

# LAKES HIGHWAY DISTRICT

FINANCIAL STATEMENT  
SEPTEMBER 30, 2016

# Lakes Highway District

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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 Financial Statements**

We have audited the accompanying 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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, each major fund, and the aggregate remaining fund information of Lakes Highway District as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and certain GASB No. 68 pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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 opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakes Highway District's internal control over financial reporting and compliance.

*Magnuson, McHugh & Company, P.A.*

Magnuson, McHugh & Co., P.A.

March 21, 2017

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

**Lakes Highway District**  
**STATEMENT OF NET POSITION**  
**September 30, 2016**

**ASSETS**

Cash and cash equivalents	\$ 4,530,806
Receivables	944,462
Special assessment receivables	38,136
Prepaid insurance	55,251
Land and rock pits	765,504
Construction in progress	1,087,384
Capital assets, net of accumulated depreciation	<u>50,813,206</u>
Total assets	<u>58,234,749</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Proportionate share of collective deferred outflows of resources	<u>453,621</u>
Total deferred outflows of resources	<u>453,621</u>

**LIABILITIES**

Accounts payable	373,902
Accrued payroll and payroll taxes	47,202
Accrued interest payable	2,500
Long-term debt, due in one year	15,000
Compensated absences, due in more than one year	298,379
Long-term debt, due in more than one year	60,000
Net pension liability	<u>845,343</u>
Total liabilities	<u>1,642,326</u>

**DEFERRED INFLOWS OF RESOURCES**

Proportionate share of collective deferred inflows of resources	<u>276,479</u>
Total deferred inflows of resources	<u>276,479</u>

**NET POSITION**

Net investment in capital assets	52,591,094
Restricted	664,428
Unrestricted	<u>3,514,043</u>
Total net position	<u><u>\$ 56,769,565</u></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, 2016

### EXPENSES

Highway construction and maintenance:	
Direct road maintenance	\$ 997,193
Labor and benefits	728,652
Operations	449,071
Administrative, including administrative salaries	565,166
Depreciation expense	2,054,362
Interest expense	3,100
Change in pension liability	145,742
Unallocated actual PERSI contributions	(137,731)
Total program expenses	<u>4,805,555</u>

### PROGRAM REVENUES

Charges for services	399,599
Capital grants and donations of roads	<u>3,473,091</u>
Total program revenues	<u>3,872,690</u>
Net program (expense) revenue	<u>(932,865)</u>

### GENERAL REVENUES

Taxes and assessments	3,513,673
Highway user	2,753,738
Federal forest funds	92,387
Special assessment and interest income	1,209
Sales tax	175,057
Other	158,687
Gain on sale of assets	37,342
Interest	19,640
Developers contribution funds	28,167
Penalty and interest	29,781
Total general revenues	<u>6,809,681</u>
Increase in net position	5,876,816
Net position - beginning	<u>50,892,749</u>
Net position - ending	<u><u>\$ 56,769,565</u></u>

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



## Lakes Highway District

### GOVERNMENTAL FUNDS - BALANCE SHEET September 30, 2016

	General Fund	LID #1 * Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,506,363	\$ 24,443	\$ 4,530,806
Receivables:			
Taxes	163,302	-	163,302
Highway user	697,217	-	697,217
Other	83,943	-	83,943
Special assessments receivable	-	38,136	38,136
Prepaid insurance	55,251	-	55,251
Total assets	<u>\$ 5,506,076</u>	<u>\$ 62,579</u>	<u>\$ 5,568,655</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 373,902	\$ -	\$ 373,902
Accrued payroll and payroll taxes	47,202	-	47,202
Total liabilities	<u>421,104</u>	<u>-</u>	<u>421,104</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property taxes	146,324	-	146,324
Unavailable revenue-chip seal project	188,425	-	188,425
Unavailable revenue-special assessments	-	38,136	38,136
Total deferred inflows of resources	<u>334,749</u>	<u>38,136</u>	<u>372,885</u>
<b>FUND BALANCES</b>			
Nonspendable	55,251	-	55,251
Restricted:			
Debt service	-	24,443	24,443
Development contributions and federal matching	466,981	-	466,981
Highway user	173,004	-	173,004
Committed for road projects	957,674	-	957,674
Unassigned	3,097,313	-	3,097,313
Total fund balance	<u>4,750,223</u>	<u>24,443</u>	<u>4,774,666</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,506,076</u>	<u>\$ 62,579</u>	<u>\$ 5,568,655</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, 2016

Total fund balances - Governmental Funds, September 30, 2016		\$ 4,774,666
Cost of capital assets, September 30, 2016	\$ 67,395,017	
Less: Accumulated depreciation, September 30, 2016		
Buildings and improvements	(543,415)	
Office equipment and furniture	(86,641)	
Highway equipment	(3,870,856)	
Roads	<u>(10,228,011)</u>	52,666,094
Elimination of unavailable inflows of resources - property taxes		146,324
Elimination of unavailable inflows of resources - chip seal project		188,425
Elimination of unavailable inflows of resources - special assessment revenues		38,136
Long-term liabilities at September 30, 2016		
Compensated absences	(298,379)	
Long term debt	(75,000)	
Accrued interest payable	<u>(2,500)</u>	(375,879)
Pension liabilities and deferred outflows of resources and deferred inflows of resources related to pensions:		
District's proportionate share of the net pension liability		(845,343)
Proportionate share of collective deferred outflows of resources		453,621
Proportionate share of collective deferred intflows of resources		<u>(276,479)</u>
Net position, September 30, 2016		<u><u>\$ 56,769,565</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, 2016

	General Fund	LID #1 * Debt Service Fund	Total Governmental Funds
<b>REVENUE</b>			
Taxes and assessments	\$ 3,524,331	\$ -	\$ 3,524,331
Highway user	2,753,738	-	2,753,738
Federal forest funds	92,387	-	92,387
Federal and state grants	167,091	-	167,091
Sales tax	175,057	-	175,057
Other	158,687	-	158,687
Special assessment principal	-	9,845	9,845
Other interest income	19,640	-	19,640
Charges for services	211,174	-	211,174
Developer contribution funds	28,167	-	28,167
Penalty and interest income	26,676	3,105	29,781
Total revenues	<u>7,156,948</u>	<u>12,950</u>	<u>7,169,898</u>
<b>EXPENDITURES</b>			
Direct road maintenance	2,686,616	-	2,686,616
Labor and benefits	1,220,763	-	1,220,763
Operating expenses	449,071	-	449,071
Administrative, including administrative salaries	565,166	-	565,166
Capital expense	840,054	-	840,054
Debt service:			
Principal payments	-	15,000	15,000
Interest	-	3,600	3,600
Total expenditures	<u>5,761,670</u>	<u>18,600</u>	<u>5,780,270</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from sale of assets	37,342	-	37,342
Total other financing sources	<u>37,342</u>	<u>-</u>	<u>37,342</u>
Net change in fund balances	1,432,620	(5,650)	1,426,970
Fund balances - beginning	3,317,603	30,093	3,347,696
Fund balances - ending	<u>\$ 4,750,223</u>	<u>\$ 24,443</u>	<u>\$ 4,774,666</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 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2016

Total net changes in fund balances for the year ended September 30, 2016	\$ 1,426,970
Add: Capital outlay, which is considered expenditures	840,054
Add: Direct road maintenance, which is considered expenditures	1,689,423
Add: Labor and benefits, which is considered expenditures	500,932
Add: Donated capital assets	3,306,000
Less: Depreciation expense for the year ended September 30, 2016	(2,054,362)
Add: Bond payments considered as an expenditure	15,000
Less: Change in compensated absence accrual	(8,821)
Add: Change in accrued interest expense	500
Add: Difference between revenue earned on chip seal project on modified accrual basis versus revenue on chip seal project on accrual basis	188,425
Less: Difference between revenue earned on special assessments on modified accrual basis versus revenue on special assessments on accrual basis	(8,636)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(10,658)
Less: Change in net pension liability	<u>(8,011)</u>
Change in net position for the year ended September 30, 2016	<u><u>\$ 5,876,816</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, 2016

	<b>Section 125 Agency Funds</b>	<b>Section 457 Agency Funds</b>
<b>ASSETS</b>		
Cash	\$ 3,729	\$ 2,964
Total assets	<u>\$ 3,729</u>	<u>\$ 2,964</u>
<b>LIABILITIES</b>		
Deposits due others	\$ 3,729	\$ 2,964
Total liabilities	<u>\$ 3,729</u>	<u>\$ 2,964</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, 2016

### 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. During the year ended September 30, 2016 the District implemented GASB No. 72, *Fair Value Measurement and Application*. 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, 2016

### 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 funds type:

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 12) 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, 2016

### 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, 2016, 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, 2016

### 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 capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The 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, 2016

### 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, 2016

### 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, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

#### 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, 2016.

#### 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.

### 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 amended in the current fiscal year.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONCLUDED)

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.

#### 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, 2016, the District's deposits and investments were not exposed to custodial credit risk:

#### Deposits without exposure to custodial credit risk:

Amount insured by FDIC or other agencies collateralized with securities held by the agency in the District's name	\$ 262,697
Funds Held in the District's name by the Idaho State Investment Pool	<u>4,326,605</u>
Total deposits without exposure to custodial credit risk	<u>\$4,589,302</u>

Cash and cash equivalents at September 30, 2016 are classified in the accompanying financial statements as follows:

#### Statement of Net Position:

Cash and cash equivalents	\$4,530,806
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#### Statement of Fiduciary Net Position:

Cash – Section 125	3,729
Cash – Section 457	<u>2,964</u>
Total	<u>\$4,537,499</u>

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 3: CASH AND INVESTMENTS (CONCLUDED)

Cash and cash equivalents at September 30, 2016 consist of the following:

Deposit with financial institutions	\$ 210,894
Idaho State Investment Pools	<u>4,326,605</u>
Total cash and cash equivalents	<u>\$4,537,499</u>

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

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: SPECIAL ASSESSMENT RECEIVABLES

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2016:

Deferred principal amounts not currently due, but due at a future date	<u>\$38,136</u>
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(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning	Adjustments		Transfers	Ending
	Balance	Additions	Deletions		Balance
Capital assets, not being depreciated:					
Land and rock pits	\$ 765,504	\$ -	\$ -	\$ -	\$ 765,504
Construction in progress	922,094	5,803,284	-	(5,637,994)	1,087,384
Total, capital assets not being depreciated	<u>1,687,598</u>	<u>5,803,284</u>	<u>-</u>	<u>(5,637,994)</u>	<u>1,852,888</u>
Capital assets, being depreciated:					
Buildings and improvements	916,492	-	-	-	916,492
Highway equipment	4,931,724	486,522	(255,905)	-	5,162,341
Roads	53,695,521	-	-	5,637,994	59,333,515
Office equipment & furniture	111,931	52,414	(34,564)	-	129,781
Total capital assets being depreciated	<u>59,655,668</u>	<u>538,936</u>	<u>(290,469)</u>	<u>5,637,994</u>	<u>65,542,129</u>
Less accumulated depreciation for:					
Buildings and improvements	510,677	32,738	-	-	543,415
Highway equipment	3,916,499	204,452	(250,095)	-	3,870,856
Roads	8,422,499	1,805,512	-	-	10,228,011
Office equipment & furniture	109,545	11,660	(34,564)	-	86,641
Total accumulated depreciation	<u>12,959,220</u>	<u>2,054,362</u>	<u>(284,659)</u>	<u>-</u>	<u>14,728,923</u>
Capital assets, being depreciated, net	<u>46,696,448</u>	<u>(1,515,426)</u>	<u>(5,810)</u>	<u>5,637,994</u>	<u>50,813,206</u>
Governmental activities capital assets, net	<u>\$ 48,384,046</u>	<u>\$ 4,287,858</u>	<u>\$ (5,810.00)</u>	<u>\$ -</u>	<u>\$ 52,666,094</u>

Depreciation expense of \$2,054,362 for the year ended September 30, 2016 was charged to the highway construction and maintenance governmental function.

### NOTE 6: ACCRUED PAYROLL AND BENEFITS

Accrued payroll includes amounts due employees and related payroll taxes and benefits at September 30, 2016, which were not paid until October 2016.

### NOTE 7: BONDS PAYABLE

#### Lakes Highway District Local Improvement District No. 1 Bonds, 2010

By Ordinance No. 2009-01, adopted on March 23, 2009, the District's Board of Commissioners (the "Board") duly created Local Improvement District No. 1 ("LID No. 1"), and ordered the acquisition, construction and installation of a roadway to a two lane, 24-foot wide paved surface with two-foot gravel shoulders and appurtenances, together with engineering, legal, accounting, costs of bond issuance, and other costs as authorized by the law. On February 24, 2010, the Board duly confirmed the final assessment roll for LID No. 1 in the amount of \$320,277.

During the 30 days after publication of Ordinance No. 2010-05, none of the property owners within the LID No. 1 filed an appeal to the assessments levied on the final assessment roll, and the property owner's paid in a total of \$111,902, leaving an unpaid balance of \$208,375.

Interest on the Bonds became payable commencing on August 1, 2011, and annually thereafter on each August 1 until the respective dates of maturity or prior redemption of the Bonds. Interest is calculated at 4% on the basis of a 360-day year consisting of twelve 30-day months.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 7: BONDS PAYABLE (CONCLUDED)

Presented below is a summary of debt service requirement to maturity by years:

<u>Year Ending Sept. 30</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	4%	\$ 15,000	\$ 2,500	\$ 17,500
2018	4%	15,000	2,000	17,000
2019	4%	20,000	1,500	21,500
2020	4%	25,000	833	25,833
		<u>\$ 75,000</u>	<u>\$ 6,833</u>	<u>\$ 81,833</u>

### NOTE 8: CHANGES IN LONG-TERM DEBT AND CURRENT MATURITIES

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Amount due in one year</u>
Compensated absences	\$ 289,558	\$ 8,821	\$ -	\$ 298,379	\$ -
LID No. 1	90,000	-	(15,000)	75,000	15,000
Total general long-term debt	<u>\$ 379,558</u>	<u>\$ 8,821</u>	<u>\$ (15,000)</u>	<u>\$ 373,379</u>	<u>\$ 15,000</u>

### NOTE 9: OPERATING LESSOR AND LEASEE AGREEMENT

The District entered into a twenty-year land lease with Kootenai County, a political subdivision of the State of Idaho, in April 2015. The lease became effective on November 10, 2015, and will expire on November 9, 2035, with the option to extend for an additional twenty years. Payments are to be made annually on the 10<sup>th</sup> 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 first payment in 2015 was calculated at \$23,523.

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 10<sup>th</sup> day of December. The first payment is to begin in 2015.

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

<u>Year</u>	<u>Payment</u>
2017	\$ 23,523
2018	23,523
2019	23,523
2020	23,523
2021	23,523
2022-2026	117,615
2027-2031	117,615
2032-2035	94,092

(Continued)



# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 10: 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	\$466,981
Highway user	173,004
Debt service	<u>24,443</u>
Total restricted funds	<u>\$664,428</u>

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

Bridging the Valley	\$402,103
Frontage Roads	189,415
Accounts Payable	17,643
Payroll (To 9/30/2016)	76,422
NPDES Lakes (Ruen Yeager)	1,759
NPDES Joint (Ruen Yeager)	4,211
Welch Comer (Monuments for Rehab)	15,213
Interstate C & A (Contracted Construction)	89,198
Strata (2016 Paving Projects)	11,799
Belmont Shop (Fence – Masters Fence)	31,265
Pavement Markings (RPI)	<u>118,646</u>
Total committed funds	<u>\$957,674</u>

The District has \$55,251 in non-spendable fund balances in the form of prepaid insurance.

### NOTE 11: DEFINED BENEFIT PENSION PLANS

#### *Plan Description*

The 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](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.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

### NOTE 11: DEFINED BENEFIT PENSION PLANS (CONTINUED)

#### *Pension Benefits*

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

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

#### *Member and Employer Contributions*

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% (72%) of the employer rate. As of June 30, 2016 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 Lakes Highway District contributions were \$137,731 for the year ended September 30, 2016.

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

At September 30, 2016, the 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Lakes Highway District proportion of the net pension liability was based on the Lakes Highway District share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the Lakes Highway District proportion was 0.0417010 percent.

For the year ended September 30, 2016, the Lakes Highway District recognized pension expense \$145,742. At September 30, 2016 the Lakes Highway District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 11: DEFINED BENEFIT PENSION PLANS (CONTINUED)

	Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 411,446	\$ 84,232
Changes of assumptions	18,791	-
Net difference between projected and actual earnings on pension plan investments	-	192,247
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	(10,402)	-
Lakes Highway District's contributions subsequent to the measurement date	33,786	-
<b>Total</b>	<b>\$ 453,621</b>	<b>\$ 276,479</b>

\$33,786 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, 2016.

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, 2015 the beginning of the measurement period ended June 30, 2016 is 5.5 years for the measurement period June 30, 2015.

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:**

2017	\$ 859
2018	\$ 859
2019	\$ 98,074
2020	\$ 53,966
2021	\$ -

*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.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

### NOTE 11: DEFINED BENEFIT PENSION PLANS (CONTINUED)

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

An experience study was performed in 2012 for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

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, 2016.

(Continued)

## Lakes Highway District

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

#### NOTE 11: DEFINED BENEFIT PENSION PLANS (CONTINUED)

Asset Class	Index	Target Allocation	Long-Term Expected Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Russell 3000	55.00%	6.35%
Developed Foreign Equities	MSCI ACWI ex USA	15.00%	7.30%
Assumed Inflation - Mean			3.25%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.08%
Portfolio Standard Deviation			12.59%
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><u>7.10%</u></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.

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's net pension liability (asset) - Employer	\$ 1,658,264	\$ 845,343	\$ 169,310

(Continued)

## Lakes Highway District

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

#### NOTE 11: DEFINED BENEFIT PENSION PLANS (CONCLUDED)

##### *Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

##### *Payables to the pension plan*

At September 30, 2016, the Lakes Highway District reported no payables to the defined benefit pension plan for legally required employer contributions. The Lakes Highway District also reported no legally required employee contributions withheld from employee wages but not yet remitted to PERSI.

#### NOTE 12: 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.

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.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

### NOTE 13: 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 most employees through an insurance company.

### NOTE 14: 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.

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 request 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 projects are as follows:

Lancaster Road – U. S. 95 to Ferndale – Key Note 9785: As of September 30, 2015, this reconstruction project was complete, but was still on the active list with the Idaho Transportation Department. Lakes Highway District accepted the completed project in that fiscal year. As of September 30, 2015 this project had matching funds of \$17,866 still with the Idaho Transportation Department. The project was officially closed and the matching funds were received in the amount of \$14,723.66 from ITD during the fiscal year ending September 30, 2016.

Old Hwy 95 – Hwy 53 to Chilco – Key Note 11992: As of September 30, 2015, this project was complete, but still on the active list with the Idaho Transportation Department. Lakes Highway District accepted the completed project in that fiscal year. As of September 30, 2015 this project had matching funds of \$123,816 still with the Idaho Transportation Department. The project was officially closed and the matching funds were received in the amount of \$111,877.44 from ITD during the fiscal year ending September 30, 2016.

(Continued)

## Lakes Highway District

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

#### **NOTE 14: COMMITMENTS AND CONTINGENCIES (CONCLUDED)**

Government Way Share Project – Hanley to Prairie – Key Note 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, 2016, expenses for design engineering, rights of way purchases, appraisals, and title company costs have been incurred. The design phase cost this fiscal year, for Lakes Highway District, was \$14,450.92. These figures reflect the District's 7.34% match required on Federal Aid projects.



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, 2016

	Original Budget	Amended Budget	Actual Amount	Variance With Final Budget
<b>REVENUES</b>				
Taxes and assessments	\$ 3,526,608	\$ 3,526,608	\$ 3,524,331	\$ (2,277)
Highway user	2,409,196	2,409,196	2,753,738	344,542
Federal forest funds	70,157	70,157	92,387	22,230
Federal and state grants	-	-	167,091	167,091
Sales tax	120,000	120,000	175,057	55,057
Other	48,415	48,415	158,687	110,272
Other local revenue	5,000	5,000	-	(5,000)
Other interest income	3,600	3,600	19,640	16,040
Charges for services	12,000	12,000	211,174	199,174
Developer contribution funds	20,000	20,000	28,167	8,167
Penalty and interest income	25,000	25,000	26,676	1,676
Total revenues	<u>6,239,976</u>	<u>6,239,976</u>	<u>7,156,948</u>	<u>916,972</u>
<b>EXPENDITURES</b>				
Direct road maintenance	3,557,225	3,557,225	2,686,616	(870,609)
Salaries and benefits	1,324,468	1,324,468	1,220,763	(103,705)
Operations	474,274	474,274	449,071	(25,203)
Administrative, including administrative salaries	565,294	565,294	565,166	(128)
Capital expense	651,439	651,439	840,054	188,615
Contingency	1,670,592	1,670,592	-	(1,670,592)
Total expenditures	<u>8,243,292</u>	<u>8,243,292</u>	<u>5,761,670</u>	<u>(2,481,622)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	37,342	37,342
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>37,342</u>	<u>37,342</u>
Net change in fund balances	(2,003,316)	(2,003,316)	1,432,620	3,435,936
Fund balances - beginning	(974,372)	(1,287,257)	3,317,603	4,604,860
Fund balances - ending	<u>\$ (2,977,688)</u>	<u>\$ (3,290,573)</u>	<u>\$ 4,750,223</u>	<u>\$ 8,040,796</u>

**Lakes Highway District**

**GASB 68 Required Supplementary Information  
For the Year Ended September 30, 2016**

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

	<u>2016</u>	<u>2015</u>
Employer's portion of the net pension liability	0.0417010%	0.0425010%
Employer's proportionate share of the net pension liability	\$ 845,343	\$ 559,669
Employer's covered-employee payroll	\$ 1,216,696	\$ 1,205,188
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	69.48%	46.44%
Plan fiduciary net position as a percentage of the total pension liability	87.26%	91.38%

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

Data reported is measured as of July 1, 2016 (measurement date).

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

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 137,731	\$ 136,466
Contributions in relation to the statutorily required contribution	137,731	136,466
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll of its covered employee payroll	\$ 1,216,696	\$ 1,205,188
Contributions as a percentage of covered-employee payroll	11.32%	11.32%

\* 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, 2016.

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 and major funds of Lakes Highway District as of and for the year ended September 30, 2016, 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 March 21, 2017.

***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) 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Lakes Highway District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 and compliance. Accordingly, this communication is not suitable for any other purpose.

*Magnuson, McHugh & Company, P.A.*

Magnuson, McHugh & Co., P.A.

March 21, 2017