

CITY OF ATHOL

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

Year Ended September 30, 2009

Prepared by

Anderson Bros. CPA's, P.A.

Post Falls, ID

CITY OF ATHOL

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CITY OF ATHOL, IDAHO

ORGANIZATION

SEPTEMBER 30, 2009

MAYOR

Lanny Spurlock

CITY COUNCIL

Robert Rickel
Mark Dane
Lewis Miller
Shirley Hyke

CITY CLERK

Sally Hansen

MAINTENANCE

Robert Wachter

INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Athol, Idaho

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Athol, Idaho, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Athol, Idaho's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Athol, Idaho, as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City of Athol has not presented Management's Discussion & Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2009, on our consideration of the City of Athol, Idaho'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* and should be considered in conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 23 through 24 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Anderson Bros".

Anderson Bros. CPA's, P.A.

Post Falls, Idaho
November 4, 2009

**CITY OF ATHOL
STATEMENT OF NET ASSETS
September 30, 2009**

	Government Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash & Investments	\$ 354,870	436,453	791,323
Receivables:			
Interest	165	-	165
Property Taxes	7,186	-	7,186
Accounts Receivable (net)	-	13,563	13,563
Due from Other Governments	15,884	-	15,884
Prepaid Expenses	2,079	-	2,079
Total Current Assets	380,184	450,016	830,200
Land	135,519	69,054	204,573
Capital Assets	252,969	1,273,922	1,526,891
Accumulated Depreciation	(95,306)	(507,849)	(603,155)
Total Capital Assets	293,182	835,127	1,128,309
Total Assets	\$ 673,366	1,285,143	1,958,509
LIABILITIES			
Current Liabilities:			
Checks in Excess of Deposits	\$ 5,780	-	5,780
Accounts Payable	1,356	477	1,833
Payroll, Benefits, and Taxes Payable	3,926	1,456	5,382
Compensated Absences Payable	8,198	4,099	12,297
Total Current Liabilities	19,260	6,032	25,292
Long-Term Liabilities	-	-	-
Total Liabilities	19,260	6,032	25,292
NET ASSETS			
Invested in Capital Assets, net of related debt	293,182	835,127	1,128,309
Unrestricted	360,924	443,984	804,908
Total Net Assets	\$ 654,106	1,279,111	1,933,217

See accompanying notes to financial statements and auditors' report.

CITY OF ATHOL
Statement of Activities
Year Ended September 30, 2009

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government - General	\$ 86,615	-	-	1,750	(84,865)	-	(84,865)
General Government - Streets	117,062	-	-	-	(117,062)	-	(117,062)
Depreciation	12,145	-	-	-	(12,145)	-	(12,145)
Total Governmental Activities	215,822	-	-	1,750	(214,072)	-	(214,072)
Business-type Activities							
Water Service	113,285	80,328	-	-	-	(32,957)	(32,957)
Total Business-type Activities	113,285	80,328	-	-	-	(32,957)	(32,957)
Total Activities	\$ 329,107	80,328	-	1,750	(214,072)	(32,957)	(247,029)

General Revenues:

Property Taxes	82,003	-	82,003
Other Governmental	83,390	-	83,390
Licenses and Permits	1,625	-	1,625
Interest Earnings	4,550	4,914	9,464
Rents	10,458	10,929	21,387
Other Revenues	5,846	-	5,846
Total general revenues and transfers	187,872	15,843	203,715
Change in Net Assets	(26,200)	(17,114)	(43,314)
Net assets-beginning	680,306	1,296,225	1,976,531
Net assets-ending	\$ 654,106	1,279,111	1,933,217

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2009**

	General Fund	Street Fund	Total
ASSETS			
Cash & Investments	\$ 230,311	124,559	354,870
Receivables:			
Interest	165	-	165
Property Taxes	7,186	-	7,186
Other Governments	10,203	5,681	15,884
Total Assets	<u>\$ 247,865</u>	<u>130,240</u>	<u>378,105</u>
LIABILITIES			
Current Liabilities:			
Checks in Excess of Deposits	\$ -	5,780	5,780
Accounts Payable	794	562	1,356
Payroll, Benefits and Taxes Payable	2,469	1,457	3,926
Deferred Revenue	6,099	-	6,099
Total Liabilities	<u>9,362</u>	<u>7,799</u>	<u>17,161</u>
FUNDEQUITY			
Unreserved Fund Balance	151,430	21,631	173,061
Reserved Fund Balance	84,994	100,810	185,804
Reserved for Prepaid Expenses	2,079	-	2,079
Total Fund Equity	<u>238,503</u>	<u>122,441</u>	<u>360,944</u>
Total Liabilities and Fund Equity	<u>\$ 247,865</u>	<u>130,240</u>	<u>378,105</u>
RECONCILIATION TO THE STATEMENT OF NET ASSETS:			
Total fund equity reported above			\$ 360,944
Add prepaid expenses not reported above			2,079
Add capital assets not reported above		388,488	
Less accumulated depreciation		(95,306)	
Net Capital Assets			<u>293,182</u>
Less liabilities not reported above:			
Compensated Absences		(8,198)	
Total liabilities not reported above			<u>(8,198)</u>
Deferred revenues for property taxes receivable			6,099
Net Assets			<u>\$ 654,106</u>

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED SEPTEMBER 30, 2009**

	General Fund	Street Fund	Total
Revenues:			
Intergovernmental	\$ 90,709	75,210	165,919
Interest Earnings	2,596	1,954	4,550
Licenses & Permits	1,625	-	1,625
Rents	10,458	-	10,458
Other	5,846	-	5,846
Total Revenues	111,234	77,164	188,398
Expenditures:			
General Government	90,138	-	90,138
Highways and Streets	-	120,584	120,584
Capital Expenditures	708	-	708
Total Expenditures	90,846	120,584	211,430
Excess (Deficiency) of Revenues Over Expenditures	20,388	(43,420)	(23,032)
Other Sources (Uses):			
Transfers from Other Funds	-	-	-
Total Other Sources (Uses)	-	-	-
Net Change in Fund Balance	20,388	(43,420)	(23,032)
Fund Balance - October 1,	218,115	165,861	383,976
Fund Balance - September 30,	\$ 238,503	122,441	360,944

See accompanying notes to financial statements and auditors' report.

CITY OF ATHOL

Reconciliation of the
Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year Ended September 30, 2009

Changes in fund balances as reported on the governmental funds statements	\$ (23,032)
Decrease in current property taxes not reflected in revenue on the governmental funds statements	(526)
Amounts reported as expenditures on the governmental funds statements not included as expenses on the government-wide statements:	
Capital Expenses	708
Prepaid Insurance	2,079
Total expenses on the governmental fund statement not included included on the government-wide statement	<u>2,787</u>
Income on the government-wide statement of activity not included on the governmental funds statements:	
Contributed Capital	1,750
Total income on the government-wide statement of activity not included on the governmental funds statements:	<u>1,750</u>
Expenses on the government-wide statement of activity not included on the governmental funds statements:	
Depreciation	(12,145)
Decrease in Compensated Absence Liability	4,966
Total expenses on the government-wide statement of activity not included on the governmental funds statements:	<u>(7,179)</u>
Change in net assets on the government-wide statements	<u>\$ (26,200)</u>

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2009**

	Water Fund	Total
ASSETS		
CURRENT ASSETS:		
Cash & Investments	\$ 436,453	436,453
Accounts Receivable (net)	13,563	13,563
Total Current Assets	450,016	450,016
Capital Assets	1,342,976	1,342,976
Accumulated Depreciation	(507,849)	(507,849)
Total Capital Assets	835,127	835,127
TOTAL ASSETS	\$ 1,285,143	1,285,143
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable	\$ 477	477
Payroll, Benefits, and Taxes Payable	1,456	1,456
Compensated Absences Payable	4,099	4,099
Total Current Liabilities	6,032	6,032
Long Term Liabilities	-	-
TOTAL LIABILITIES	6,032	6,032
NET ASSETS		
Invested in Capital Assets	835,127	835,127
Unreserved	123,853	123,853
Reserved	320,131	320,131
Total Net Assets	\$ 1,279,111	1,279,111

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
STATEMENT OF INCOME AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2009**

	Water Fund	Total
Operating Revenues:		
Charges for Services	\$ 80,328	80,328
Hookups & Other	10,929	10,929
Total Operating Revenues	<u>91,257</u>	<u>91,257</u>
Operating Expenses:		
Administrative	29,261	29,261
Maintenance & Operations	40,783	40,783
Utilities	14,070	14,070
Depreciation	29,171	29,171
Total Operating Expenses	<u>113,285</u>	<u>113,285</u>
Operating Income (Loss)	(22,028)	(22,028)
Non-Operating Revenues (Expenses):		
Interest Income	4,914	4,914
Total Non-Operating Revenue (Expenses)	<u>4,914</u>	<u>4,914</u>
Change in Net Assets	(17,114)	(17,114)
Net Assets - October 1,	1,296,225	1,296,225
Net Assets - September 30,	<u>\$ 1,279,111</u>	<u>1,279,111</u>

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2009**

	Enterprise Fund Types	
	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 93,618	93,618
Payments to Employees	(30,287)	(30,287)
Payments to Suppliers	(54,376)	(54,376)
Net Cash Provided by Operating Activities	8,955	8,955
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for Capital Acquisitions	-	-
Net Cash Used by Capital and Related Financing Activities	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	5,805	5,805
Net Cash Provided by Investing Activities	5,805	5,805
Net Increase in Cash and Cash Equivalents	14,760	14,760
Cash and Cash Equivalents, October 1,	421,693	421,693
Cash and Cash Equivalents, September 30,	\$ 436,453	436,453
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS:		
Operating Income (Loss)	\$ (22,028)	(22,028)
Adjustments to Reconcile to Cash Flow:		
Depreciation	29,171	29,171
(Increase)/Decrease in Receivables	2,361	2,361
Increase/(Decrease) in Accounts Payable	477	477
Increase/(Decrease) in Accrued Wages	1,456	1,456
Increase/(Decrease) in Compensated Absences	(2,482)	(2,482)
Total Adjustments	30,983	30,983
Net Cash Provided by Operating Activities	\$ 8,955	8,955
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	-	-

See accompanying notes to financial statements and auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- ✓ the organization is legally separate (can sue and be sued in their own name)
- ✓ the City holds the corporate powers of the organization
- ✓ the City appoints a voting majority of the organization's board
- ✓ the City is able to impose its will on the organization
- ✓ the organization has the potential to impose a financial benefit/burden on the City
- ✓ there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Athol has no component units.

The City of Athol is a municipality of the State of Idaho. The City has oversight responsibility and control over all activities related to The City's functions. The City is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since the public elects the City Council members.

Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

The statement of activities presents a comparison between direct and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not received for a specific purpose and classified as program revenues, including all taxes, are presented as general revenues.

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category-*governmental, and enterprise* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

Street Fund. The street fund accounts for the proceeds of specific revenue sources (other than trusts or major capital projects), the expenditures for which are legally restricted for purposes specified in the grant agreements. Principal sources of revenue are property taxes and state and local highway funds. Primary expenditures are for employee wages and benefits, street maintenance & repairs, and other general administration costs.

The City reports the following major enterprise funds:

Water Enterprise Fund. The Water Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are financed through user charges.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donation is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Assets, Liabilities, and Equity

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at September 30, 2008, based on market prices. The individual funds' portions of the pool's fair value are presented as "Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds monthly based on the average daily balance of each participating fund.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

The City considers cash and cash equivalents in enterprise funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Receivables for State Highway User's Tax, State Liquor, and State Revenue Sharing are recorded as revenue in governmental funds.

The City records enterprise fund charges as earned, not when collected.

Property Tax Calendar

Property taxes are levied on the third Monday of September and attach as an enforceable lien on property. They are payable in two installments on December 20 of the current year and June 20 of the next calendar year. The taxes are collected and remitted to the City by Kootenai County.

Inventories and Prepaid Items

The City has adopted the purchase method for recording and classifying material and supply purchases. Under this method, purchases of materials and supplies are recognized as expenditures when the goods are received and the transaction is vouchered. Because on hand materials and supplies of the City are not considered significant, no amount is reflected on the balance sheet and no portion of fund balance is reserved.

Use of Estimates

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

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. In connection with implementation of GASB Statement No. 34, the City established a threshold of \$500 for capitalization of depreciable assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Capital Assets-(continued)

GASB Statement No. 34 permits local governments to defer retroactive capitalization of infrastructure for up to four years. The City has elected this option and has deferred capitalization of its highway and streets infrastructure. Management is in the process of assessing the impact that infrastructure capitalization will have on future financial statements.

Capital assets of the City are depreciated using the straight-line method over the following estimated lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 - 50
Buildings	30 - 50
Building Improvements	15 - 30
Vehicles	5 - 15
Office Equipment	5 - 10
Computer Equipment	5

Compensated Absences

Employees eligible for leave include full-time equivalent employees that have been employed by the City for one year.

After the first year of employment, a full-time equivalent employee accrues five (5) days of vacation leave per year. After the second year of employment, an employee accrues ten (10) days per year, and after three (3) years of employment and beyond, fifteen (15) days per year. The maximum of unused vacation leave a full-time employee may accumulate is the number of days, which the employee would accumulate in one year at the current accrual rate. Upon termination of employment from the City, an employee will be paid for unused vacation leave not to exceed the maximum amount normally accrued in one year of employment. The liability for compensated absences (\$12,297 at September 30, 2009), which represents normal accumulations, has been recorded in the government-wide statement of net assets, allocated between government activities and business-type activities.

The City's sick leave policy permits the accumulation of six (6) sick days per year up to a maximum of 30 days for full-time equivalent employees. Employees are not paid for unused sick days upon termination of employment. Accordingly, sick pay is charged to expenditures when taken. No provision has been made in the financial statements for unused sick leave.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENT BALANCES

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of September 30, 2009:

	Pooled Cash and Investments	Other	Total
Bank Deposits	\$ -	9,866	9,866
Investments (net)	781,407	-	781,407
Cash on Hand	-	50	50
Total	\$ 781,407	9,916	791,323

	Government-wide Statement of Net Assets	Fiduciary Fund Statement of Net Assets	Total
Bank Deposits	\$ 9,866	-	9,866
Investments (net)	781,407	-	781,407
Cash on Hand	50	-	50
Total	\$ 791,323	-	791,323

Cash Deposits

As of September 30, 2009, the carrying amount of the City's bank deposits was \$4,085 and the respective bank balances totaled \$21,211. Of the total bank balance, \$21,211 was insured through the Federal Depository Insurance Corporation (FDIC).

Investments

State statutes authorize the City's investments. The City of Athol is authorized to invest in 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, government pool and money market funds consisting of any of these securities listed. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes investments that are uninsured and unregistered, or for which securities are held by the counter party's trust department or agent in the entity's name.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENT BALANCES-(CONTINUED)

Investments in 2a7-like pools are valued based upon the value of pool shares. The City invests in one 2a7-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.

The balances above that the District has in the State Investment Pool are carried at fair value. The District's portion of the State Investment Pool had an unrealized gain of \$546 as of September 30, 2009.

The City's investments have been classified into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty or by the counterparty's trust department or agent, but not in the City's name.

The following schedule classifies the investments of the City as of September 30, 2009, into the above noted categories:

	Category			Carrying Amount
	1	2	3	
Investment in Local Government Investment Pool	\$ 781,407	-	-	781,407
Total Investments	\$ 781,407	-	-	781,407

NOTE 3 - RECEIVABLES

The following is a schedule of property taxes assessed for the year, collected and remaining to be received.

Year	Balance 9/30/08	Levy 2008	Adjustments & Collections	Balance 9/30/09
2003-2009	\$ 11,335	83,000	(87,149)	\$ 7,186

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 3 – RECEIVABLES-(CONTINUED)

In accordance with NCGA Interpretation #3, revenue, which is not received within 60 days of the year-end, has been reflected as deferred revenue. The balance as of September 30, 2009 is as follows:

Taxes Due at September 30, 2009	\$	7,186
Received October 2009		(587)
Received November 2009		(500)
Total	\$	<u>6,099</u>

The analysis of accounts receivable and due from other governments is as follows:

GENERAL FUND:

State Revenue Sharing	\$	5,640
Highway User's		5,681
State Liquor		4,563
Total	\$	<u>15,884</u>

PROPRIETARY FUND:

User Fees Receivable (net)	\$	13,563
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CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 135,519	-	-	135,519
Total capital assets not being depreciated	135,519	-	-	135,519
<i>Capital assets being depreciated</i>				
Buildings & Improvements	69,523	-	-	69,523
Equipment	180,988	2,458	-	183,446
Total capital assets being depreciated	250,511	2,458	-	252,969
Less accumulated depreciation for:				
Buildings & Improvements	13,503	2,946	-	16,449
Equipment	69,658	9,199	-	78,857
Total accumulated depreciation	83,161	12,145	-	95,306
Total capital assets being depreciated, net	167,350	(9,687)	-	157,663
Governmental Activity Capital Assets, net	\$ 302,869	(9,687)	-	293,182

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 4 – CAPITAL ASSETS-(CONTINUED)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 69,054	-	-	69,054
Total capital assets not being depreciated	69,054	-	-	69,054
<i>Capital assets being depreciated</i>				
Buildings & Improvements	17,198	-	-	17,198
Equipment	1,256,724	-	-	1,256,724
Total capital assets being depreciated	1,273,922	-	-	1,273,922
Less accumulated depreciation for:				
Buildings & Improvements	15,544	209	-	15,753
Equipment	463,134	28,962	-	492,096
Total accumulated depreciation	478,678	29,171	-	507,849
Total capital assets being depreciated, net	795,244	(29,171)	-	766,073
Governmental Activity Capital Assets, net	\$ 864,298	(29,171)	-	835,127

Because the City is a Phase 3 government (governments with total annual revenues of less than \$10 million), the City is encouraged but not required to report major infrastructure assets retroactively. The City has not yet made a determination as to whether or not to record infrastructure assets retroactively.

Unallocated depreciation expense of governmental activities was \$12,145.

NOTE 5 - CONTRIBUTIONS TO PENSION PLAN

Public Employee Retirement System of Idaho (PERSI) – The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members of beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for political subdivisions to participate by contractual agreement with PERSI. After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 5 - CONTRIBUTIONS TO PENSION PLAN-(CONTINUED)

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of the City of Athol and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2008, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The City of Athol's employer contributions required and paid were \$10,023, \$9,846, and \$8,707 for the three years ended September 30, 2009, 2008, and 2007, respectively.

The City also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. City employees contributed \$0 to this plan in fiscal year 2008/09.

NOTE 6 - RISK MANAGEMENT

The City faces a number of risks of loss including damage to and loss of property and contents, professional liability, i.e. errors and omissions, and health insurance costs of employees. Commercial insurance policies are purchased for health insurance. Coverage for the loss or damage to property and professional liability insurance is provided by the Idaho Counties Risk Management Program (ICRMP).

ICRMP provides general liability, property insurance, and public officials' insurance. The City, along with other participating entities, contributes annual amounts determined by ICRMP management. As claims arise they are submitted to and paid by ICRMP. During fiscal year 2008/09, the City contributed \$2,324 from the general fund, \$2,323 from the street fund, and \$2,323 from the enterprise fund for this insurance coverage. There were no significant reductions in insurance coverage from the prior year. The City's workman's compensation coverage is provided by the Idaho State Insurance Fund. During fiscal year 2008/09, the City contributed \$716 from the general fund, \$810 from the street fund, and \$810 from the enterprise fund for this insurance coverage.

NOTE 7 - RESERVED FUND BALANCES

Reserved fund balances are resources that the City has designated for future capital needs.

**CITY OF ATHOL
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED SEPTEMBER 30, 2009**

	General Fund			Street Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Other Governmental	\$ 95,600	95,600	90,709	80,600	80,600	75,210
Interest Earnings	6,000	6,000	2,596	5,000	5,000	1,954
Licenses and Permits	1,600	1,600	1,625	-	-	-
Rents	10,000	10,000	10,458	-	-	-
Other	5,700	5,700	5,846	1,000	1,000	-
Carryover	34,000	34,000	34,000	30,000	30,000	30,000
Total Revenues	152,900	152,900	145,234	116,600	116,600	107,164
Expenditures:						
General Government	87,150	87,150	90,138	-	-	-
Highways and Streets	-	-	-	71,500	71,500	120,584
Capital Expenditures	65,750	65,750	708	45,100	45,100	-
Total Expenditures	152,900	152,900	90,846	116,600	116,600	120,584
Excess (Deficiency) of Revenues Over Expenditures	-	-	54,388	-	-	(13,420)
Other Financing Sources (Uses):						
Transfer to Other Funds	-	-	-	-	-	-
Net Other Financing Sources (Uses)	-	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	-	-	54,388	-	-	(13,420)
Fund Balance - October 1,	218,115	218,115	218,115	165,861	165,861	165,861
Fund Balance - September 30,	\$ 218,115	218,115	272,503	165,861	165,861	152,441
Adjustments to conform with GAAP:						
Carryover Balance included in Fund Balance			(34,000)			(30,000)
Fund Balance, end of year (GAAP basis)			<u>238,503</u>			<u>122,441</u>

See accompanying auditors' report.

CITY OF ATHOL
NOTES TO THE BUDGET AND ACTUAL SCHEDULE
Year Ended September 30, 2009

Budgets are adopted for the general, street, and enterprise fund. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget was adopted on August 1, 2008.

The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by State law. The budget was not amended for fiscal year 2008/09.

The budget is prepared on the basis of accounting described for its governmental funds in Note 1 to the financial statement. Tax levies are set by expenditure requirements, but are authorized and limited by State law. Transfers of budget authority within a fund are permitted. Appropriations lapse at September 30, except those expenditures made prior to October 30 for appropriations of the preceding fiscal year may be charged to that fiscal year. There were no such expenditures in fiscal year 2009.

The amounts shown in the budget column of the schedule are the original and final budgeted amounts. State law requires only that a fund's total expenditures not exceed total budgeted expenditures.

The City's street fund exceeded budgeted expenditures by \$3,984.

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

Mayor and City Council
City of Athol, Idaho

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Athol, Idaho as of and for the year ended September 30, 2009, which collectively comprise the City of Athol, Idaho's basic financial statements and have issued our report thereon dated November 4, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Athol, Idaho's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Athol, Idaho's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Athol, Idaho's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Athol, Idaho's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Athol, Idaho's financial statements that is more than inconsequential will not be prevented or detected by the City of Athol, Idaho's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, 2009-1, 2009-2, and 2009-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Athol, Idaho's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items #2009-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Athol, Idaho's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses. 2009-4 and 2009-5.

We noted certain matters that we reported to management of the City of Athol, Idaho, in a separate letter dated November 4, 2009.

The City of Athol, Idaho's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Athol, Idaho's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Mayor and City Council, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson Bros. CPA's, P.A.

Post Falls, Idaho
November 4, 2009

City of Athol

Schedule of Findings and Responses

2009-1

Financial Statements

In our judgment, the City's personnel and those charged with governance, in the course of their assigned duties, lack the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles (GAAP) and to detect and correct a material misstatement, if present.

Criteria

The Auditing Standards Board (ASB) recently issued guidance to auditors related to an entity's internal controls over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including footnotes. SAS No. 112 emphasizes that the auditor cannot be part of your system of internal control over financial reporting.

Condition

In our judgment, the City's personnel and those charged with governance, in the course of their assigned duties, lack the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles (GAAP) and to detect and correct a material misstatement, if present.

Effect

In our judgment, the inability to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles does not allow the City the ability to detect and correct a material misstatement in the financial statements, if present.

Cause

The City hires personnel who have the ability to perform general bookkeeping functions, perform general office tasks, and assist in preparation of budgets. They have never been asked to prepare financial statements or related notes.

Recommendations

In our judgment, management and those charged with governance need to understand the importance of this communication. However, due to the lack of resources available to management to correct this material weakness in financial reporting, we recommend management mitigate this weakness by having heightened awareness of all transactions being reported and consider consulting with an individual that will enhance financial reporting capabilities.

Views of Responsible Officials

The City does recognize this weakness.

2009-2

Segregation of Duties

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Council remains involved in the financial affairs of the organization to provide oversight and independent review functions. An accounting system that provides adequate internal controls would be designed so that no one individual is involved with a transaction from its beginning to its ending.

Criteria

An accounting system that provides adequate internal controls would be designed so that no one individual is involved with a transaction from its beginning to its ending.

Condition

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect

This situation dictates that the Council remains involved in the financial affairs of the organization to provide oversight and independent review functions.

Cause

The City does not have enough staff to adequately segregate all accounting functions.

Recommendations

Our recommendation is to perhaps increase the staff size of the City to allow for adequate segregation of duties or involve a City Council member in some aspects of the financial reporting process.

Views of Responsible Officials

The City realizes it would be good to have additional staff. When able, the City will consider a part time position.

2009-3

Allocation of cash per fund

The City's three funds share one checking account and one savings account. The allocations of cash per fund were misstated.

Criteria

Cash and cash equivalents must be recorded to the proper fund for proper reporting on the financial statements.

Condition

The City's three funds share one checking account and one savings account. The allocations of cash per fund were misstated.

Effect

Cash was misstated in each fund.

Cause

The accounting personnel had mistakenly recorded some revenue items in the improper fund.

Recommendations

We recommend that the City's accounting personnel make sure the transactions are allocated to the proper fund when recording accounting transactions.

Views of Responsible Officials

The City's accounting personnel will make sure the transactions are allocated to the proper fund when recording accounting transactions.

2009-4

Compensated Absences

The City did not follow Resolution 75 when an employee retires from employment with the City.

Criteria

The City's Resolution 75 states that upon termination of employment, all unused sick leave remaining in the employee's sick leave account shall be forfeited.

Condition

The City did not follow Resolution 75 when an employee retires from employment with the City.

Effect

The City overpaid the retired employee \$5,000 plus applicable payroll taxes and retirement. The estimated total cost to the City is \$6,000.

Cause

The City was not aware of this policy and inadvertently approved payment of the sick leave balance upon the retirement of a City employee.

Recommendations

We recommend that the City review its policy for compensated absences and follow the policy in the future.

Views of Responsible Officials

The City will work on reviewing policies and being up to date on the personnel manual per Resolution 75 regarding policy for compensated absences.

2009-5

Budget Violation

The City's street fund exceeded budgeted expenditures by \$3,984.

Criteria

Idaho State law requires only that each government fund's total expenditures not exceed total budgeted expenditures.

Condition

The City's street fund exceeded budgeted expenditures by \$3,984.

Effect

No financial effect because this is a compliance issue.

Cause

The City did not check the Idaho code or was not aware of the excess expenditures to make amendments to the budget accordingly.

Recommendations

We recommend that the City follow Idaho State law regarding budgets.

Views of Responsible Officials

The City is aware of State Code regarding budgets. City is updating accounting software to provide reports and make sure within Idaho State law regarding budgets.

Journal Entry - Sept. 30.

price bal. of wheat

Bal. Sheet. Oct. 1 -

cust

Sept. 30, 2009

need

accts

receivable &

gallons.