2019	(34,217)
Less: Difference between revenue earned on property taxes on modified- accrual basis versus revenue on property taxes on accrual basis	(1,091)
Add: Change in net pension liability	<u>2,603</u>
Change in net position for the year ended September 30, 2019	<u><u>\$ 468,444</u></u>

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

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kootenai is an incorporated city of the State of Idaho. The City operates under an elected Mayor-Council form of government and provides the following services as authorized by its charter: public safety (law enforcement), streets, recreation, and general administrative services.

The City's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP as applicable to governments. The accepted standard setting body for establishing governmental accounting and financial reporting principles is the Government Accounting Standards Board (GASB). As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility.

The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based on the application of these criteria, the City of Kootenai does not have any component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

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

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation- Fund Financial Statements

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain city functions or activities. The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major governmental funds and enterprise funds, if applicable, each displayed in a separate column. Major individual governmental funds and enterprise funds, if applicable, are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Fund - The street fund accounts for the financial resources of the City as they related to the maintenance and operation of the streets within the City.

Certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

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 liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

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 government 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. Issuances of long-term debt and acquisitions under capital leases are reported as other financing sources.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Concluded)

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

E. Cash Equivalents and Short-term Investments

In the general fund, cash received by the City is pooled for investment purposes and is presented as "Cash and Cash Equivalents" on the financial statements.

For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. In addition, because the Idaho State Investment Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is determined to be a cash equivalent.

F. Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, etc.), are generally a result from expenditures in the governmental funds. These assets are reported in 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 fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. Improvements and interest incurred during the construction of capital assets are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	10 - 50 years
Buildings and improvements	15 - 40 years
Equipment	5 - 15 years

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees who qualify.

The entire compensated absence liability is reported on the government-wide financial statements.

H. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the noncurrent portion of capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred outflows relating to the accounting for the net pension obligation on the government-wide 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only 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 City's proportionate share of collective deferred pension inflows of resources, is reported only on the government-wide statement of net position.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Position Flow Assumption

Net position represents the difference between assets and liabilities. Net investment in capital assets (net of any 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 is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted- net position and unrestricted- net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

K. Fund Balance Classifications

Fund Balance Reserves – The City has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (required implementation date of June 2011). This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the City to classify and report amounts in the appropriate fund balance classifications. The City's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned.

The City reports the following classifications as applicable:

Non-spendable Fund Balance – Non-spendable fund balances are amounts that cannot be spent because they are either: (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted Fund Balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions are placed on fund balances when legally enforceable legislation establishes a specific purpose for the funds. Legal enforceability means that the City can be compelled by an external party (e.g., citizens, public interest groups, the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the City Council. Amounts in the committed fund balance classification may be used for other purposes with the appropriate due process by the City Council. Committed fund balances differ from restricted fund balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Balance Classifications (Concluded)

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (a) the secretary/treasurer, or (b) an appointed body (e.g., a budget or finance committee) or official to which the City Council have delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned fund balance includes: (a) all remaining amounts that are reported in governmental funds (other than the general fund) that are not classified as non-spendable, restricted, or committed, and (b) amounts in the general fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the general fund. This classification represents general fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the general fund.

L. 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 funds 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 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.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

N. Property Taxes

The City's property tax is levied each November on the assessed value listed as of the prior September for all property located in the City. Assessed values are established by the County Assessor. Property tax payments are due in one-half installments in December and June.

O. Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the general fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the general fund.

This is in conformance with Idaho State Statutes, which require that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation. The Street fund budget was amended in the current fiscal year.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- a) The City publishes a proposed budget for public review.
- b) Public hearings are set to obtain taxpayer comments.
- c) Prior to October 1, the budget is adopted by resolution of the City Council and published.

Lapsing of Appropriations – At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.

NOTE 3: 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 it deposits funds in financial institutions that are members of the U.S. Federal Deposit Insurance Corporation (FDIC) and has never experienced such a loss. As of September 30, 2019, the carrying amount for the City's deposits is \$519,482 and the bank balance is \$520,527. As of September 30, 2019, the City's deposits were not exposed to custodial credit risk as follows:

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

NOTE 3: CASH AND CASH EQUIVALENTS (CONCLUDED)

Deposits without exposure to custodial credit risk:

Deposits:

Amounts insured by the FDIC	\$ 238,038
Amounts collateralized	281,444
Total deposits	519,482

Deposits with exposure to custodial credit risk:

Uninsured or not collateralized	-
---------------------------------	---

Cash and cash equivalents at September 30, 2019 consist of the following:

Deposits	\$ 238,038
Idaho State Investment Pool	281,444
	\$ 519,482

Fair Value:

The City's investments in 2a-7-like pools are 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 State Investment Pool is duly chartered and administered by the State Treasurer's office and consists of U.S. Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The balances that the City has in the State Investment Pool are carried at their cost which approximates fair market value. The City considers funds held in the State Investment Pool to be cash equivalents, as the average maturity of the underlying securities is less than 90 days, and the City can liquidate its accounts at any time.

NOTE 4: 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.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

NOTE 5: CAPITAL ASSETS

Following is a recap of capital assets for the fiscal year ended September 30, 2019:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 90,161	\$ -	\$ -	\$ 90,161
Total capital assets, not being depreciated	<u>90,161</u>	<u>-</u>	<u>-</u>	<u>90,161</u>
Capital assets, being depreciated:				
Equipment	167,496	-	-	167,496
Buildings and improvements	16,430	-	-	16,430
Infrastructure	842,050	386,331	-	1,228,381
Total capital assets being depreciated	<u>1,025,976</u>	<u>386,331</u>	<u>-</u>	<u>1,412,307</u>
Less accumulated depreciation for:				
Equipment	76,921	2,726	-	79,647
Buildings and improvements	12,569	479	-	13,048
Infrastructure	206,677	31,012	-	237,689
Total accumulated depreciation	<u>296,167</u>	<u>34,217</u>	<u>-</u>	<u>330,384</u>
Total capital assets, being depreciated, net	<u>729,809</u>	<u>352,114</u>	<u>-</u>	<u>1,081,923</u>
Governmental activities capital assets, net	\$ 819,970	\$ 352,114	\$ -	\$ 1,172,084

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

General government	\$ 13,234
Highways and streets	<u>20,983</u>
	<u>\$ 34,217</u>

NOTE 6: CHANGES IN LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2019, was as follows:

	<u>Balance 10/1/2018</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 9/30/2019</u>	<u>Due Within One Year</u>
Government Activities:					
Net pension liability	\$ 24,767	\$ -	\$ 6,671	\$ 18,096	\$ -
Accrued compensated absences	4,154	-	-	4,154	-
Total	<u>\$ 4,154</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,154</u>	<u>\$ -</u>

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 7: PENSION PLAN

Plan Description

The City of Kootenai 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.

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% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2019, it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The City's contributions were \$6,174 for the year ended September 30, 2019.

City of Kootenai

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019**

NOTE 7: PENSION PLAN (CONTINUED)

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

At September 30, 2019, the City of Kootenai reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the City's proportion was 0.0015853 percent.

For the year ended September 30, 2019, the City recognized pension expense of \$3,571. At September 30, 2019, 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	\$ 1,682	\$ 2,133
Changes in assumptions or other inputs	1,007	-
Net difference between projected and actual earnings on pension plan investments	-	6,165
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	-
City's contributions subsequent to the measurement date	1,642	-
Total	\$ 4,331	\$ 8,298

\$1,642 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 position liability in the year ending September 30, 2020.

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, 2018, the beginning of the measurement period ended June 30, 2019 is 4.8 years and 4.8 years for the measurement period June 30, 2018.

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 Ending September 30,

2020	\$	(652)
2021	\$	(2,792)
2022	\$	(1,360)
2023	\$	(805)

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS September 30, 2019

NOTE 7: 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, 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Salary inflation	3.75%
Investment rate of return	7.05%, 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, 2013 through June 30, 2017 which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2019 is based on the results of an actuarial valuation date of July 1, 2019.

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 the System's assets.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

NOTE 7: 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.

Capital Market Assumptions

<u>Asset Class</u>	<u>Expected Return</u>	<u>Expected Risk</u>	<u>Strategic Normal</u>	<u>Strategic Ranges</u>
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	0.90%	0%	0% - 5%
			Expected	
Total Fund	Expected	Expected	Real	Expected
	Return	Inflation	Return	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

Assume 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 Expense	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.05%. 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.

City of Kootenai

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

NOTE 7: PENSION PLAN (CONCLUDED)

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

The following presents the City of Kootenai's proportionate share of the net pension liability calculated using the discount rate of 7.05 percent, as well as what the City's proportional share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.05 percent) or 1-percentage-point higher (8.05 percent) than the current rate:

	1% Decrease (6.05%)	Current Discount Rate (7.05%)	1% Increase (8.05%)
Employer's proportionate share of the net pension liability (asset)	\$ 54,656	\$ 18,096	\$ (12,139)

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, 2019, the City of Kootenai had no payables outstanding to the defined benefit pension plan for legally required employer contributions or for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

Financial Section

Required Supplementary Information

City of Kootenai

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Year Ended September 30, 2019

	Original* Budgeted Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Property taxes	\$ 50,000	\$ 51,152	\$ 1,152
Penalties, interest, and fines	90	349	259
Rental income	5,500	6,040	540
Other governmental	62,000	95,228	33,228
Licenses and permits	36,730	52,694	15,964
Franchise fees	21,600	22,109	509
Interest income	1,175	6,946	5,771
Total revenues	<u>177,095</u>	<u>234,518</u>	<u>57,423</u>
EXPENDITURES			
Current:			
General government	156,124	108,484	47,640
Planning and zoning	68,900	51,426	17,474
Capital outlay	-	-	-
Total expenditures	<u>225,024</u>	<u>159,910</u>	<u>65,114</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(47,929)</u>	<u>74,608</u>	<u>122,537</u>
OTHER FINANCING SOURCES			
Transfers from other funds	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(47,929)	74,608	122,537
Fund balance- beginning	-	549,409	549,409
Fund balance- ending	<u>\$ (47,929)</u>	<u>\$ 624,017</u>	<u>\$ 671,946</u>

* Budget was not amended

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

City of Kootenai

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

For the Year Ended September 30, 2019

	Original* Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance With Final Budget
REVENUES				
Property taxes	\$ 41,000	\$ 41,000	\$ 42,893	\$ 1,893
Penalties, interest, and fines	-	-	282	282
Other governmental	38,935	38,935	42,480	3,545
Licenses and permits	400	400	1,600	1,200
Interest income	-	-	807	807
Grant revenues	-	380,000	372,388	372,388
Total revenues	<u>80,335</u>	<u>460,335</u>	<u>460,450</u>	<u>380,115</u>
EXPENDITURES				
Current:				
Highways and streets	-	100,211	33,909	(33,909)
Capital outlay	-	380,000	386,331	(386,331)
Total expenditures	<u>-</u>	<u>480,211</u>	<u>420,240</u>	<u>(420,240)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>80,335</u>	<u>(19,876)</u>	<u>40,210</u>	<u>(40,125)</u>
OTHER FINANCING SOURCES				
Transfers from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	80,335	(19,876)	40,210	(40,125)
Fund balance- beginning	<u>(12,336)</u>	<u>(112,336)</u>	<u>(112,336)</u>	<u>(100,000)</u>
Fund balance- ending	<u>\$ 67,999</u>	<u>\$ (132,212)</u>	<u>\$ (72,126)</u>	<u>\$ (140,125)</u>

* Budget was not amended

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

City of Kootenai

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's portion of the net pension liability	0.0016%	0.0017%	0.0017%	0.0014%	0.0013%
Employer's proportionate share of the net pension liability	\$ 18,096	\$ 24,767	\$ 26,091	\$ 27,375	\$ 17,176
Employer's covered-employee payroll	\$ 53,784	\$ 53,885	\$ 51,828	\$ 45,373	\$ 40,156
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	34%	46%	50%	60%	43%
Plan fiduciary net position as a percentage of the total pension liability	93.79%	91.69%	90.68%	87.26%	91.38%

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

Date reported is measured as of June 30, 2019.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 36,337	\$ 6,521	\$ 5,597	\$ 4,014	\$ 4,266
Contributions in relation to the statutorily required contribution	\$ (36,337)	\$ (6,198)	\$ (5,915)	\$ (4,532)	\$ (4,190)
Contribution (deficiency) excess	<u>\$ -</u>	<u>\$ 323</u>	<u>\$ (318)</u>	<u>\$ (518)</u>	<u>\$ 76</u>
Employer's covered-employee payroll	\$ 53,784	\$ 53,885	\$ 51,828	\$ 45,373	\$ 40,156
Contributions as a percentage of covered-employee payroll	67.56%	12.10%	10.80%	8.85%	10.62%

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

Date reported is measured as of September 30, 2019.

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***

Independent Auditor's Report

Honorable Mayor and City Council
City of Kootenai
Kootenai, Idaho

I 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, each major fund, and the aggregate remaining fund information of the City of Kootenai, Idaho, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Kootenai's basic financial statements and have issued my report thereon dated January 15, 2020.

Internal Control over Financial Reporting

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

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

My 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 my audit I did not identify any deficiencies in internal control that I 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 Kootenai's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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.

Scott P. Hoover, CPA

Scott P. Hoover, CPA, PLLC

January 15, 2020