

LAKES HIGHWAY DISTRICT

FINANCIAL STATEMENT
SEPTEMBER 30, 2022

Lakes Highway District

TABLE OF CONTENTS September 30, 2022

FINANCIAL SECTION

Independent Auditor's Report	1 – 3
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Basic Financial Statements:

District-wide Financial Statements:

Statement of Net Position	4
Statement of Activities	5

Fund Financial Statements:

Governmental Funds – Balance Sheet	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Fiduciary Funds – Statement of Fiduciary Net Position	10
Notes to the Financial Statements	11 – 29

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General Fund	30
Schedule of Employers' Share of Net Pension Liability	31 – 32
Schedule of Employer Contributions	31 – 32

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 <i>Government Auditing Standards</i>	33 – 34
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lakes Highway District
Hayden Lake, ID 83835

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakes Highway District as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Lakes Highway District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lakes Highway District, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lakes Highway District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Lakes Highway District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lakes Highway District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lakes Highway District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lakes Highway District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and certain GASB No. 68 pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Required Supplementary Information (Concluded)

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2023 on our consideration of Lakes Highway District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Lakes Highway District's internal control over financial reporting and compliance.

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

July 12, 2023

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

Lakes Highway District

STATEMENT OF NET POSITION September 30, 2022

ASSETS

Cash and cash equivalents	\$ 9,978,070
Receivables	957,045
Prepaid insurance	62,016
Deposits	5,000
Land and rock pits	765,504
Construction in progress	6,776,757
Capital assets, net of accumulated depreciation	65,352,520
Lease receivable	303,902
Right-of-use lease assets, net of accumulated amortization	312,625
Total assets	<u>84,513,439</u>

DEFERRED OUTFLOWS OF RESOURCES

Proportionate share of collective deferred outflows of resources	<u>843,170</u>
Total deferred outflows of resources	<u>843,170</u>

LIABILITIES

Accounts payable	230,762
Accrued payroll and payroll taxes	71,645
Lease liabilities - current portion	23,336
Noncurrent liabilities	
Lease liabilities - noncurrent portion	289,542
Compensated absences, due in more than one year	265,828
Net pension liability	1,488,756
Total liabilities	<u>2,369,869</u>

DEFERRED INFLOWS OF RESOURCES

Proportionate share of collective deferred inflows of resources	34,866
Deferred inflows of resources from leases receivable	303,902
Total deferred inflows of resources	<u>338,768</u>

NET POSITION

Net investment in capital assets and leases	72,894,528
Restricted	1,642,002
Unrestricted	8,111,442
Total net position	<u>\$ 82,647,972</u>

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

Lakes Highway District

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2022

EXPENSES

Highway construction and maintenance:	
Direct road maintenance	\$ 921,392
Labor and benefits	1,633,491
Operations	622,337
Administrative, including administrative salaries	708,152
Depreciation expense	3,236,630
Amortization	25,425
Change in pension liability	352,318
Unallocated actual PERSI contributions	(177,969)
Total program expenses	<u>7,326,543</u>

PROGRAM REVENUES

Charges for services	148,458
Capital grants and donations of roads	<u>3,090,453</u>
Total program revenues	<u>3,238,911</u>
Net program (expense) revenue	<u>(4,087,632)</u>

GENERAL REVENUES

Taxes and assessments	4,035,973
Highway user	4,459,471
Federal forest funds	86,235
Sales tax	702,671
Other	372,158
Gain (loss) on sale of assets	153
Interest	72,385
Developers contribution funds	413,220
Penalty and interest	18,317
Total general revenues	<u>10,160,583</u>
Increase in net position	6,072,951
Net position - beginning	76,710,003
Prior period adjustment	<u>(134,982)</u>
Net position - ending	<u>\$ 82,647,972</u>

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

Lakes Highway District

GOVERNMENTAL FUNDS - BALANCE SHEET September 30, 2022

	General Fund	LID #1 * Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 9,978,070	\$ -	\$ 9,978,070
Receivables:			
Taxes	134,999	-	134,999
Highway user	818,467	-	818,467
Other	3,579	-	3,579
Prepaid insurance	62,016	-	62,016
Deposits	5,000	-	5,000
Total assets	<u>\$ 11,002,131</u>	<u>\$ -</u>	<u>\$ 11,002,131</u>
LIABILITIES			
Accounts payable	\$ 230,762	\$ -	\$ 230,762
Accrued payroll and payroll taxes	71,645	-	71,645
Total liabilities	<u>302,407</u>	<u>-</u>	<u>302,407</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	123,067	-	123,067
Total deferred inflows of resources	<u>123,067</u>	<u>-</u>	<u>123,067</u>
FUND BALANCES			
Nonspendable	62,016	-	62,016
Restricted:			
Development contributions and federal matching	1,444,152	-	1,444,152
Highway user	197,850	-	197,850
Committed:			
Committed for road projects	1,424,798	-	1,424,798
Assigned	544,758	-	544,758
Unassigned	6,903,083	-	6,903,083
Total fund balance	<u>10,576,657</u>	<u>-</u>	<u>10,576,657</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,002,131</u>	<u>\$ -</u>	<u>\$ 11,002,131</u>

* Not a major fund

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

Lakes Highway District

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2022

Total fund balances - Governmental Funds, September 30, 2022		\$ 10,576,657
Cost of capital assets	\$ 103,457,518	
Less: Accumulated depreciation		
Buildings and improvements	(812,123)	
Office equipment and furniture	(129,587)	
Highway equipment	(5,385,777)	
Roads	<u>(24,235,250)</u>	72,894,781
Right-of-use lease assets	\$ 478,667	
Less: Accumulated amortization	<u>(166,042)</u>	312,625
Elimination of unavailable inflows of resources - property taxes		123,067
Lease liabilities - current portion		(23,336)
Long-term liabilities		
Compensated absences		(265,828)
Lease liabilities - noncurrent portion		(289,542)
Pension liabilities and deferred outflows of resources and deferred inflows of resources related to pensions:		
District's proportionate share of the net pension liability		(1,488,756)
Proportionate share of collective deferred outflows of resources		843,170
Proportionate share of collective deferred inflows of resources		<u>(34,866)</u>
Net position, September 30, 2022		<u><u>\$ 82,647,972</u></u>

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

Lakes Highway District

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2022

	General Fund	LID #1 * Debt Service Fund	Total Governmental Funds
REVENUE			
Taxes and assessments	\$ 4,088,830	\$ -	\$ 4,088,830
Highway user	4,459,471	-	4,459,471
Federal forest funds	86,235	-	86,235
Federal and state grants	761,853	-	761,853
Sales tax	702,671	-	702,671
Other	372,158	-	372,158
Special assessment principal	-	-	-
Other interest income	72,385	-	72,385
Charges for services	148,458	-	148,458
Developer contribution funds	413,220	-	413,220
Penalty and interest income	18,317	-	18,317
Total revenues	11,123,598	-	11,123,598
EXPENDITURES			
Direct road maintenance	4,263,408	-	4,263,408
Labor and benefits	1,629,794	-	1,629,794
Operating expenses	622,337	-	622,337
Administrative, including administrative salaries	708,152	-	708,152
Capital expense	88,159	-	88,159
Lease - right of use asset	9,944	-	9,944
Debt service:			
Principal payments	22,254	-	22,254
Interest	4,767	-	4,767
Total expenditures	7,348,815	-	7,348,815
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	2,000	-	2,000
Lease liability	9,944	-	9,944
Transfers in	-	8,650	8,650
Transfers (out)	(8,650)	-	(8,650)
Total other financing sources (uses)	3,294	8,650	11,944
Net change in fund balances	3,778,077	8,650	3,786,727
Fund balances - beginning	6,798,580	(8,650)	6,789,930
Fund balances - ending	\$ 10,576,657	\$ -	\$ 10,576,657

* Not a major fund

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

Lakes Highway District

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, 2022

Total net changes in fund balances for the year ended September 30, 2022	\$ 3,786,727
Add: Capital outlay	88,159
Add: Direct road maintenance, which is considered expenditures	3,342,016
Less: Proceeds from sale of assets	(2,000)
Add: Gain on disposal of assets	153
Add: Donated capital assets	2,328,600
Less: Depreciation expense	(3,236,630)
Less: Amortization expense on lease	(25,425)
Add: Lease liability payments considered as an expenditure	22,254
Less: Change in compensated absence accrual	(3,697)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(52,857)
Less: Change in net pension liability	<u>(174,349)</u>
Change in net position for the year ended September 30, 2022	<u><u>\$ 6,072,951</u></u>

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

Lakes Highway District

STATEMENT OF NET POSITION FIDUCIARY FUNDS September 30, 2022

	Section 125 Agency Funds	Section 457 Agency Funds
ASSETS		
Cash	\$ 5,273	\$ 5,425
Total assets	<u>\$ 5,273</u>	<u>\$ 5,425</u>
LIABILITIES		
Deposits due others	\$ 5,273	\$ 5,425
Total liabilities	<u>\$ 5,273</u>	<u>\$ 5,425</u>

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

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lakes Highway District (the "District") operates under a locally elected board form of government and maintains the public streets and roads in the northeast part of Kootenai County that fall within the boundaries of the District, except for those streets maintained by city street departments. Commissioners are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

Reporting Entity – A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of Lakes Highway District consists of all funds, departments, boards and agencies that are not legally separate from the District. For Lakes Highway District this includes general operations.

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of debt, or the levying of taxes. The District has no component units.

The financial statements of Lakes Highway District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

B. Basis of Presentation – Government-Wide Financial Statements

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

C. Basis of Presentation – Fund Financial Statements

The District 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 District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District has the following fund types:

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

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District has the following major governmental fund:

General fund – The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund is available for any purpose provided it is expended or transferred according to the laws of the State of Idaho.

Additionally, the District has the following governmental fund types:

Debt service fund – The debt service fund accounts for the servicing of general long-term debt not being financed by proprietary funds.

Fiduciary Funds – Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is composed of investments held by the District for the Deferred Compensation Plan (see Note 11) as well as assets held by the District for the Section 125 Plan.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Concluded)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. When applicable, the fair value of donated assets used during the year is reported in the operating statement as an expense with a like amount reported as donated assets revenue.

Fiduciary funds are reported using the economic resources measurement focus.

E. Cash and Cash Equivalents

In the general and special assessment funds, cash received by the District is pooled for investment purposes and is presented as “Cash and Cash Equivalents” on the financial statements.

During the fiscal year ended September 30, 2022, investments were limited to the Idaho State Investment Pool. The Idaho State Investment Pool is an investment pool, which allows districts within the State of Idaho to pool their funds for investment purposes. Investments in Idaho State Investment Pool are valued at cost, which materially equals market value.

For presentation in the financial statements, investments in the cash management pool and investments with an original maturity of three months or less, at the time they are purchased by the District, are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Capital Assets

General capital assets usually result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements. General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic 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 District maintains a capitalization threshold of \$5,000. 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 the life of an asset are not capitalized.

(Continued)

Lakes Highway District

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets (Concluded)

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	25 – 50 years
Buildings and improvements	20 – 35 years
Equipment and furniture	5 – 20 years

G. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Paid time off 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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused paid time off when earned for all employees who qualify. There is a maximum cap of 720 hours that an employee can accumulate for paid time off.

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 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 District 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.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Outflows/Inflows of Resources (Concluded)

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

The District has one type of item, which arise 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 two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The District has one type of item, which arises under full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, proportionate share of collective deferred inflows of resources, is reported only on the government-wide statement of net position. The government-wide statement of net position reports proportionate share of collective deferred inflows of resources from one source: accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

J. Fund Balance Classifications

The District 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 District is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the District to classify and report amounts in the appropriate fund balance classifications. The District's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of non-spendable, restricted, committed, assigned, or unassigned.

The District reports the following classifications:

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 District 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.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance Classifications (Concluded)

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

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Intent is expressed by: (a) the District Clerk/Treasurer, or (b) an appointed body (e.g., a budget or finance committee) or official to which the Board of Commissioners 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 District itself.

Unassigned Fund Balance – This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

K. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

L. Net Position Flow Assumptions

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

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

L. Net Position Flow Assumptions (Concluded)

Sometimes the District 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 District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

M. Extraordinary and Special items

Extraordinary items are transactions that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transactions occurred during the fiscal year ended September 30, 2022.

N. Estimates

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

O. Property Taxes

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

P. Pensions

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

Q. Recently Issued Accounting Standards

In 2017, the Governmental Accounting Standards Board (GASB) issued Summary of Statement Number 87 Leases (GASB 87), which is required to be adopted for entities with fiscal years beginning after June 15, 2021. The objective of GASB 87 is to improve reporting for certain operating and finance leases. The District has considered the effect that GASB 87 will have on the financial statements and has adopted and implemented the requirements of GASB 87 for the year ended September 30, 2022.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

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 budget was not amended in the current fiscal year.

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

- a) The District 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 Board of Commissioners 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 INVESTMENTS

General:

State statutes authorize the District's investments and deposits. The District 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.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the District's deposits and investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2022, the District's deposits and investments were not exposed to custodial credit risk:

Deposits without exposure to custodial credit risk:

Amounts insured by FDIC or other agencies collateralized with securities held by the agency in the District's name	\$ 255,425
Funds held in the District's name by the Idaho State Investment Pool	<u>9,436,585</u>
Total deposits without exposure to custodial credit risk	<u>9,692,010</u>

Deposits with exposure to custodial credit risk:

Amounts not insured by FDIC	<u>280,102</u>
Total deposits with exposure to custodial credit risk	<u>280,102</u>

Total deposits	<u><u>\$ 9,972,112</u></u>
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The carrying value of cash and cash equivalents at September 30, 2022 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and cash equivalents	\$ 9,978,070
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Statement of fiduciary net position:

Cash - Section 125	5,273
Cash - Section 457	<u>5,425</u>
Total cash and cash equivalents	<u><u>\$ 9,988,768</u></u>

Cash and cash equivalents at September 30, 2022 consist of the following:

Cash:

Deposit with financial institutions	\$ 535,526
Idaho State Investment Pools	<u>9,453,242</u>
Total cash and cash equivalents	<u><u>\$ 9,988,768</u></u>

Idaho State Code allows the District to invest idle monies in certain categories. No violations of those categories have occurred during the year.

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 3: CASH AND INVESTMENTS (CONCLUDED)

Fair value:

The District's investments in 2a-7-like pools are valued based upon the value of pool shares. The District 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 US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

Following GASB 72, ¶69 and ¶B62 the balance that the District has in the Idaho State Investment Pool is carried at cost which approximates fair market value.

Credit risk:

The Idaho State Investment Pool does not have an established credit rating, but invests in entities with a minimum credit rating of "A" as stipulated by Idaho code. The District does not have a formal policy for credit risk. Financial information on the investment pool can be obtained by contacting the Idaho State Treasurer.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Adjustments	Ending Balance
Capital assets, not being depreciated:						
Land and rock pits	\$ 765,504	\$ -	\$ -	\$ -	\$ -	\$ 765,504
Construction in progress	6,334,366	3,342,016	-	(2,761,725)	(137,900)	6,776,757
Total, capital assets not being depreciated	<u>7,099,870</u>	<u>3,342,016</u>	<u>-</u>	<u>(2,761,725)</u>	<u>(137,900)</u>	<u>7,542,261</u>
Capital assets, being depreciated:						
Buildings and improvements	1,317,604	-	-	-	-	1,317,604
Highway equipment	7,672,003	88,159	(152,352)	-	-	7,607,810
Roads	81,769,737	2,328,600	-	2,761,725	-	86,860,062
Office equipment and furniture	129,781	-	-	-	-	129,781
Total capital assets being depreciated	<u>90,889,125</u>	<u>2,416,759</u>	<u>(152,352)</u>	<u>2,761,725</u>	<u>-</u>	<u>95,915,257</u>
Less accumulated depreciation for:						
Buildings and improvements	769,413	42,710	-	-	-	812,123
Highway equipment	5,097,970	438,312	(150,505)	-	-	5,385,777
Roads	21,480,109	2,755,141	-	-	-	24,235,250
Office equipment and furniture	129,120	467	-	-	-	129,587
Total accumulated depreciation	<u>27,476,612</u>	<u>3,236,630</u>	<u>(150,505)</u>	<u>-</u>	<u>-</u>	<u>30,562,737</u>
Capital assets, being depreciated, net	<u>63,412,513</u>	<u>(819,871)</u>	<u>(1,847)</u>	<u>2,761,725</u>	<u>-</u>	<u>65,352,520</u>
Governmental activities capital assets, net	<u>\$ 70,512,383</u>	<u>\$ 2,522,145</u>	<u>\$ (1,847)</u>	<u>\$ -</u>	<u>\$ (137,900)</u>	<u>\$ 72,894,781</u>

Depreciation expense of \$3,236,630 for the year ended September 30, 2022 was charged to the highway construction and maintenance governmental function.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 5: ACCRUED PAYROLL AND BENEFITS

Accrued payroll includes amounts due employees and related payroll taxes and benefits at September 30, 2022, which were not paid until October 2022.

NOTE 6: CHANGES IN LONG-TERM DEBT AND CURRENT MATURITIES

A summary of general long-term debt is as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Amount due in one year
Compensated absences	\$ 262,131	\$ 3,697	\$ -	\$ 265,828	\$ -
Total general long-term debt	<u>\$ 262,131</u>	<u>\$ 3,697</u>	<u>\$ -</u>	<u>\$ 265,828</u>	<u>\$ -</u>

NOTE 7: LEASE LIABILITIES

In April of 2015 the District entered a twenty-year land lease with Kootenai County, a political subdivision of the State of Idaho. The lease became effective on November 10, 2015, and will expire on November 9, 2035, with the option to extend it for an additional twenty years. Payments are to be made annually on the 10th day of November, beginning in 2015. The rent amount is to be calculated and paid at the current "Market Value", which is to be set by and shall be adjusted according to the average change in the U.S. Department of Labor and Statistics Consumer Price Index. The right-of-use lease asset has been recorded at the present value of future minimum lease payments of \$468,723 with accumulated amortization of \$164,053. The District chose to use an incremental borrowing interest rate at 1.33%. The lease expense for 2022 is \$25,611.

During the year ended September 30, 2022, the District entered into a lease agreement for a copy machine. The term of the lease is for 63 months with required monthly payments of \$201. The right-of-use lease asset has been recorded at the present value of future minimum lease payments of \$9,944 with accumulated amortization of \$1,989. The District chose to use an incremental borrowing interest rate at 7.95%. The lease expense for 2022 is \$1,410.

For the year ended,	Land	
	Principal	Interest
2023	\$ 21,569	\$ 4,042
2024	21,856	3,755
2025	22,147	3,464
2026	22,441	3,170
2027	22,740	2,871
Thereafter	193,149	11,739
	<u>\$ 303,902</u>	<u>\$ 29,041</u>

For the year ended,	Equipment	
	Principal	Interest
2023	\$ 1,767	\$ 650
2024	1,912	505
2025	2,070	347
2026	2,241	176
2027	987	20
	<u>\$ 8,977</u>	<u>\$ 1,698</u>

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 7: LEASE LIABILITIES (CONCLUDED)

Following is a recap of right-of-use lease assets for the fiscal year ended September 30, 2022:

<u>Governmental activities:</u>	<u>Beginning Balance</u>	<u>GASB 87 Adjustment</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Right-of-use lease assets:					
Copier	\$ -	\$ -	\$ 9,944	\$ -	\$ 9,944
Land	-	468,723	-	-	468,723
Total right-of-use lease assets	<u>-</u>	<u>468,723</u>	<u>9,944</u>	<u>-</u>	<u>478,667</u>
Less accumulated amortization for:					
Copier	-	-	1,989	-	1,989
Land	-	140,617	23,436	-	164,053
Total accumulated amortization	<u>-</u>	<u>140,617</u>	<u>25,425</u>	<u>-</u>	<u>166,042</u>
Total amortized right-of-use lease assets, net	<u>\$ -</u>	<u>\$ 328,106</u>	<u>\$ (15,481)</u>	<u>\$ -</u>	<u>\$ 312,625</u>

NOTE 8: LEASE RECEIVABLES

In addition, Kootenai County entered into a twenty-year lease with the District for four boat ramp properties. The terms are the same as the land lease terms with the District, with the annual payments the same amount and due on the 10th day of December. The first payment began in 2015.

The District received \$21,286 in lease revenue during the year ending September 30, 2022. The lease receivable is listed as follows:

Land Lease:	
Lease Receivable	<u>\$ 303,902</u>
Deferred inflows of resources	<u>\$ 303,902</u>

The future rental income based on the current year "Market Value" is as follows:

<u>For the year ended,</u>	<u>Land</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 21,569	\$ 4,042
2024	21,856	3,755
2025	22,147	3,464
2026	22,441	3,170
2027	22,740	2,871
Thereafter	193,149	11,739
	<u>\$ 303,902</u>	<u>\$ 29,041</u>

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 9: FUND BALANCES – RESTRICTIONS AND COMMITMENTS

The governmental fund balance and statement of net position have funds restricted for the following purposes:

Development contribution projects - various	\$ 1,444,152
Highway user	<u>197,850</u>
Total restricted funds	<u>\$ 1,642,002</u>

The Board has assigned the following unassigned general fund balance for road projects:

Accounts payable	\$ 473,859
Payroll (9/16/22 - 9/30/2022)	63,721
PERSI Accrual	<u>7,178</u>
Total assigned funds	<u>\$ 544,758</u>

The District has \$62,016 in non-spendable fund balances in the form of prepaid insurance and \$1,424,798 in committed fund balances for the Railroad Safety Fund.

NOTE 10: DEFINED BENEFIT PENSION PLANS

Plan Description

Lakes Highway District 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.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 10: DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 74% for public safety. As of June 30, 2022, it was 7.16% for general employees and 9.13% for public safety. The employer contribution rate is set by the Retirement Board and was 11.94% for general employees and 12.28% for police and firefighters. The District's contributions were \$177,969 for the year ended September 30, 2022.

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

At September 30, 2022, Lakes Highway District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Lakes Highway District's proportion of the net pension liability was based on the District'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, 2022, the District's proportion was 0.0377976 percent.

For the year ended September 30, 2022, the District recognized pension expense (revenue) of \$352,318. At September 30, 2022, the District 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	\$ 342,545	\$ -
Changes of assumptions	242,712	-
Net difference between projected and actual earnings on pension plan investments	163,709	6,645
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	28,221
Lakes Highway District's contributions subsequent to the measurement date	94,204	-
Total	\$ 843,170	\$ 34,866

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 10: DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

\$94,204 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, 2023.

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, 2022 the beginning of the measurement period ended June 30, 2021 is 4.6 and 4.6 years for the measurement period June 30, 2022.

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 September 30:

2023	\$ (177,516)
2024	\$ (192,711)
2025	\$ (89,128)
2026	\$ (282,966)

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, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases including inflation	3.05%
Investment rate of return	6.35%, net of investment expenses
Cost-of-living adjustments	1.00%

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

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 10: DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Concluded)

An experience study was performed for the period July 1, 2015 through June 30, 2020 which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2022, is based on the results of an actuarial valuation date of July 1, 2022.

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 2022.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Nominal Rate of Return (Arithmetic)</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Core Fixed Income	30.00%	1.80%	-0.20%
Broad US Equities	55.00%	8.00%	6.00%
Developed Foreign Equities	15.00%	8.25%	6.25%
Assumed Inflation - Mean		2.00%	2.00%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.18%	4.18%
Portfolio Standard Deviation		12.29%	12.29%
Portfolio Long-Term (Geometric) Expected Rate of Return		5.55%	3.46%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.15%	3.06%
Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.14%
Portfolio Standard Deviation			14.16%
Valuation Assumptions Chosen by PERSI Board			
Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.05%
Assumed Inflation			2.30%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses			6.35%

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 10: DEFINED BENEFIT PENSION PLANS (CONCLUDED)

Discount Rate

The discount rate used to measure the total pension liability was 6.35%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.35 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 (5.35 percent) or 1-percentage-point higher (7.35 percent) than the current rate:

	1% Decrease (5.35%)	Current Discount Rate (6.35%)	1% Increase (7.35%)
District's net pension liability (asset)	\$ 2,627,509	\$ 1,488,756	\$ 556,717

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, 2022, the District reported no payables to the defined benefit pension plan for legally required employer contributions. The District also reported no legally required employee contributions withheld from employee wages but not yet remitted to PERSI.

NOTE 11: DEFERRED COMPENSATION PLANS

Employees of Lakes Highway District may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries and defer paying taxes on such portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 11: DEFERRED COMPENSATION PLANS (CONCLUDED)

A financial advisor unrelated to the District administers the deferred compensation plan. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the District subject only to the claims of the general creditors.

In addition, the participants in the plan have rights equal to those of the general creditors of the District, and each participant's rights are equal to his or her share of the fair market value of the plan assets. The District believes that it is unlikely that plan assets will be needed to satisfy any claims of general creditors. It is the opinion of the District's legal counsel that the District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

Deferred compensation plan assets are reported at market value in an Agency Fund.

NOTE 12: RISK MANAGEMENT

The District 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 District contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

An outside insurance company protects professional liability with a \$3,000,000 liability and a \$3,000,000 umbrella. Errors and omissions liability has a \$3,000,000 liability with \$3,000,000 in the aggregate annually per insured. Additionally, crime, boiler and machinery insurance is maintained. Automobile liability has a \$3,000,000 single limit of liability.

The District pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

The District provides life with accidental death and dismemberment insurance, as well as medical, vision and dental insurance, to all employees through an insurance company.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The District is continuously in various stages of construction projects in which they have contractual agreements with various funding agencies and businesses for various construction, engineering, and other needs in order for the District to perform its road construction, maintenance and repair services.

The District is party to legal actions arising in the ordinary course of its business. In management's opinion, the District has adequate legal defenses and/or insurance coverage relative to each of these actions.

(Continued)

Lakes Highway District

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2022

NOTE 13: COMMITMENTS AND CONTINGENCIES (CONCLUDED)

The District has received several federal and state grants for specific purposes that are subject to review by grantor agencies. Such audits could lead to requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, District's management believes such disallowances, if any, will be immaterial. The following project is ongoing:

Government Way Share Project - Hanley to Prairie - Keynote 12308: This is a Federal Aid Project shared between the City of Coeur d' Alene, the City of Hayden, and Lakes Highway District, with the City of Coeur d' Alene managing the project. As of September 30, 2022, expenses for design engineering, rights of way purchases, appraisals, title company costs, and construction have been incurred. The major portion of this reconstruction project is complete however, the project is still on the active list with the Idaho Transportation Department and may take anywhere from two to five years to close.

NOTE 14: INTERFUND TRANSACTIONS

Interfund transfers (net) during the fiscal year ended September 30, 2022 were as follows:

Table with 2 columns: Fund Name, Transfers In, Transfers Out. Rows include General Fund and LID #1 Debt Service Fund with values \$0, \$8,650, \$8,650, and \$0.

NOTE 15: PRIOR PERIOD ADJUSTMENT

During the fiscal year ending September 30, 2022, the District restated beginning net position for the governmental funds related to the implementation of GASB No. 87. Beginning net position was increased by \$2,918 in the government-wide statement of activities. Additionally, an adjustment was made to construction in progress. Beginning net position was decreased by \$137,900 in the government-wide statement of activities.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

Lakes Highway District

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL For the Year Ended September 30, 2022

	<u>Original*</u> <u>Budget</u>	<u>Actual</u> <u>Amount</u>	<u>Variance With</u> <u>Final Budget</u>
REVENUES			
Taxes and assessments	\$ 4,040,153	\$ 4,088,830	\$ 48,677
Highway user	3,899,700	4,459,471	559,771
Federal forest funds	-	86,235	86,235
Federal and state grants	-	761,853	761,853
Sales tax	454,277	702,671	248,394
Other	146,602	372,158	225,556
Other interest income	61,000	72,385	11,385
Charges for services	57,000	148,458	91,458
Developer contribution funds	50,000	413,220	363,220
Penalty and interest income	25,000	18,317	(6,683)
Designated funds	550,000	-	(550,000)
Total revenues	<u>9,283,732</u>	<u>11,123,598</u>	<u>1,839,866</u>
EXPENDITURES			
Direct road maintenance	4,822,500	4,263,408	(559,092)
Labor and benefits	1,794,618	1,629,794	(164,824)
Operations	605,282	622,337	17,055
Administrative, including administrative salaries	694,145	708,152	14,007
Capital expense	857,000	88,159	(768,841)
Lease - right of use asset	-	9,944	9,944
Contingency	1,019,545	-	(1,019,545)
Total expenditures	<u>9,793,090</u>	<u>7,348,815</u>	<u>(2,444,275)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	-	2,000	2,000
Lease liability	-	9,944	9,944
Transfers (out)	-	(8,650)	(8,650)
Total other financing sources (uses)	<u>-</u>	<u>3,294</u>	<u>3,294</u>
Net change in fund balances	(509,358)	3,778,077	4,287,435
Fund balances - beginning	<u>509,358</u>	<u>6,798,580</u>	<u>6,289,222</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 10,576,657</u>	<u>\$ 10,576,657</u>

* Budget was not amended

Lakes Highway District

GASB 68 Required Supplementary Information For the Year Ended September 30, 2022

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

	2022	2021
Employer's portion of the net pension liability	0.0377976%	0.0403288%
Employer's proportionate share of the net pension (asset) liability	\$ 1,488,756	\$ (31,851)
Employer's covered-employee payroll	\$ 1,523,837	\$ 1,477,471
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	97.70%	-2.16%
Plan fiduciary net position as a percentage of the total pension liability	83.09%	100.36%

* 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 District will present information for those years for which information is available.

Data reported is measured as of June 30, 2022 (measurement date).

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

	2022	2021
Statutorily required contribution	\$ 177,969	\$ 176,410
Contributions in relation to the statutorily required contribution	177,969	176,410
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ 1,523,837	\$ 1,477,471
Contributions as a percentage of covered-employee payroll	11.68%	11.94%

* 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 District will present information for those years for which information is available.

Data reported is measured as of September 30, 2022.

2020	2019	2018	2017	2016
0.0420517%	0.0420539%	0.0278556%	0.0402698%	0.0417010%
\$ 976,496	\$ 480,034	\$ 410,875	\$ 632,972	\$ 845,343
\$ 1,493,508	\$ 1,493,004	\$ 1,364,099	\$ 1,250,973	\$ 1,216,696
65.38%	32.15%	30.12%	50.60%	69.48%
88.22%	93.79%	91.69%	90.68%	87.26%

2020	2019	2018	2017	2016
\$ 178,138	\$ 173,117	\$ 154,416	\$ 141,549	\$ 137,731
178,138	173,117	154,416	141,549	137,731
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 1,493,508	\$ 1,493,004	\$ 1,364,099	\$ 1,250,973	\$ 1,216,696
11.93%	11.60%	11.32%	11.32%	11.32%

REPORT REQUIRED BY GAO



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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lakes Highway District
Hayden Lake, ID 83835

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lakes Highway District as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Lakes Highway District's basic financial statements, and have issued our report thereon dated July 12, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lakes Highway District's internal control over financial reporting (internal control) as a basis for designing 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 Lakes Highway District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lakes Highway District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakes Highway District'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

July 12, 2023