

CITY OF GRACE, IDAHO

BASIC FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2015

CITY OF GRACE, IDAHO  
 ANNUAL FINANCIAL REPORT  
 YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	Page Numbers
Independent Auditor's Report	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Net Position	16
Statement of Cash Flows	17
Notes to Financial Statements	19
Required Supplemental Information	38
Schedule of Employer's Share of Net Pension Liability	39
Schedule of Employer's Contributions	39
Combined Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual	40



Jones, Yost, Hatt,  
Erickson P.A.

SCOTT N. JONES, CPA, RETIRED  
KENT L. YOST, CPA, JD  
MORGAN J. HATT, CPA  
STACY L. ERICKSON, CPA

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 4987  
Pocatello, Idaho 83205

MEMBER OF  
American Institute of  
Certified Public Accountants  
Idaho Society of  
Certified Public Accountants

Honorable Mayor and Members of the  
City Council  
City of Grace, Idaho

Independent Auditor's Report

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 Grace as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grace, as of September 30, 2015, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

#### Change in Accounting Principle

As discussed in note 18 to the financial statements, the City has adopted the provisions of GASB 68 *Accounting & financial reporting for Pension* and GASB 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which resulted in a restatement of Net Position as of October 1, 2014. Our opinions are not modified with respect to this matter.

#### Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial, statements are presented for purposes of additional analysis and are not a required part of the basic financial statements

The combining and individual nonmajor fund financial statements 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 and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Pocatello, Idaho,  
December 11, 2015.





Jones, Yost, Hatt,  
Erickson P.A.

SCOTT N. JONES, CPA, RETIRED  
KENT L. YOST, CPA, JD  
MORGAN J. HATT, CPA  
STACY L. ERICKSON, CPA

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 4987  
Pocatello, Idaho 83205

MEMBER OF  
American Institute of  
Certified Public Accountants  
Idaho Society of  
Certified Public Accountants

Honorable Mayor and Members of the  
City Council  
City of Grace, Idaho

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

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 the City of Grace, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 11, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we 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.

Honorable Mayor and Members of the  
City Council  
City of Grace, Idaho  
Page 2

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

#### 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.

Pocatello, Idaho,  
December 11, 2015.

*Jones, Gost, Hall, Erickson P.A.*

**(THIS PAGE INTENTIONALLY LEFT BLANK)**



CITY OF GRACE, IDAHO

STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
<b>ASSETS:</b>			
Current Assets:			
Cash and investments	\$1,061,339	\$1,002,577	\$2,063,916
Property taxes receivable	17,295		17,295
State highway users tax receivable	8,550		8,550
State sales tax receivable	9,534		9,534
State revenue sharing receivable	7,793		7,793
State liquor apportionment receivable	1,601		1,601
Utility accounts receivable, net		46,682	46,682
Other	21		21
Non Current Assets:			
Capital assets, net	1,083,833	7,073,935	8,157,768
Total assets	<u>2,189,966</u>	<u>8,123,194</u>	<u>10,313,160</u>
<b>DEFERRED OUTFLOWS:</b>			
Deferred PERSI outflows	<u>25,384</u>	<u>24,508</u>	<u>49,892</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	4,561	3,701	8,262
Accrued leave	30,394	28,027	58,421
Accrued salaries	6,802	5,503	12,305
Note payable DEQ		78,773	78,773
Noncurrent Liabilities:			
City's share of unfunded PERSI pension liability	55,278	53,369	108,647
Note payable DEQ		2,283,429	2,283,429
Total liabilities	<u>97,035</u>	<u>2,452,802</u>	<u>2,549,837</u>
<b>DEFERRED OUTFLOWS:</b>			
Deferred PERSI outflows	<u>35,655</u>	<u>34,424</u>	<u>70,079</u>
<b>NET POSITION:</b>			
Invested in capital assets, net of related debt	1,083,833	4,711,733	5,795,566
Committed for utility service		948,743	948,743
Unrestricted	998,827		998,827
Total net position	<u>\$2,082,660</u>	<u>\$5,660,476</u>	<u>\$7,743,136</u>

The accompanying notes are an integral part of these statements.

CITY OF GRACE, IDAHO  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2015

	Program Revenues		
Expenses	Charges for Services	Grants and Contributions	
Primary Government:			
Governmental Activities:			
General government	\$168,882	\$16,244	\$500
Public safety	27,431	1,800	723
Parks and recreation	4,043		
Highways and streets	169,029	10,374	
Interest - on long-term debt	415		
Total governmental activities	369,800	28,418	1,223
Business-type Activities:			
Water	259,980	251,869	
Sewer and garbage	177,971	175,895	
Interest - on long-term debt	12,106		
Total business-type activities	450,057	427,764	0
Total Primary Government	\$819,857	\$456,182	\$1,223

General Revenues:  
Property taxes  
Sales and uses tax  
County road and bridge  
State of Idaho revenue sharing  
State of Idaho liquor receipts  
State highway user collections  
City's share of PERSI Income  
Investment earnings  
Gain on sale of assets  
Administrative charges  
Total general revenues and transfers  
Change in net assets  
Net Position October 1, 2014  
  
Net Position September 30, 2015

The accompanying notes are an integral part of these statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(\$152,138)		(\$152,138)
(24,908)		(24,908)
(4,043)		(4,043)
(158,655)		(158,655)
(415)		
<u>(340,159)</u>		<u>(339,744)</u>
	(\$8,111)	(8,111)
	(2,076)	(2,076)
	(12,106)	(12,106)
	<u>(22,293)</u>	<u>(22,293)</u>
		<u>(362,037)</u>
208,419		208,419
36,237		36,237
8,786		8,786
29,016		29,016
8,004		8,004
31,486		31,486
2,066	1,994	4,060
5,056	2,177	7,233
6,248	3,644	9,892
11,000	(11,000)	0
<u>346,318</u>	<u>(3,185)</u>	<u>343,133</u>
6,159	(25,478)	(19,319)
<u>2,076,501</u>	<u>5,685,954</u>	<u>7,762,455</u>
<u>\$2,082,660</u>	<u>\$5,660,476</u>	<u>\$7,743,136</u>

The accompanying notes are an integral part of these statements.

CITY OF GRACE, IDAHO

BALANCE SHEET  
GOVERNMENTAL FUNDS  
AT SEPTEMBER 30, 2015

	General Fund
<b>ASSETS:</b>	
Current Assets:	
Cash	\$1,061,339
Receivables:	
Property taxes	17,295
Caribou County	9,534
State of Idaho	17,944
Other	21
	<u>1,106,133</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable	4,561
Accrued salaries	6,802
	<u>11,363</u>
<b>DEFERRED RESOURCES:</b>	
Unavailable property taxes	<u>16,695</u>
<b>FUND EQUITY:</b>	
Fund balance - unrestricted	1,078,075
<p>Deferred amounts are not current financial resources/uses. Therefore they are not reported on the governmental fund balance sheet.</p>	
Unavailable property taxes	16,695
Deferred PERSI outflow	25,384
Deferred PERSI inflow	(35,655)
<p>Long term liabilities are not due &amp; payable out of current resources, Therefore they are not reported on the governmental fund balance sheet.</p>	
District's share of unfunded PERSI liability	(55,278)
<p>Governmental Funds report capital assets as expenditures. They are reported as assets in the Statement of Net Assets</p>	
	1,083,833
<p>Accrued sick and personal leave liabilities are not reported in Governmental Funds</p>	
	<u>(30,394)</u>
Net assets of Governmental Funds	<u><u>\$2,082,660</u></u>

The accompanying notes are an integral part of these statements.

CITY OF GRACE, IDAHO

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 YEAR ENDED SEPTEMBER 30, 2015

	General Fund
REVENUE:	
Property taxes	\$209,714
Licenses and fees	13,256
Intergovernmental	113,529
Interest	5,056
Water & Sewer administrative charges	11,000
Miscellaneous	16,385
Total revenue	<u>368,940</u>
EXPENDITURES:	
Current:	
General Government	164,906
Highways and streets	146,515
Public safety	22,362
Parks and recreation	1,756
Total expenditures	<u>335,539</u>
EXCESS REVENUE (EXPENDITURES)	33,401
OTHER FINANCING SOURCES (USES):	
Sale of assets	<u>6,248</u>
EXCESS REVENUE/SOURCES	39,649
FUND BALANCE - BEGINNING	<u>1,038,426</u>
FUND BALANCE - ENDING	<u><u>\$1,078,075</u></u>

The accompanying notes are an integral part of these statements.

CITY OF GRACE, IDAHO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Net Change in Fund Balance -Total Governmental Funds		\$39,649
Because some property taxes will not be collected for several months after the City's year end, they are not considered current resources in the governmental funds. They are, however, considered as current revenue in the statement of activities. This is the current year change in deferred taxes.		(1,295)
Governmental funds report capital outlays as current year expenditures. In the Statement of activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of current capital outlay for new equipment.		
This is the amount of current year depreciation.	(\$74,058)	
This is the amount of new assets	<u>28,552</u>	
		(45,506)
Long term liabilities are not recorded in Governmental funds		
This is the current year principal paid on capital leases		15,425
Revenues and expenses that do not require the use of current financial resources are not reported in the governmental funds.		
This is the City's share of PERSI plan revenue		2,066
Liability for personal leave days are not recorded in Governmental funds.		
This is the increase in leave during the year.		<u>(4,180)</u>
Change in Net Position of Governmental Activities		<u><u>\$6,159</u></u>

The accompanying notes are an integral part of these statements.

CITY OF GRACE, IDAHO

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 AT SEPTEMBER 30, 2015

	Water Fund	Sewer Fund	Totals (memorandum only)
<b>ASSETS:</b>			
Current Assets:			
Cash	\$658,291	\$344,286	\$1,002,577
Utilities accounts receivable	29,777	18,905	48,682
Less allowance for bad debts	(1,000)	(1,000)	(2,000)
Noncurrent Assets:			
Fixed assets	7,761,279	1,803,428	9,564,707
Less: accumulated depreciation	(1,286,884)	(1,203,888)	(2,490,772)
Total assets	<u>7,161,463</u>	<u>961,731</u>	<u>8,123,194</u>
<b>DEFERRED OUTFLOWS:</b>			
Deferred PERSI outflows	<u>12,145</u>	<u>12,363</u>	<u>24,508</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable	863	154	1,017
Accrued leave	13,331	17,380	30,711
Accrued salaries	2,735	2,768	5,503
DEQ loan payable within one year	78,773		78,773
Noncurrent Liabilities:			
City's share of unfunded PERSI pension liability	26,447	26,922	53,369
DEQ loan payable beyond one year	2,283,429		2,283,429
Total liabilities	<u>2,405,578</u>	<u>47,224</u>	<u>2,452,802</u>
<b>DEFERRED INFLOWS:</b>			
Deferred PERSI inflows	<u>17,059</u>	<u>17,365</u>	<u>34,424</u>
<b>NET POSITION:</b>			
Invested in capital assets, net of related debt	4,112,193	599,540	4,711,733
Committed for utility service	638,778	309,965	948,743
Total net position	<u>\$4,750,971</u>	<u>\$909,505</u>	<u>\$5,660,476</u>

The accompanying notes are an integral part of these statements.

CITY OF GRACE, IDAHO

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 YEAR ENDED SEPTEMBER 30, 2015

	Water Fund	Sewer Fund	Totals (memorandum only)
<b>OPERATING REVENUES:</b>			
Water service fees	\$241,963		\$241,963
Sewer service fees		\$119,931	119,931
Garbage service fees		51,933	51,933
New connections & hookups	9,906	4,031	13,937
Total revenue	<u>251,869</u>	<u>175,895</u>	<u>427,764</u>
<b>OPERATING EXPENSES:</b>			
Salaries	55,441	57,757	113,198
Benefits	8,816	10,462	19,278
Repairs & maintenance	17,189	19,277	36,466
WWTF Repair		23,016	23,016
Utilities & telephone	10,318	14,117	24,435
Fuel	5,965	5,318	11,283
Administrative charges	5,500	5,500	11,000
Supplies and other	2,603	1,787	4,390
Depreciation	159,648	46,237	205,885
Total expenses	<u>265,480</u>	<u>183,471</u>	<u>448,951</u>
OPERATING INCOME (LOSS)	(13,611)	(7,576)	(21,187)
<b>OTHER FINANCING SOURCES (USES):</b>			
Interest on investments	1,301	876	2,177
Sale of assets		3,644	3,644
City's share of PERSI income(expense)	988	1,006	1,994
Interest expense	(12,106)		(12,106)
NET INCOME (LOSS)	(23,428)	(2,050)	(25,478)
NET POSITION - BEGINNING	<u>4,774,399</u>	<u>911,555</u>	<u>5,685,954</u>
NET POSITION - ENDING	<u><u>\$4,750,971</u></u>	<u><u>\$909,505</u></u>	<u><u>\$5,660,476</u></u>

The accompanying notes are an integral part of these statements.



CITY OF GRACE, IDAHO  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
YEAR ENDED SEPTEMBER 30, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals (memorandum only)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from City patrons	\$249,720	\$176,829	\$426,549
Payments to suppliers	(44,683)	(74,593)	(119,276)
Payments to employees	(53,823)	(54,789)	(108,612)
City administrative charges	(5,500)	(5,500)	(11,000)
Net cash provided by operating activities	<u>145,714</u>	<u>41,947</u>	<u>187,661</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Sale of Assets		37,500	37,500
New Assets purchased	(20,052)	(20,052)	(40,104)
DEQ revolving loan payments	(90,518)		(90,518)
Net cash applied to financing activities	<u>(110,570)</u>	<u>17,448</u>	<u>(93,122)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest earned on investments	<u>1,301</u>	<u>876</u>	<u>2,177</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	36,445	60,271	96,716
<b>CASH AT BEGINNING OF YEAR</b>	<u>621,846</u>	<u>284,015</u>	<u>905,861</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$658,291</u></u>	<u><u>\$344,286</u></u>	<u><u>\$1,002,577</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET INCOME</b>			
Net income (loss)	(\$23,428)	(\$2,050)	(\$25,478)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	159,648	46,237	205,885
Sale of Assets		(3,644)	(3,644)
Investment income	(1,301)	(876)	(2,177)
Debt service interest	12,106		12,106
City's share of PERSI Income	(988)	(1,006)	(1,994)
(Increase) decrease in accounts receivable	(2,149)	934	(1,215)
Increase (decrease) in accounts payable	1,826	2,352	4,178
Net cash provided by operating activities	<u><u>\$145,714</u></u>	<u><u>\$41,947</u></u>	<u><u>\$187,661</u></u>

The accompanying notes are an integral part of these statements.

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Financial Statements of the City of Grace have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**Reporting Entity** - For financial reporting purposes, management has considered potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles. The basic criterion for including a potential component unit within the reporting entity is the governing body's responsibility for financial accountability. Financial accountability is defined as the level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that fiscally dependent on it. Based upon the application of these criteria, the City has no potential component units.

**Government-wide and fund financial statements** - The Statement of Net Assets and the Statement of changes in net assets display information about the City. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expenses for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for shared assets (are ratably included in the direct expenses for the appropriate functions. Interest on general long term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line item. Program revenues include 1) alcoholic beverage licenses, 2) motor vehicle fines, and 3) franchise fees. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The City reports the following major funds:

The **general fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. It includes street and park operations.

The City reports the following major proprietary funds:

The **water fund** accounts for the City's water production and distribution.

The **sewer fund** accounts for the City's sewer system and sanitation operation.

**Measurement focus, basis of accounting, and financial statement presentation** – 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which the City receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental fund financial statements are reported using the financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the City receives cash.

Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long term debt, claims and judgments, early retirement, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided to either outside parties or other departments within the City. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities are included on the Statement of Net Assets. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

**Budgetary Data** - Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at fiscal year end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

During July & August of each year, the Mayor submits to the City Council a proposed operating budget for the next fiscal year commencing on September 1<sup>st</sup>. This budget includes proposed expenditures and the means of financing them

Copies of the proposed budget are made available for public inspection and review by the patrons of the City.

After considering patron input at a public hearing in September, the City Council adopts the budget.

Once adopted, the budget can be amended by subsequent City Council action. The Council can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget.

Expenditures may not legally exceed budgeted appropriations at the fund level.

Encumbrances are not liabilities and they are not recorded as expenditures until receipt of material or services. For budgetary purposes, appropriations lapse at year end and are rebudgeted the following year. The City does not reserve fund balance for outstanding encumbrances at year end.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Deposits and investments** – The cash balances of substantially all funds are pooled and invested by the City for purposes of increasing earnings through investment activities. The City’s investments are reported at fair value at year end. The Idaho State Treasurer’s Local Government Pool operates in accordance with appropriate state laws and regulations. Changes in the fair value of investments are recorded as investment earnings.

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 overall the rate of return, reduce risk of default, and place each entity under the FDIC and FSLIC limits of \$250,000.

Under Idaho Code Section 67-1210 the City is authorized to invest surplus or idle moneys in investments subject to the following standards, guidelines and restrictions:

- a. City moneys shall not be made in any depository of financial institution in an amount, which exceeds ten (10%) of said entity’s capital and surplus. Any investment to be made above Federal Deposit Insurance requires the depository to have a current “Moody’s Bank Credit Report Service” rating of “A” or better.
- b. No demand deposits or investment in time deposits or certificates of deposit shall be made in financial institutions insured in whole or in part by the Federal Savings and Loan Insurance Corporation or in any State or Federal credit unions insurance programs in an amount in excess of the insurance available.

Investments allowable under “Idaho Code Section 67-1210 are:

- a. Bonds, Treasury bills, interest bearing notes, or other obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- b. General obligation or revenue bonds of this State, or those for which the faith and credit of this State are pledged for payment of principal and interest.
- c. General obligation or revenue bonds of any county, city, metropolitan water district, municipal utility district, school district or other taxing district of this State.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

- d. Notes, bonds, debentures, or other similar obligations issued by the Farm Credit System or institutions forming a part thereof under the Farm Credit act of 1971. Bonds, notes or other similar obligations issued by public corporations of the State of Idaho including, but not limited to, the Idaho State Building Authority, the Idaho Housing Authority and the Idaho Water Resource Board. These investments shall not extend beyond seven (7) days.
- e. Repurchase agreements covered by any legal investment for the State of Idaho.
- f. Tax anticipation notes and registered warrants of the State of Idaho.
- g. Tax anticipation bonds or notes and income and revenue anticipation bonds or notes of taxing District's of the State of Idaho.
- h. Time deposits and savings accounts in state depositories including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transactions accounts.
- i. Time deposit accounts and savings accounts of federal savings and loan associations located within the geographical boundaries of the state in amounts not to exceed the insurance provided by the Federal Savings and Loan Insurance Corporation including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.
- j. Revenue bonds of institutions of higher education of the State of Idaho.
- k. Share, savings and deposit accounts of state and federal credit unions located within the geographical boundaries of the state in amounts not to exceed the insurance provided by the National Credit Union Share Insurance Fund and/or any other authorized deposit guaranty corporation, including but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.

**Cash and Cash Equivalents** – The City considers investments with an original maturity of three months or less to be cash equivalent.

**Receivables and Payables** – Activity between funds that are representative of lending/borrowing arrangements outstanding at year end are referred to as due to/due from other funds.

**Inventories** – the City does not have any significant inventory. Inventory is expensed when purchase.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Capital Assets** – Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Depreciation is recorded using the straight line method over the estimated useful lives as follows: Buildings and improvements 20-40 years. Vehicles, furniture and equipment 3-20 years.

**Compensated Absences** – Full time employees earn vacation and sick leave in varying amounts. Liabilities are accrued in the Proprietary Funds and in the Statement on net assets. Liabilities are not accrued in the Governmental funds.

**Long term obligations** – In the government wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable statement of net assets. In the fund financial statements, governmental fund types recognize debt proceeds as current resources or revenue and debt repayment as an expense of the current operating period.

**Fund Balance** – Fund Balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling City Council.



CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Committed – The committed fund balance classification includes amounts that can be used for only the specific purposes imposed by formal action of the City Council. The committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use of taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**2. DEPOSITS AND INVESTMENTS**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City would not be able to recover its deposits. The City does not have an investment policy for custodial risk.

The government's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the government's name.

<u>Deposits</u>	<u>Category</u>			<u>Amount</u>
	<u>#1</u>	<u>#2</u>	<u>#3</u>	
Ireland Bank	\$330,917			\$330,917
Ireland Bank - Cetera	207,846			207,846
Zion's Bank	841,176			841,176
Zion's Bank - Collateralized	683,877			683,877
	<u>\$2,063,816</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,063,816</u>

**3. PROPERTY TAXES**

Taxes are levied by the second Monday on September on assessed valuations as of June 30. Taxes on real property are payable in two equal installments on December 20, and June 30, of the following year. Personal property taxes are due December 20. Delinquent payments bear simple interest of 1% per month plus a 2% penalty. Due to the small amount of taxes not collected, no adjustment is made for delinquent taxes.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS – (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**4. CAPITAL ASSETS**

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. During fiscal year 2004, the infrastructure assets were added to the equipment inventory records. Original estimated costs were developed in one of three ways: 1) Actual historical cost records; 2) Estimated historical costs where actual cost records were not available; 3) for streets, curbs, and gutters, the City used present construction cost indexed by inflation factors provided by the Idaho Department of Transportation. Accumulated depreciation was computed on a straight line basis using appropriate life expectancies. Capital assets of the City for the year ended September 30, 2015 are as follows:

	Assets		Accumulated Depreciation			
	Balance 10/01/14	Change	Balance 9/30/15	Balance 10/01/14	Change	Balance 9/30/15
Governmental Activities:						
Land	\$46,727		\$46,727			
Buildings	479,514		479,514	\$358,385	\$9,447	\$367,832
Infrastructure	1,111,188	\$8,500	1,119,688	476,182	43,049	519,231
Vehicles	184,251	20,052	204,303	150,285	7,623	157,908
Equipment	381,257		381,257	88,746	13,939	102,685
	<u>\$2,202,937</u>	<u>\$28,552</u>	<u>\$2,231,489</u>	<u>\$1,073,598</u>	<u>\$74,058</u>	<u>\$1,147,656</u>
Business-Type Activities:						
Land	\$15,900		\$15,900			
Buildings	224,738		224,738	\$113,418	\$5,232	\$118,650
Distribution System	8,750,627		8,750,627	1,803,348	169,842	1,973,190
Vehicles	367,152	(\$112,858)	254,294	249,173	(62,177)	186,996
Equipment	279,044	40,104	319,148	197,950	13,986	211,936
	<u>\$9,637,461</u>	<u>(\$72,754)</u>	<u>\$9,564,707</u>	<u>\$2,363,889</u>	<u>\$126,883</u>	<u>\$2,490,772</u>

For the fiscal year ended September 30, 2015, depreciation expense on capital assets was charged to the governmental functions in the City-Wide Statements as follows:

General Government	\$1,298
Public Safety	5,069
Parks and Recreation	2,287
Highways and Streets	<u>65,404</u>
	<u>\$74,058</u>

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2015

**5. WATER REVENUE BOND, SERIES 2013**

During the years 2010 through 2013 the City upgraded its water distribution system. The almost \$7,000,000 project was funded by grants from the Department of Commerce and the Department of Environmental Quality. The City also borrowed money from the Idaho Department of Environmental Quality. That loan will be repaid as follows:

		<u>Payments</u>	<u>Interest</u> <u>0.5%</u>	<u>Principal</u>	<u>Balance</u>
					\$2,362,201.53
November	2015	\$45,259.43	\$5,954.07	\$39,305.36	2,322,896.17
May	2016	45,259.43	5,791.36	39,468.07	2,283,428.10
November	2016	45,259.43	5,755.52	39,503.91	2,243,924.19
May	2017	45,259.43	5,563.73	39,695.70	2,204,228.49
November	2017	45,259.43	5,555.89	39,703.54	2,164,524.95
May	2018	45,259.43	5,366.86	39,892.57	2,124,632.38
November	2018	45,259.43	5,355.26	39,904.17	2,084,728.21
May	2019	45,259.43	5,169.01	40,090.42	2,044,637.79
November	2019	45,259.43	5,153.63	40,105.80	2,004,531.99
May	2020	45,259.43	4,997.63	40,261.80	1,964,270.19
November	2020	45,259.43	4,951.06	40,308.37	1,923,961.82
May	2021	45,259.43	4,770.40	40,489.03	1,883,472.79
November	2021	45,259.43	4,747.41	40,512.02	1,842,960.77
May	2022	45,259.43	4,569.56	40,689.87	1,802,270.90
November	2022	45,259.43	4,542.74	40,716.69	1,761,554.21
May	2023	45,259.43	4,367.71	40,891.72	1,720,662.49
November	2023	45,259.43	4,337.04	40,922.39	1,679,740.10
May	2024	45,259.43	4,187.87	41,071.56	1,638,668.54
November	2024	45,259.43	4,130.37	41,129.06	1,597,539.48
May	2025	45,259.43	3,961.05	41,298.38	1,556,241.10
November	2025	45,259.43	3,922.61	41,336.82	1,514,904.28
May	2026	45,259.43	3,756.16	41,503.27	1,473,401.01
November	2026	45,259.43	3,713.80	41,545.63	1,431,855.38
May	2027	45,259.43	3,550.24	41,709.19	1,390,146.19
November	2027	45,259.43	3,503.96	41,755.47	1,348,390.72
May	2028	45,259.43	3,361.77	41,897.66	1,306,493.06
November	2028	45,259.43	3,293.10	41,966.33	1,264,526.73
May	2029	45,259.43	3,135.36	42,124.07	1,222,402.66
November	2029	45,259.43	3,081.15	42,178.28	1,180,224.38
May	2030	45,259.43	2,926.33	42,333.10	1,137,891.28
November	2030	45,259.43	2,868.13	42,391.30	1,095,499.98
May	2031	45,259.43	2,716.26	42,543.17	1,052,956.81

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2015

**5. WATER REVENUE BOND, SERIES 2013- CONTINUED**

		<u>Payments</u>	Interest <u>0.5%</u>	<u>Principal</u>	<u>Balance</u>
November	2031	\$45,259.43	\$2,654.05	\$42,605.38	\$1,010,351.43
May	2032	45,259.43	2,518.98	42,740.45	967,610.98
November	2032	45,259.43	2,438.94	42,820.49	924,790.49
May	2033	45,259.43	2,293.00	42,966.43	881,824.06
November	2033	45,259.43	2,222.71	43,036.72	838,787.34
May	2034	45,259.43	2,079.76	43,179.67	795,607.67
November	2034	45,259.43	2,005.39	43,254.04	752,353.63
May	2035	45,259.43	1,865.45	43,393.98	708,959.65
November	2035	45,259.43	1,786.99	43,472.44	665,487.21
May	2036	45,259.43	1,659.18	43,600.25	621,886.96
November	2036	45,259.43	1,567.52	43,691.91	578,195.05
May	2037	45,259.43	1,433.63	43,825.80	534,369.25
November	2037	45,259.43	1,346.93	43,912.50	490,456.75
May	2038	45,259.43	1,216.09	44,043.34	446,413.41
November	2038	45,259.43	1,125.23	44,134.20	402,279.21
May	2039	45,259.43	997.46	44,261.97	358,017.24
November	2039	45,259.43	902.42	44,357.01	313,660.23
May	2040	45,259.43	782.03	44,477.40	269,182.83
November	2040	45,259.43	678.51	44,580.92	224,601.91
May	2041	45,259.43	556.91	44,702.52	179,899.39
November	2041	45,259.43	453.47	44,805.96	135,093.43
May	2042	45,259.43	334.98	44,924.45	90,168.98
November	2042	45,259.43	227.30	45,032.13	45,136.85
May	2043	45,258.80	121.95	45,136.85	(0.00)

**6. SUMMARY OF LONG TERM DEBT**

The following is a summary of changes in long-term debt for the year ended September 30, 2015:

	Balance <u>10/1/14</u>	<u>Issued</u>	<u>Matured</u>	Balance <u>9/30/15</u>
Capital Lease - Loader	\$15,425	\$0	\$(15,425)	\$0
City's share of unfunded PERSI	0	108,647	0	108,647
Note payable DEQ	2,440,614	0	(78,412)	2,362,202
	<u>\$2,456,039</u>	<u>\$108,647</u>	<u>\$(93,837)</u>	<u>\$2,470,849</u>

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2015

**7. PUBLIC EMPLOYEES RETIREMENT SYSTEM**

*Pension Benefits*

The City contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Employee membership data related to the PERSI Base Plan, as of June 30, 2015 was as follows:

Active Plan Members	67,008
Terminated employees entitled to but not yet receiving benefits	11,859
Retirees and beneficiaries currently receiving benefits	<u>42,657</u>
	<u>124,524</u>

*Pension Benefits*

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. Amounts in parenthesis represent police/firefighters

CITY OF GRACE

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2015

**7. PUBLIC EMPLOYEES RETIREMENT SYSTEM -CONTINUED**

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 established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% (72%) of the employer rate. As of June 30, 2014 it was 6.79% (8.36%). The employer contribution rate is set by the Retirement Board and was 11.32% (11.66%) of covered compensation. The City's contributions were \$26,160 for the year ended June 30, 2015.

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

At June 30, 2015 the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, 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 participation PERSI Base Plan employers. At July 1, 2015, the City's proportion was .008250600 percent.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**7. PUBLIC EMPLOYEES RETIREMENT SYSTEM – (CONTINUED)**

For the year ended September 30, 2015, City recognized pension expense (revenue) of \$4,060. At September 30, 2015, the City reported deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$39,985	\$13,024
Changes in assumptions or other inputs	3,957	0
Net difference between projected and actual earnings on pension plan investments	0	57,054
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	0	0
City of Grace contributions subsequent to the measurement date	5,950	0
<b>Total</b>	<b>\$49,892</b>	<b>\$70,079</b>

\$5,950 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2015.

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, 2013 the beginning of the measurement period ended June 30, 2014 is 5.5 years.



CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**7. PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED**

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

**Year ended June 30:**

2015	\$(11,145)
2016	\$(11,145)
2017	\$(11,145)
2018	\$ 8,089
2019	\$ (792)
Thereafter	\$ 0

*Actuarial Assumptions*

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25-10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1%

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**7. PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED**

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 mail 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 in 2012 for the period July 1, 2007 through June 30, 2011 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2015 is based on the results of an actuarial valuation date of July 1, 2015.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2014.

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

7. PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Asset Class	Index	Target Allocation	Long-Term Expected Real Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Wilshire 5000 / Russell 3000	55.00%	6.90%
Developed Foreign Equities	MSCI EAFE	15.00%	7.55%
Assumed Inflation - Mean			3.25%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.42%
Portfolio Standard Deviation			13.34%
Portfolio Long-Term Expected Rate of Return			7.50%
Assumed Investment Expenses			0.40%
<b>Long-Term Expected Rate of Return, Net of Investment Expenses</b>			<b>7.10%</b>

*Discount Rate*

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

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2015

**7. PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED**

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	\$264,625	\$108,647	(\$21,028)

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

**8. ADOPTION OF NEW STANDARD**

As of July 1, 2014, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date as follows:

CITY OF GRACE, IDAHO

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED SEPTEMBER 30, 2015

**9. RISK MANAGEMENT**

The City is exposed to various risks of loss, related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee health and injuries, and natural disasters. All risks are insured by commercial insurance.

**10. CREDIT RISK, CONCENTRATION OF CREDIT RISK,  
AND INTEREST RATE RISK**

As of September 30, 2015 the City's investments were as follows. All of the city's investments are in local Bank accounts.

**Interest Rate Risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** Statutes authorize the City to invest in obligations of the United States, obligations of the State or any taxing district in the State, obligations issued from the Farm Credit System, obligations of public corporations of the State of Idaho, repurchase agreements, tax anticipation notes of the State or any taxing district in the State, time deposits, saving deposits, revenue bonds of institutions of higher education, and the State Treasurer's Pool. The City does not have an investment policy that would further limit its investment choices.

**Concentration Credit Risk.** The City does not place a limit on the amount that the City may invest in any one issuer. 33% of the City's investments are in Collateralized investment account at Zion's Bank.

## Required Supplemental Information

CITY OF GRACE, IDAHO

REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2015

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

	<u>2015</u>
Employer's portion of net the pension liability	.008250600%
Employer's proportionate share of the net pension liability	\$108,647
Employer's covered-employee payroll	\$218,906
Employer's proportional share of the net pension as a percentage of its covered Employee payroll	49.6%
Plan fiduciary net position as a percentage of the total pension liability	91.35%

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

Data reported is measured as of July 1, 2015.

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

	<u>2015</u>
Statutorily required contribution	\$26,988
Contributions in relation to the statutorily required contribution	\$26,504
Contribution (deficiency) excess	(\$484)
Employer's covered-employee payroll	\$218,906
Contributions as a percentage of covered-employee payroll	12.3%

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

Data reported is measured as of July 1, 2015.

CITY OF GRACE, IDAHO

SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUE:</b>			
Property taxes	\$214,553	\$209,714	\$4,839
Franchise fees	12,000	10,380	1,620
Licenses and permits	2,188	2,876	(688)
Intergovernmental:			
State liquor apportionment	6,404	8,004	(1,600)
Highway users tax	29,845	31,486	(1,641)
State sales tax	34,912	36,237	(1,325)
State revenue sharing	29,211	29,016	195
County road and bridge	16,265	8,786	7,479
Interest	2,500	5,056	(2,556)
Water & Sewer administrative charge	11,000	11,000	0
Miscellaneous	3,200	16,385	(13,185)
Total revenue	<u>362,078</u>	<u>368,940</u>	<u>(6,862)</u>
<b>EXPENDITURES:</b>			
Administration:			
Salaries	81,890	78,590	3,300
Benefits	38,450	29,829	8,621
Dues and subscriptions	3,500	2,736	764
Travel	1,000	956	44
Office expenses	10,800	5,896	4,904
Printing and publishing	4,500	1,819	2,681
Utilities and telephone	4,300	2,823	1,477
Professional services	17,000	12,960	4,040
Insurance	13,575	13,573	2
Capital outlay	10,000		10,000
Miscellaneous	12,500	11,964	536
Subtotal administration	<u>197,515</u>	<u>161,146</u>	<u>36,369</u>
Shop:			
Supplies and maintenance	5,000	2,001	2,999
Capital outlay	35,000		35,000
Subtotal shop	<u>40,000</u>	<u>2,001</u>	<u>37,999</u>
Animal Control:			
Animal euthanasia	500	97	403
Utilities dog pound	600	400	200
Subtotal animal control	<u>1,100</u>	<u>497</u>	<u>603</u>

The accompanying notes are an integral part of these statements.



CITY OF GRACE, IDAHO

SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 GENERAL FUND (CONTINUED)  
 YEAR ENDED SEPTEMBER 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
Fire:			
Salaries	\$2,200	\$2,200	\$0
Repairs and maintenance	10,900	10,473	427
Utilities	3,000	2,671	329
Training	2,200	2,200	0
Supplies and miscellaneous	3,000	171	2,829
Capital outlay	7,000	4,150	2,850
Subtotal fire	<u>28,300</u>	<u>21,865</u>	<u>6,435</u>
Streets:			
Salaries	50,000	49,490	510
Travel and training	400	60	340
Equipment repairs and maintenance	16,000	6,163	9,837
Utilities and telephone	15,400	11,166	4,234
Street repairs	47,400	38,426	8,974
Fuel	10,500	5,318	5,182
Contingency	20,000		20,000
Capital outlay	53,140	35,892	17,248
Subtotal streets	<u>212,840</u>	<u>146,515</u>	<u>66,325</u>
Park:			
Supplies & other	6,800		6,800
Capital outlay	4,000	1,756	2,244
Subtotal park	<u>10,800</u>	<u>1,756</u>	<u>9,044</u>
Contingency reserve	<u>432,523</u>	<u>1,759</u>	<u>430,764</u>
Total expenditures	<u>923,078</u>	<u>335,539</u>	<u>587,539</u>
EXCESS REVENUE (EXPENDITURES)	(561,000)	33,401	594,401
OTHER FINANCING SOURCES (USES)			
Sale of assets	<u>1,000</u>	<u>6,248</u>	<u>5,248</u>
EXCESS REVENUE/SOURCES (EXPENDITURES/USES)	(560,000)	39,649	599,649
FUND BALANCE - BEGINNING	<u>560,000</u>	<u>1,038,426</u>	<u>478,426</u>
FUND BALANCE - ENDING	<u>\$0</u>	<u>\$1,078,075</u>	<u>\$1,078,075</u>

The accompanying notes are an integral part of these statements.