



LE MASTER &
DANIELS PLLC

BONNER COUNTY, IDAHO
SANDPOINT, IDAHO

**Basic Financial Statements and
Independent Auditors' Reports**

September 30, 2003

Bonner County, Idaho

Sandpoint, Idaho

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ACCOUNTING

INDEPENDENT AUDITORS' REPORT

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SERVICES

Board of County Commissioners
Bonner County, Idaho
Sandpoint, Idaho

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NETWORK

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bonner County, Idaho (the County) as of and for the year ended September 30, 2003, which collectively comprise the County's basic financial statements as listed in the contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 our audit provides a reasonable basis for our opinions.

We were unable to obtain the audited financial statements supporting the financial activities of the Pension Trust Fund, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. Those financial activities are included in the Trust and Agency Funds and represent 59% and 92% of the assets and revenues, respectively, of the Agency and Trust Funds.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Pension Trust Fund's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information for Bonner County, Idaho, as of September 30, 2003, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Bonner County, Idaho, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Justice Fund, Road and Bridge Fund, and the Debt Service Fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

As permitted by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the County has elected the four-year transition period for the recording of the infrastructure assets in place prior to September 30, 2002. This matter is further discussed in note 1, Organization and Summary of Significant Accounting Policies.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 10 is not a required part of the basic financial statement but is supplementary information required by GASB. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bonner County's basic financial statements. The supplemental information section is listed in the contents, including the schedule of expenditures of federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects on the Trust and Agency Funds of including unaudited information for the Pension Trust Fund, as discussed above, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LeMaster & Daniels LLC

Spokane, Washington
November 21, 2003

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

As management of Bonner County, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Bonner County for the fiscal year ended September 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the accompanying footnotes, which are a part of this report.

Comparative analysis will be done on key elements of governmental funds and enterprise funds in this MD&A. In future years a comparative analysis of government-wide data will also be presented.

Financial Highlights

The key financial highlights for 2003 are as follows:

Bonner County's total net assets increased by \$1,429,620 which represents an 11% increase from 2002.

At the end of the current year, Bonner County's governmental funds reported a combined ending fund balance of \$11,872,313 from the prior year. Of this amount, \$11,331,391 is available for spending (unreserved fund balance) on behalf of its citizens.

At the end of the current year, unreserved fund balance for the General Fund was \$1,746,257, which represents a 1% decrease from the prior year and represents 62% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Bonner County's basic financial statements. Bonner County's basic financial statement is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Bonner County's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all county governmental and business-type assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of Bonner County is improving or deteriorating.

The *statement of activities* presents information on all county governmental and business-type revenue and expenses, with the difference reported as change in net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

Overview of the Financial Statements (continued)

Government-wide Financial Statements (continued).

Both of the above noted government-wide financial statements distinguish functions of Bonner County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Bonner County include general government, public safety, highways and streets, sanitation, health, welfare, education, and culture and recreation. The business-type activities of Bonner County include its solid waste operations.

For financial reporting purposes, management has considered all potential component units which are controlled or whose boards are appointed by the Board of County Commissioners. Control by Bonner County was determined on the basis of budget adoption, the selection of management, the ability to significantly influence operations, accountability for fiscal matters, and other factors. Based on this criteria, there were no component units included in Bonner County's report.

The government-wide financial statement contains information relative only to Bonner County itself and none of the 40 +/- other taxing districts housed within its boundaries. They are public entities unto themselves.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Bonner County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Bonner County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

Overview of the Financial Statements (continued)

Fund Financial Statements (continued).

Bonner County maintains twenty-five (25) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, justice fund, road and bridge fund, and the debt service fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Bonner County adopts an annual appropriated budget for its general fund, justice fund, road and bridge fund, and the debt service fund. A budgetary comparison has been presented for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

Proprietary funds – Bonner County maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions as the *business-type activities* in the government-wide financial statements. Bonner County uses the enterprise funds to account for its solid waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the solid waste operations, which are considered to be a major fund of Bonner County.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside Bonner County. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support Bonner County's own programs. The accounting used for the fiduciary funds is much like that used for the proprietary funds.

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-45 of this report.

For an overview of Bonner County and its operations one should refer to the *Notes*, which are an integral part of this report. There, discussion is had concerning the structure of the various offices; how and why our funds are established; when we call for budgets; how changes to a budget can be made once adopted; information concerning our long-term debt, capital assets, and leases.

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

Overview of the Financial Statements (continued)

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to financial statements.

Combining and individual fund statements and schedules can be found on pages 47-60 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. At the end of the current fiscal year, Bonner County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

As permitted by the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Bonner County has elected to forego the comparative analysis of the government-wide data presented. As required, Bonner County will present comparative analysis for the next fiscal year.

Financial Analysis of the Government's Funds

Governmental Funds. The major funds include our general (current expense), road and bridge, and our justice fund. At the close of business in fiscal year 2002 these three funds had a combined fund balance of \$6,582,174. At September 30, 2003, the fund balance for these same funds was \$6,536,394, which is a decrease of \$45,780 from the previous year. However, during the budget setting process \$1,996,448 of the \$6,536,394 was used to fund portions of our operations for the current fiscal year that will end on September 30, 2004. The \$4,539,946 remaining fund balance is used to finance our operations for the first quarter of the new fiscal year when tax collections are minimal. The \$4,539,946 represents 24% of our total operating budget of \$19,013,051 for these same three county funds. Maintaining this reserve ensures that we remain on firm financial footing not requiring that we borrow money to fund those operations.

Enterprise Fund. There was a decrease of \$283,781 in our net assets in the solid waste fund this year. This is primarily due to our fees not adequately covering the costs associated with the operations and the use of the \$761,611 of the carryover fund balance to help cover this shortfall.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-45 of the audit report.

Capital Assets and Long-term Debt

Our long-term liabilities are comprised of compensated absences, special assessments, and leases payable. As of September 30, 2003, our *Governmental Activities* show a current one-year liability of \$737,698 with an additional amount of \$2,385,012 payable in more than one year. This is a reduction of \$140,114 from our previous fiscal year liability of \$3,262,824 in these same activities.

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

Financial Analysis of the Government's Funds (continued)

Our *Business-Type Activities* (Solid Waste) show a one-year long-term debt obligation of \$15,709, all in the form of compensated absences. We also have a long-term obligation in this area exceeding one year in the amount of \$2,226, which is also in the form of compensated absences. This compares to the prior fiscal year total of \$15,924, showing an increase of \$2,011 over the previous year. All of this liability is in the form of vacation and compensatory time earned by the employees over time.

During the fiscal year ended September 30, 2003, there were no major capital asset events in any category.

Budget Variations

Developing a budget is not an exact science. It is the best estimate available at the time of projection of the revenues you anticipate receiving and a best estimate of the expenses you think you may incur during the next fiscal year. For the fiscal year ended September 30, 2003, there were no funds for which expenditures exceeded appropriations. There were also no funds with a deficit fund balance.

Activity in our three major funds provided the following ending results:

Governmental Activities:

General Fund: We budgeted to receive \$2,732,936 in various forms of revenue during the year. We exceeded that projection by \$94,466 with the major contributing factor being in the form of fees charged for services in vehicle inspections, recording, and planning. We anticipated expenditures in the amount of \$3,638,778 and underspent that amount by \$818,340. Of the \$818,340, it should be noted that \$700,000 of that figure is dedicated funds for the purchase of property that did not take place during this fiscal year.

Road and Bridge Fund: We anticipated receipt of \$5,696,113 in revenue to fund our operations during this fiscal year. Our expectations were exceeded by \$395,752, which was primarily in the form of the sale of county property during auction. We anticipated spending \$6,278,778, but realized an overexpenditure of \$223,769 mainly in the capital outlay portion of this fund due to the lease of new equipment (see note 17).

Justice Fund: Our revenues exceeded our budgeted projections by \$465,564. This was primarily due to an emphasis on collecting fees from our prisoners utilizing the inmate labor program, work release and by paying a portion of the costs of their incarceration. We anticipated spending \$8,087,616 in our efforts to provide public safety. We underspent that amount by \$308,378. Most of the unused budget authority was in form of salaries and benefits. We have a number of officers on assignment in Kosovo, Bosnia, Iraq, etc. Their positions are being held for them upon their return.

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

Budget Variations (continued)

Business-type Activities

Enterprise Fund: Bonner County projected a revenue budget of \$2,814,616 of which only \$2,654,490 was realized – a deficit of \$160,126. At the same time an expenditure budget of \$3,862,883 was set. This expenditure budget set up an automatic underfunding of these operations in the amount of \$1,048,267. Although the decision was made to use \$761,611 in carryover funds, this still left us with a budgeted shortfall of \$286,656. Fortunately, the department underspent its authorized budget by \$826,228. The under utilization of the expenditure budget coupled with the unrealized revenue projections have left us in a financially secure position in this fund. However, great care must be exercised in the future to ensure we remain financially sound in this area.

Economic and Other Factors Affecting Next Year's Operations

Local Economy

While other areas in the State are experiencing a negative growth resulting in reduced market valuations, Bonner County is still growing. Our median family income for 1998 was \$33,700 while in the State as a whole it was \$41,300. Both of these compare to the United States that had a median family income of \$45,300 for the same time period. The higher competition for jobs in Bonner County tends to keep wages low. The past 40 years has also seen a shift in focus of those jobs from timber based to service based. However, the rapid population increases of the past few decades has led to a doubling of constructions jobs since 1990 and a tripling of them since 1988. Retail trade has grown rapidly, spurred by population growth, rising incomes, expansion of tourism, and the past expansion of Coldwater Creek. The growth of Lighthouse and the opening of other firms also contributed to manufacturing growth. [Source: Regional Economic Profile, Idaho Dept. of Labor]

Bonner County is a rural county rather than an urban one. The following table shows the areas of growth in Bonner County for the past 40 years. [Source: Idaho Vital Statistics Annual Report]

<u>Entity</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Bonner County	15,560	24,163	26,622	36,835
Clark Fork	367	449	448	530
Dover	-	-	294	342
East Hope	175	258	215	200
Hope	63	106	99	79
Kootenai	168	280	327	441
Oldtown	161	257	151	190
Ponderay	275	398	449	638
Priest River	1,493	1,639	1,560	1,754
Sandpoint	4,144	4,460	5,203	6,835

In addition to the nine incorporated cities noted in the above table, Bonner County is home to 40 +/- taxing districts each of which elects its own governing board and has the authority to levy taxes. Many of these taxing districts have experienced significant growth and an increase on the demand for services that such growth generates.

Bonner County, Idaho

Sandpoint, Idaho

Management's Discussion and Analysis

County Operations

- Bonner County has purchased real estate to move the operations of our motor vehicle licensing and personal driver's license to an expanded facility.
- Bonner County has leased additional facilities to house the operations of our county assistance office and our public works operations. This will enable us to provide better physical facilities to those offices while allowing the planning department to expand their physical plant.
- We continue to work towards obtaining the federal building for our physical plant needs as well.
- A band shell is being developed on the fair grounds whose cost is being funded through donations.

Requests for Information

This financial report is designed to provide a general overview of Bonner County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Marie Scott
Bonner County Clerk
Bonner County Courthouse
215 South First Avenue
Sandpoint, Idaho 83864

Bonner County, Idaho

Sandpoint, Idaho

Statement of Net Assets

September 30, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 13,411,174	\$ 2,980,323	\$ 16,391,497
Receivables, net of allowance for uncollectibles:			
Taxes	14,395,740	-	14,395,740
Fees	-	143,381	143,381
Interest	19,269	-	19,269
Accounts	227,130	96,993	324,123
Special assessments	1,478,533	-	1,478,533
Due from other governments	245,756	-	245,756
Receivable from other funds	19,005	-	19,005
Prepaid expenses	4,400	-	4,400
Restricted assets:			
Cash	65,210	664,313	729,523
Cash on deposit with fiscal agent	-	664	664
Capital assets:			
Land	-	57,500	57,500
Other capital assets, net of depreciation	4,421,244	1,532,677	5,953,921
Total assets	<u>34,287,461</u>	<u>5,475,851</u>	<u>39,763,312</u>
LIABILITIES:			
Warrants payable	1,264,283	428,134	1,692,417
Vouchers payable	17,980	-	17,980
Accrued payroll	476,589	21,639	498,228
Accrued retirement payable	42,270	1,994	44,264
Accrued interest payable	39,961	-	39,961
Payable to funds	18,000	-	18,000
Deferred revenue	14,948,326	-	14,948,326
Long-term liabilities			
Due within one year:			
Compensated absences	304,026	15,709	319,735
Special assessment bonds payable	180,000	-	180,000
Leases payable	253,672	-	253,672
Due in more than one year			
Compensated absences	88,394	2,226	90,620
Special assessment bonds payable	1,275,000	-	1,275,000
Leases payable	1,021,618	-	1,021,618
Total liabilities	<u>19,930,119</u>	<u>469,702</u>	<u>20,399,821</u>
NET ASSETS:			
Invested in capital assets, net of related debt	1,690,955	1,590,177	3,281,132
Restricted for:			
Debt retirement	-	664	664
Capital improvements	-	664,313	664,313
Unrestricted	12,666,387	2,750,995	15,417,382
Total net assets	<u>\$ 14,357,342</u>	<u>\$ 5,006,149</u>	<u>\$ 19,363,491</u>

See accompanying notes to financial statements.

Bonner County, Idaho Sandpoint, Idaho

Statement of Activities

Year Ended September 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 6,002,956	\$ 519,493	\$ 137,250	\$ 150,665	\$ (5,195,548)	\$ -	\$ (5,195,548)
Public safety	8,262,144	917,669	762,944	98,071	(6,483,460)	-	(6,483,460)
Highways and streets	5,959,812	-	2,941,592	-	(3,018,220)	-	(3,018,220)
Sanitation	138,606	-	32,381	-	(106,225)	-	(106,225)
Health	207,956	9,953	-	-	(198,003)	-	(198,003)
Welfare	405,527	-	-	-	(405,527)	-	(405,527)
Education	344,220	-	-	-	(344,220)	-	(344,220)
Culture and recreation	442,436	-	28,085	157,609	(256,742)	-	(256,742)
Interest on long-term debt	164,461	-	-	-	(164,461)	-	(164,461)
Total governmental activities	21,928,118	1,447,115	3,902,252	406,345	(16,172,406)	-	(16,172,406)
Business-type activities:							
Solid waste	2,938,271	1,152,495	-	-	-	(1,785,776)	(1,785,776)
Total business-type activities	2,938,271	1,152,495	-	-	-	(1,785,776)	(1,785,776)
	\$ 24,866,389	\$ 2,599,610	\$ 3,902,252	\$ 406,345	(16,172,406)	(1,785,776)	(17,958,182)
General revenues							
Taxes:							
Property taxes, levied for general purposes					13,035,168	-	13,035,168
Special assessments					287,717	1,446,740	1,734,457
Licenses and permits					693,354	-	693,354
Intergovernmental revenues					2,088,842	-	2,088,842
Fines and forfeitures					190,787	-	190,787
Miscellaneous					928,322	55,255	983,577
Interest and investment earnings					377,836	-	377,836
Total general revenues and special items					17,602,026	1,501,995	19,104,021
Change in net assets					1,429,620	(283,781)	1,145,839
Net assets, beginning					12,927,722	5,289,930	18,217,652
Net assets, ending					\$ 14,357,342	\$ 5,006,149	\$ 19,363,491

See accompanying notes to financial statements.

Bonner County, Idaho

Sandpoint, Idaho

Balance Sheet - Governmental Funds

September 30, 2003

	<u>General</u>	<u>Justice</u>	<u>Road and Bridge</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Assets						
Cash and cash equivalents	\$ 1,878,896	\$ 4,285,392	\$ 1,535,825	\$ 460,873	\$ 5,250,188	\$ 13,411,174
Receivables, net of allowance for uncollectibles:						
Taxes	85,798	443,623	-	-	217,582	747,003
Interest	19,185	-	-	-	84	19,269
Accounts	94,144	21,028	6,979	-	104,979	227,130
Special assessments	-	-	269,675	1,208,858	-	1,478,533
Due from other governments	18,327	69,730	-	-	157,699	245,756
Due from other funds	-	-	-	-	19,005	19,005
Prepaid expenses	1,400	3,000	-	-	-	4,400
Restricted assets:						
Cash	-	-	-	65,210	-	65,210
Total assets	<u>\$ 2,097,750</u>	<u>\$ 4,822,773</u>	<u>\$ 1,812,479</u>	<u>\$ 1,734,941</u>	<u>\$ 5,749,537</u>	<u>\$ 16,217,480</u>
Liabilities and Fund Balances						
LIABILITIES:						
Warrants payable	\$ 152,261	\$ 235,239	\$ 349,635	\$ -	\$ 527,148	\$ 1,264,283
Vouchers payable	641	323	-	-	17,016	17,980
Accrued payroll	66,083	267,105	66,148	-	77,253	476,589
Accrued retirement payable	5,635	23,087	6,369	-	7,179	42,270
Due to other funds	-	-	-	-	18,000	18,000
Deferred revenue	81,496	421,276	256,627	1,194,019	268,601	2,222,019
Compensated absences payable	45,377	147,730	71,576	-	39,343	304,026
Total liabilities	<u>351,493</u>	<u>1,094,760</u>	<u>750,355</u>	<u>1,194,019</u>	<u>954,540</u>	<u>4,345,167</u>
FUND BALANCES:						
Reserved for:						
Debt service	-	-	-	540,922	-	540,922
Unreserved, reported in:						
General fund	1,746,257	-	-	-	-	1,746,257
Special revenue fund	-	3,728,013	1,062,124	-	3,685,127	8,475,264
Capital projects fund	-	-	-	-	1,109,870	1,109,870
Total fund balances	<u>1,746,257</u>	<u>3,728,013</u>	<u>1,062,124</u>	<u>540,922</u>	<u>4,794,997</u>	<u>11,872,313</u>
Total liabilities and fund balances	<u>\$ 2,097,750</u>	<u>\$ 4,822,773</u>	<u>\$ 1,812,479</u>	<u>\$ 1,734,941</u>	<u>\$ 5,749,537</u>	<u>\$ 16,217,480</u>

See accompanying notes to financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets**

September 30, 2003

Total fund balances as shown on the Governmental Funds Balance Sheet		\$ 11,872,313
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. This amount reflects the initial investment in capital assets, net of depreciation, at September 30, 2003.		4,421,244
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Property taxes		922,430
Long-term liabilities, including capital leases payable and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:		
Capital leases payable	\$ (1,275,290)	
Special assessment bonds payable	(1,455,000)	
Compensated absences	(88,394)	
Accrued interest payable	<u>(39,961)</u>	
		<u>(2,858,645)</u>
Total net assets as shown on the statement of net assets		<u><u>\$ 14,357,342</u></u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds**

Year Ended September 30, 2003

	<u>General</u>	<u>Justice</u>	<u>Road and Bridge</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:						
Taxes	\$ 1,257,488	\$ 5,801,233	\$ 3,052,158	\$ -	\$ 2,968,551	\$ 13,079,430
Licenses and permits	341,487	220,675	-	-	131,192	693,354
Intergovernmental	306,943	1,193,598	2,594,315	-	2,302,583	6,397,439
Charges for services	494,141	599,201	-	-	353,773	1,447,115
Fines	954	-	-	-	189,833	190,787
Special assessments	-	-	-	281,417	6,300	287,717
Interest income	377,463	-	-	-	373	377,836
Miscellaneous	48,926	122,026	445,392	-	311,978	928,322
Total revenues	<u>2,827,402</u>	<u>7,936,733</u>	<u>6,091,865</u>	<u>281,417</u>	<u>6,264,583</u>	<u>23,402,000</u>
EXPENDITURES:						
Current:						
General government	2,652,314	-	-	-	3,297,341	5,949,655
Public safety	64,663	7,439,800	-	-	732,552	8,237,015
Highways and streets	-	-	4,894,267	-	423,476	5,317,743
Sanitation	-	-	-	-	138,606	138,606
Health	-	-	-	-	207,956	207,956
Welfare	-	-	-	-	404,108	404,108
Education	-	-	-	-	344,220	344,220
Culture and recreation	-	-	-	-	420,752	420,752
Capital outlay	103,461	319,256	1,165,643	-	164,488	1,752,848
Debt service:						
Principal	-	18,488	370,810	170,000	-	559,298
Interest and fiscal charges	-	1,694	71,827	113,193	-	186,714
Total expenditures	<u>2,820,438</u>	<u>7,779,238</u>	<u>6,502,547</u>	<u>283,193</u>	<u>6,133,499</u>	<u>23,518,915</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,964</u>	<u>157,495</u>	<u>(410,682)</u>	<u>(1,776)</u>	<u>131,084</u>	<u>(116,915)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in (out)	(30,255)	(125,574)	-	-	155,829	-
Capital leases	-	-	356,272	-	-	356,272
Total other financing sources (uses)	<u>(30,255)</u>	<u>(125,574)</u>	<u>356,272</u>	<u>-</u>	<u>155,829</u>	<u>356,272</u>
NET CHANGE IN FUND BALANCES	<u>(23,291)</u>	<u>31,921</u>	<u>(54,410)</u>	<u>(1,776)</u>	<u>286,913</u>	<u>239,357</u>
FUND BALANCES, BEGINNING OF YEAR	<u>1,769,548</u>	<u>3,696,092</u>	<u>1,116,534</u>	<u>542,698</u>	<u>4,508,084</u>	<u>11,632,956</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,746,257</u>	<u>\$ 3,728,013</u>	<u>\$ 1,062,124</u>	<u>\$ 540,922</u>	<u>\$ 4,794,997</u>	<u>\$ 11,872,313</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

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

**Year Ended
September 30, 2003**

Amounts reported for governmental activities in the statement of activities are
different because:

Net changes in fund balances - total governmental funds	\$ 239,357
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,010,543
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(44,262)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	203,316
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>20,666</u>
Change in net assets, as reflected on the statement of activities	<u><u>\$ 1,429,620</u></u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Statement of Revenues, Expenditures
and Changes in Fund Balances -
Budget and Actual - General Fund**

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Taxes	\$ 1,255,257	\$ 1,255,257	\$ 1,257,488	\$ 2,231
Licenses and permits	330,509	330,509	341,487	10,978
Intergovernmental	289,697	289,697	306,943	17,246
Charges for services	360,240	360,240	494,141	133,901
Fines	-	-	954	954
Interest income	460,000	460,000	377,463	(82,537)
Miscellaneous	37,233	37,233	48,926	11,693
Total revenues	<u>2,732,936</u>	<u>2,732,936</u>	<u>2,827,402</u>	<u>94,466</u>
EXPENDITURES:				
Current:				
General government	3,428,918	3,468,087	2,652,314	815,773
Public safety	74,193	76,193	64,663	11,530
Capital outlay	76,998	94,498	103,461	(8,963)
Total expenditures	<u>3,580,109</u>	<u>3,638,778</u>	<u>2,820,438</u>	<u>818,340</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(847,173)	(905,842)	6,964	912,806
OTHER FINANCING USES:				
Operating transfers out	-	-	(30,255)	(30,255)
NET CHANGE IN FUND BALANCE	(847,173)	(905,842)	(23,291)	882,551
FUND BALANCES, BEGINNING OF YEAR	<u>847,173</u>	<u>905,842</u>	<u>1,769,548</u>	<u>863,706</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,746,257</u>	<u>\$ 1,746,257</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Statement of Revenues, Expenditures
and Changes in Fund Balances -
Budget and Actual - Justice Fund**

Year Ended September 30, 2003

	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual	
REVENUES:				
Taxes	\$ 5,700,508	\$ 5,700,508	\$ 5,801,233	\$ 100,725
Licenses and permits	200,213	200,213	220,675	20,462
Intergovernmental	1,260,102	1,260,102	1,193,598	(66,504)
Charges for services	284,246	284,246	599,201	314,955
Miscellaneous	26,100	26,100	122,026	95,926
Total revenues	<u>7,471,169</u>	<u>7,471,169</u>	<u>7,936,733</u>	<u>465,564</u>
EXPENDITURES:				
Current:				
Public safety	7,612,513	7,729,136	7,439,800	289,336
Debt service				
Principal	12,458	12,458	18,488	(6,030)
Interest	1,142	1,142	1,694	(552)
Capital outlay	115,290	344,880	319,256	25,624
Total expenditures	<u>7,741,403</u>	<u>8,087,616</u>	<u>7,779,238</u>	<u>308,378</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(270,234)	(616,447)	157,495	773,942
OTHER FINANCING USES:				
Operating transfers out	-	-	(125,574)	(125,574)
NET CHANGE IN FUND BALANCE	(270,234)	(616,447)	31,921	648,368
FUND BALANCES, BEGINNING OF YEAR	<u>270,234</u>	<u>616,447</u>	<u>3,696,092</u>	<u>3,079,645</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,728,013</u>	<u>\$ 3,728,013</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Statement of Revenues, Expenditures
and Changes in Fund Balances -**

Budget and Actual - Road and Bridge Fund

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Taxes	\$2,986,350	\$2,986,350	\$3,052,158	\$ 65,808
Intergovernmental	2,699,763	2,699,763	2,594,315	(105,448)
Miscellaneous	10,000	10,000	445,392	435,392
Total revenues	<u>5,696,113</u>	<u>5,696,113</u>	<u>6,091,865</u>	<u>395,752</u>
EXPENDITURES:				
Current:				
Highways and streets	5,059,610	5,124,610	4,894,267	230,343
Debt service				
Principal	178,421	178,421	370,810	(192,389)
Interest	34,561	34,561	71,827	(37,266)
Capital outlay	553,916	941,186	1,165,643	(224,457)
Total expenditures	<u>5,826,508</u>	<u>6,278,778</u>	<u>6,502,547</u>	<u>(223,769)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(130,395)	(582,665)	(410,682)	171,983
OTHER FINANCING SOURCES:				
Capital leases	-	-	356,272	356,272
NET CHANGE IN FUND BALANCE	(130,395)	(582,665)	(54,410)	528,255
FUND BALANCES, BEGINNING OF YEAR	<u>130,395</u>	<u>582,665</u>	<u>1,116,534</u>	<u>533,869</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,062,124</u>	<u>\$ 1,062,124</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Statement of Revenues, Expenditures
and Changes in Fund Balances -
Budget and Actual - Debt Service Fund**

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Special assessments	\$284,914	\$284,914	\$281,417	\$ (3,497)
Miscellaneous	5,000	5,000	-	(5,000)
Total revenues	<u>289,914</u>	<u>289,914</u>	<u>281,417</u>	<u>(8,497)</u>
EXPENDITURES:				
Debt service:				
Principal	170,000	170,000	170,000	-
Interest and fiscal charges	172,262	172,262	113,193	59,069
Other	56,014	56,014	-	56,014
Total expenditures	<u>398,276</u>	<u>398,276</u>	<u>283,193</u>	<u>115,083</u>
NET CHANGE IN FUND BALANCE	(108,362)	(108,362)	(1,776)	106,586
FUND BALANCES, BEGINNING OF YEAR	<u>108,362</u>	<u>108,362</u>	<u>542,698</u>	<u>434,336</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,922</u>	<u>\$ 540,922</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Net Assets - Proprietary Funds

September 30, 2003

	Business-type Activities Enterprise Funds <u>Solid Waste</u>
Assets	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 2,980,323
Receivables, net of allowance for uncollectibles:	
Fees	143,381
Accounts	96,993
Total current assets	<u>3,220,697</u>
NONCURRENT ASSETS:	
Restricted assets:	
Cash	\$ 664,313
Cash on deposit with fiscal agent	664
Fixed assets, net of depreciation	<u>1,590,177</u>
Total noncurrent assets	<u>2,255,154</u>
Total assets	<u>5,475,851</u>
Liabilities	
CURRENT LIABILITIES:	
Warrants payable	428,134
Accrued payroll	21,639
Accrued retirement payable	1,994
Compensated absences payable	15,709
Total current liabilities	<u>467,476</u>
NONCURRENT LIABILITIES:	
Compensated absences payable	<u>2,226</u>
Total liabilities	<u>469,702</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 1,590,177
Reserved for:	
Debt retirement	664
Capital improvements	664,313
Unrestricted	<u>2,750,995</u>
Total net assets	<u>\$ 5,006,149</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

**Statement of Revenues, Expenses,
and Changes in Fund Net Assets -
Proprietary Funds**

Year Ended September 30, 2003

	Business-type Activities Enterprise Funds	
		<u>Solid Waste</u>
<i>OPERATING REVENUES:</i>		
Charges for services		\$2,599,235
Total operating revenues		<u>2,599,235</u>
<i>OPERATING EXPENSES:</i>		
Salaries	\$ 434,939	
Benefits	134,249	
Other services and charges	2,205,067	
Depreciation	<u>164,016</u>	
Total operating expenses		<u>2,938,271</u>
<i>OPERATING LOSS</i>		(339,036)
<i>NONOPERATING REVENUES:</i>		
Penalties and interest	31,114	
Miscellaneous	<u>24,141</u>	
Total nonoperating revenues		<u>55,255</u>
<i>DECREASE IN NET ASSETS</i>		(283,781)
<i>NET ASSETS, BEGINNING OF YEAR</i>		<u>5,289,930</u>
<i>NET ASSETS, END OF YEAR</i>		<u><u>\$5,006,149</u></u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Cash Flows -
Proprietary Funds

Year Ended September 30, 2003

	Business-type Activities Enterprise Funds <u>Solid Waste</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>	
Cash received from customers	\$2,623,648
Cash payments to suppliers for goods and services	(2,207,598)
Cash payments to employees for services	(563,268)
Net cash used in operating activities	<u>(147,218)</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</i>	
Miscellaneous receipts	55,255
<i>CASH FLOWS USED IN CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES:</i>	
Acquisition of fixed assets	<u>(215,035)</u>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	<u>(306,998)</u>
<i>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</i>	<u>3,952,298</u>
<i>CASH AND CASH EQUIVALENTS, END OF YEAR</i>	<u><u>\$3,645,300</u></u>
<i>CASH AND CASH EQUIVALENTS:</i>	
Cash	\$2,980,323
Restricted assets:	
Cash	664,313
Cash on deposit with fiscal agent	<u>664</u>
	<u><u>\$3,645,300</u></u>
<i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</i>	
Operating loss	\$ (339,036)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	\$ 164,016
Changes in assets and liabilities:	
Decrease in receivables:	
Fees	12,501
Accounts	11,912
Decrease in warrants payable	(2,531)
Increase in accrued payroll	3,485
Increase in retirement payable	424
Increase in compensated absences payable	<u>2,011</u>
Total adjustments	<u>191,818</u>
Net cash used in operating activities	<u><u>\$ (147,218)</u></u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Fiduciary Net Assets - Fiduciary Funds

September 30, 2003

	Fiduciary Fund Types			Totals (Memorandum Only)
	Pension Trust Funds (Unaudited)	Employee 457 Deferred Compensation Trust Fund	Agency Funds	
Assets				
Cash and cash equivalents	\$ -	\$ 375,500	\$ 1,119,573	\$ 1,495,073
Investments	4,127,387	-	-	4,127,387
Receivable, net of allowance for uncollectibles:				
Taxes	-	-	1,686,292	1,686,292
Receivable from other funds	-	-	18,000	18,000
Total assets	<u>\$4,127,387</u>	<u>\$ 375,500</u>	<u>\$2,823,865</u>	<u>\$7,326,752</u>
Liabilities and Net Assets				
LIABILITIES:				
Warrants payable	\$ -	\$ -	\$ 166,574	\$ 166,574
Accounts payable	-	-	608,196	608,196
Due to other taxing districts	-	-	2,030,090	2,030,090
Payable to other funds	-	-	19,005	19,005
Deferred compensation payable	-	375,500	-	375,500
Total liabilities	-	375,500	2,823,865	3,199,365
NET ASSETS:				
Investments held in trust for participants	<u>4,127,387</u>	<u>-</u>	<u>-</u>	<u>4,127,387</u>
Total liabilities and net assets	<u>\$4,127,387</u>	<u>\$ 375,500</u>	<u>\$2,823,865</u>	<u>\$7,326,752</u>

See accompanying notes to the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds

Year Ended September 30, 2003

	Pension Trust Funds (Unaudited)	Employee 457 Deferred Compensation Trust Fund
<i>ADDITIONS:</i>		
Employer contributions	\$ 847,885	\$ -
Employee contributions	485,434	-
Trust receipts	-	116,032
Investment income:		
Net depreciation in fair value of investments	(18,535)	-
Total additions	<u>1,314,784</u>	<u>116,032</u>
<i>DEDUCTIONS:</i>		
Trust turnovers	-	49,798
Benefits	<u>1,606,693</u>	<u>-</u>
Total deductions	<u>1,606,693</u>	<u>49,798</u>
<i>CHANGE IN NET ASSETS</i>	(291,909)	66,234
<i>NET ASSETS, BEGINNING OF YEAR</i>	<u>4,419,296</u>	<u>309,266</u>
<i>NET ASSETS, END OF YEAR</i>	<u><u>\$4,127,387</u></u>	<u><u>\$ 375,500</u></u>

See accompanying notes to the financial statements.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Bonner County, Idaho (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
 - Financial statements prepared using the full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The County has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure (assets acquired prior to September 1, 2002) in the fiscal year ending September 30, 2007.

The more significant of the County's accounting policies are described below:

Reporting Entity – The County operates under a commissioner form of government, with supervision of various departments by elected officials as provided by the State Constitution. The County provides the following services: public safety (police), highways and streets, sanitation, health and social services, welfare, culture and recreation, public improvements, planning and zoning, and general administrative services.

For financial reporting purposes, management has considered all potential component units which are controlled or whose boards are appointed by the Board of County Commissioners. Control by the County was determined on the basis of budget adoption, the selection of management, the ability to significantly influence operations, accountability for fiscal matters, and other factors. Based on this criteria, there were no component units included in the County's report.

Government-wide and Fund Financial Statements – Government-wide financial statements consists of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenue, are reported separate from business-type activities, which rely to a significant extent on fees and charges for support.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Government-wide and Fund Financial Statements (continued)

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

Fund financial statements are used to report additional detailed information about the primary government. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements.

Fund Accounting – The accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance/net assets, revenues, and expenditures or expenses, as appropriate. The County has the following funds:

- a) **Governmental Funds** – Governmental fund types are those funds through which most governmental functions are typically financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used; current liabilities are assigned to the fund from which they are paid; the difference between governmental fund assets and liabilities, the fund equity is referred to as “fund balance.” The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the County’s major governmental funds:

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

The *Justice Fund* accounts for the services and equipment used to provide for the public safety of the County.

The *Road and Bridge Fund* accounts for the design, construction, and maintenance of County roads.

The *Debt Service Fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

The other governmental funds of the County are considered nonmajor and are as follows:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts of major capital projects).

The *Capital Projects Funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Fund Accounting (continued)

- b) **Proprietary Funds** – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The County has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting and reporting for its proprietary operations. Proprietary funds include the following fund type:

The *Enterprise Fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

- c) **Fiduciary Funds** – account for assets held by the County in a trustee capacity or as an agent on behalf of others.

The *Agency Fund* is custodial in nature and does not present results of operation or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the County holds for others in an agency capacity.

The *Pension Trust Funds* use the economic resources measurement focus in essentially the same manner as proprietary funds.

Measurement focus and basis of accounting – the County adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, during the fiscal year ended September 30, 2003. The adoption of this statement is meant to present the information in a format more closely resembling that of the private sector and to provide the user with more managerial analysis regarding the County's financial outlook.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as assets and deferred revenues in the year when an enforceable legal claim arises and the revenues are recognized as earned when the revenues are required to be used. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met.

Bonner County, Idaho

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Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Fund Accounting (continued)

Governmental fund financial statements use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Property taxes, franchise taxes, licenses, interest, and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

The proprietary funds financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the County’s enterprise fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Summary of Significant Accounting Policies

Deposits and Investments – The County’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

Idaho Code, Title 67, Chapter 12, provides authorization for the investment of funds as well as specific direction as to what constitutes an allowable investment. County policy is consistent with the State Code.

The Code limits investments to:

1. Certain revenue bonds, general obligation bonds, local improvement district bonds, and registered warrants of state and local governmental entities.
2. Time deposit accounts, tax anticipation, and interest-bearing notes.
3. Bonds, treasury bills, debentures, or other similar obligations of the United States Government and the Farm Credit System (the Farm investment matured during fiscal year ended 2002).
4. Repurchase agreements.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Summary of Significant Accounting Policies (continued)

Receivables and Payables – Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Receivables are recorded at gross. The allowance for uncollectible accounts is zero at September 30, 2003.

Property taxes are an enforceable lien on property. The County property taxes are levied on or before the third Monday of the preceding September and billed to taxpayers in November. The taxes are due in two installments. One-half of the personal property taxes and the real property taxes are due on or before December 20. The remaining one-half of the real property taxes is due on or before June 20 of the following year. The County bills and collects its own property taxes and also collects taxes for all other taxing districts within its boundaries.

Restricted Assets – Certain proceeds and resources are set aside and classified as restricted assets on the balance sheet because their use is limited by County resolution. In the Solid Waste Enterprise fund, resources have been set aside for future certificate retirement and capital improvements. The County does not maintain a solid waste landfill. All waste hauling is contracted out and the County has no liability for disposal or landfill costs.

Capital Assets – Capital assets including land, building, improvements, and equipment assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset lives is not capitalized in the proprietary funds.

Public domain (infrastructure) general fixed assets (i.e., roads, bridges, sidewalks, and other assets that are immovable and of value only to the County) are not capitalized. The County has elected to defer the implementation of the capitalization of the infrastructure assets in the governmental activities column in the government-wide financial statements as allowed under GASB Statement No. 34. The County is allowed a four-year period in which to capitalize the infrastructure assets and can prospectively account for the infrastructure over the next four years. All newly acquired infrastructure with the implementation of GASB Statement No. 34 is reported in the year acquired.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of business-type activities is reflected in the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Summary of Significant Accounting Policies (continued)

Property, plant, and equipment are depreciated in the governmental or business-type activities columns in the government-wide financial statements using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	10-20
Equipment	5-10

Deferred revenues — Deferred revenues in the governmental funds represent amounts due, which are measurable, but not available.

Compensated Absences — It is the County's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Long-Term Obligations — The County reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Fund Equity — Reserves represent those portions of fund equity appropriable for expenditure or legally segregated for a specific future use.

Net Assets — Net assets represent the difference between assets and liabilities. Net assets invested 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 assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling of legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Summary of Significant Accounting Policies (continued)

New reporting standard – In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments throughout the United States, which consists of a Management's Discussion and Analysis as required supplementary information. The statement requires new information and a restructure of much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. In June 2001, GASB then issued Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*—an amendment of GASB Statements No. 21 and No. 34. These new accounting and reporting standards require that assets and liabilities be reported as current and non-current with the difference between the two as net assets. The new standards have been implemented in fiscal year 2003.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets – The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds and net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$922,430 difference are as follows:

Unavailable deferred revenue	<u>\$ 922,430</u>
Net adjustment to increase total governmental funds to arrive at net assets governmental funds	<u>\$ 922,430</u>

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued):

Another element of that reconciliation explains that "long-term liabilities that are not due and payable in the current period are not reported in the funds." The details of this \$2,858,645 difference are as follows:

Accrued interest payable	\$ 39,961
Capital leases payable	1,275,290
Special assessment bonds payable	1,455,000
Compensated absences	<u>88,394</u>
Net adjustments to reduce — total governmental funds to arrive at net assets — governmental activities	<u>\$ 2,858,645</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities — The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances — total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is capitalized and depreciated over the period of the asset's useful life. When capital assets are disposed of, the difference between the original cost and the depreciation, and the proceeds is recorded as gain or (loss) on the sale." The details of this \$1,010,543 difference are as follows:

Capital outlay	\$ 1,752,558
Depreciation expense	<u>(742,015)</u>
Net adjustment to increase the net changes in fund balance — total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,010,543</u>

Another element of that reconciliation states that the issuance of the long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this \$203,316 difference are as follows:

Bonner County, Idaho

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Notes to Financial Statements

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued):

Debt issued or incurred:	
Capital lease financing	\$(356,272)
Principal repayments:	
Capital lease	389,588
Special assessment debt	<u>170,000</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 203,316</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of the \$(20,666) difference are as follows:

Compensated absences	\$ 1,587
Accrued interest	<u>(22,253)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ (20,666)</u>

NOTE 3 — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information

All County department heads are required to submit their annual budget requests to the County Auditor. The County Auditor is the Budget Officer, and as such Budget Officer, it is his/her duty to compile and prepare a preliminary budget for consideration by the County Commissioners. The budget is prepared by fund, department, and object. On or before the first Monday in August, the County Budget Officer submits the proposed budget to the County Commissioners for review and approval. When the tentative budget has been approved, it must be published no later than the third week of August. On or before Tuesday following the first Monday of September each year, the Board of Commissioners shall meet and hold a public budget hearing at which time any taxpayer may appear and be heard upon any part or parts of said tentative budget. Such hearing may be continued from day to day until concluded, but not to exceed a total of five days.

Upon the conclusion of such hearing, the County Commissioners shall fix and determine the amount of the appropriated budget for each department of the County, separately, which in no event shall be greater than the amount of the overall tentative budget and by resolution the County Commissioners shall adopt the appropriated budget as a part of the official minutes of the Board.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 3 — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued):

Budgetary Information (continued)

During the fiscal year only the Board of County Commissioners may amend the annual appropriated budget by resolution, through the courts or by the budget hearing process. The appropriated budget can be increased by expending unanticipated revenues or utilization of reserves.

The County is required by State law to adopt annual appropriated budgets for the general and special revenue funds. All appropriated budgets for governmental funds are adopted on a basis consistent with GAAP. Budgets for enterprise funds are adopted on a non-GAAP basis. Budgeted amounts are as amended during the fiscal year ended September 30, 2003.

All appropriations, other than appropriations for incomplete improvements in process of construction, lapse at the end of the fiscal year. Appropriation accounts may remain open until the first Monday in November for payment of claims incurred against such appropriations prior to the close of the fiscal year. After the first Monday in November, the appropriations become null and void and any lawful claims presented thereafter against any subsequent appropriation will be provided for in the ensuing budget.

Excess of Expenditures over Appropriations

For the year ended September 30, 2003, road and bridge fund expenditures exceeded appropriations (see note 17).

Deficit Fund Equity

For the year ended September 30, 2003, there were no funds with a material deficit fund balance.

NOTE 4 — DEPOSITS AND INVESTMENTS:

At the year end, the County's deposits were accounted for in the Treasurer's checking account. This account included a demand deposit account with a financial institution and a repurchase agreement. The carrying amount of the deposit account was \$90,747 and the bank balance was \$18,052,309. The repurchase agreement is considered an investment and is included in the investment information immediately following.

All of the deposits are covered by federal depository insurance or directly collateralized by bank investments or assets. Overnight funds are short-term investments with a financial institution.

Investments are reported at fair value and are categorized into these three categories of credit risk:

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

Bonner County, Idaho

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Notes to Financial Statements

NOTE 4 — DEPOSITS AND INVESTMENTS (continued):

At year-end, the County's investment balances were:

	Categories			Total
	1	2	3	
Repurchase agreement	\$ -	\$ -	\$ 4,524,745	\$ 4,524,745
Certificates of deposit	300,000	-	-	300,000
	\$ 300,000	\$ -	\$ 4,524,745	4,824,745
Investments not subject to categorization:				
Savings account				200,099
Investment in State Local Government Pool				11,998,523
Total investments				\$17,023,367

A reconciliation of cash and investments as shown on the statement of net assets for the County follows:

Cash on hand	\$ 7,570
Carrying amount of deposits	90,747
Carrying amount of investments	17,023,367
	\$17,121,684
Cash and cash equivalents	\$16,391,497
Cash and cash equivalents, restricted	730,187
	\$17,121,684

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 5 — DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units include \$174,537 due from the federal government in connection with grants and law enforcement services; \$67,519 due from the state of Idaho in connection with grants, registration fees, and refunds; and \$3,700 due from counties and cities.

NOTE 6 — CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, being depreciated:				
Machinery and equipment	\$7,521,889	\$1,073,329	\$ -	\$8,595,218
Less accumulated depreciation for:				
Machinery and equipment	<u>3,431,959</u>	<u>742,015</u>	<u>-</u>	<u>4,173,974</u>
Governmental activities capital assets, net	<u>\$4,089,930</u>	<u>\$ 331,314</u>	<u>\$ -</u>	<u>\$4,421,244</u>

Depreciation expense was charged to functions as follows:

General governmental services	\$ 51,714
Highways and streets	642,069
Welfare	1,419
Culture and recreation	5,057
Public safety	25,129
Licenses and permits	<u>16,627</u>
Total governmental activities depreciation expense	<u>\$ 742,015</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 57,500	\$ -	\$ -	\$ 57,500
Total capital assets, not being depreciated	<u>57,500</u>	<u>-</u>	<u>-</u>	<u>57,500</u>
Capital assets, being depreciated:				
Buildings	867,479	-	-	867,479
Improvements other than buildings	514,039	39,247	-	553,286
Machinery and equipment	<u>895,924</u>	<u>175,787</u>	<u>2,862</u>	<u>1,068,849</u>
Total capital assets, being depreciated	<u>2,277,442</u>	<u>215,034</u>	<u>2,862</u>	<u>2,489,614</u>

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 6 — CAPITAL ASSETS (continued):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities (continued)				
Less accumulated depreciation for:				
Buildings	\$ 142,730	\$ 21,687	\$ -	\$ 164,417
Improvements other than buildings	63,961	24,758	-	88,719
Machinery and equipment	<u>589,092</u>	<u>117,571</u>	<u>2,862</u>	<u>703,801</u>
Total accumulated depreciation	<u>795,783</u>	<u>164,016</u>	<u>2,862</u>	<u>956,937</u>
Total capital assets, being depreciated, net	<u>1,481,659</u>	<u>51,018</u>	<u>-</u>	<u>1,532,677</u>
 Business-type activities capital assets, net	 <u>\$ 1,539,159</u>	 <u>\$ 51,018</u>	 <u>\$ -</u>	 <u>\$ 1,590,177</u>
 Depreciation expense was charged to functions as follows:				
Solid Waste			<u>\$ 164,016</u>	

NOTE 7 — LEASES:

Operating Leases

On July 15, 2002, the County entered into an agreement to extend the sublease of a building for office space through December 31, 2003, with a one-year renewal option thereafter. Total payments made for the year ended September 30, 2003, were \$43,110.

On July 13, 2000, the County entered into an agreement to lease a portion of a building for office space. As extended, the lease expires September 30, 2004. Total payments made for the year ended September 30, 2003, were \$45,243.

On September 10, 2002, the County entered into an agreement to lease a portion of a building for office space. Total payments made for the year ended September 30, 2003, were \$17,400. The lease term expired September 30, 2003, but is automatically renewable annually thereafter.

On October 10, 2003, the County entered into an agreement to lease a portion of a building for office space through September 30, 2004.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 7 — LEASES (continued):

Operating Leases (continued)

Future minimum annual lease payments at September 30, 2003, are:

<u>Years Ending</u> <u>September 30,</u>	<u>Amount</u>
2004	\$ 88,358
2005	4,200

Capital Leases

The County has entered into various leases to purchase equipment. These lease agreements qualify as capital leases for accounting purposes and are recorded in the capital assets of the County. The cost of the leased assets is \$2,219,876. The leases are collateralized by the assets.

Future minimum annual lease payments at September 30, 2003, are:

<u>Years Ending</u> <u>September 30,</u>	<u>Road and</u> <u>Bridge</u>	<u>Justice</u>	<u>Total</u>
2004	\$ 233,182	\$ 20,490	\$ 253,672
2005	809,603	13,174	822,777
2006	206,681	-	206,681
2007	137,581	-	137,581
Total minimum lease payments	1,387,047	33,664	1,420,711
Less amount representing interest	143,809	1,612	145,421
Capital lease obligations	\$ 1,243,238	\$ 32,052	\$ 1,275,290

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 8 — LONG-TERM DEBT:

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2003, was as follows:

	Balance, October 1, 2002	Additions	Reductions	Balance, September 30, 2003	Due Within One Year
Governmental activities:					
Compensated absences	\$ 417,957	\$ -	\$ 25,537	\$ 392,420	\$ 304,026
Leases payable	1,308,316	356,272	389,298	1,275,290	253,672
Special assessment bonds	1,625,000	-	170,000	1,455,000	180,000
Governmental activities long-term liabilities	\$ 3,351,273	\$ 356,272	\$ 584,835	\$ 3,122,710	\$ 737,698
Business-type activities:					
Compensated absences	\$ 15,924	\$ 2,011	\$ -	\$ 17,935	\$ 15,709
Business-type activities long-term liabilities	\$ 15,924	\$ 2,011	\$ -	\$ 17,935	\$ 15,709

The annual debt service requirements to amortize the note payable to the bank for redemption of special assessment bonds as of September 30, 2003, are:

Years Ending September 30,	Special Assessment Bonds			
	93-1		96-1	
	Principal	Interest	Principal	Interest
2004	\$ 165,000	\$ 88,202	\$ 15,000	\$ 4,110
2005	175,000	78,303	15,000	3,420
2006	185,000	67,452	15,000	2,715
2007	195,000	55,705	15,000	1,995
2008	210,000	43,225	10,000	1,260
Thereafter	455,000	44,850	-	510
	\$ 1,385,000	\$ 377,737	\$ 70,000	\$ 14,010

The holders of any special assessment bonds have no claims against the County under Idaho Code.

Bonner County, Idaho

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Notes to Financial Statements

NOTE 9 — RESTRICTED NET ASSET ACCOUNTS:

Resolutions of the County require certain reservations of the Solid Waste Fund's net assets:

Restricted for debt retirement	\$ 664
Restricted for capital improvements	<u>664,313</u>
Total restricted net assets	<u>\$664,977</u>

The balances of the Solid Waste Fund's restricted net asset accounts are as follows:

Debt retirement	\$ 664
Capital improvements	<u>664,313</u>
Total restricted net assets	<u>\$664,977</u>

NOTE 10 — FUND TRANSFERS:

Individual fund transfers in and out balances at September 30, 2003, were:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Governmental Services	\$ 30,255	\$ -
District Court	17,296	-
Justice	125,574	-
Snowmobile — Priest Lake	-	6,186
Waterways	12,000	-
Grants	<u>-</u>	<u>178,939</u>
	<u>\$ 185,125</u>	<u>\$ 185,125</u>

Bonner County, Idaho

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Notes to Financial Statements

NOTE 11 — CONTINGENT LIABILITIES AND COMMITMENTS:

Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

Lawsuits

Bonner County is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

Local Improvement District

On February 26, 1993, and later amended on June 29, 1994, the County created Local Improvement District No. 93-1 (LID No. 93-1). LID No. 93-1 was used for the acquisition, construction, and installation of paved streets and all necessary appurtenances thereto.

On February 13, 1995, the Board of County Commissioners adopted by ordinance the assessment roll for LID No. 93-1 in the amount of \$2,636,103. LID No. 93-1 assessments are due from property owners within the local improvement district and are receivable annually over 15 years.

On March 20, 1995, the Board of County Commissioners adopted by ordinance approval for the issuance and sale of LID No. 93-1 bonds in the aggregate principal amount of \$2,420,654. Such bonds mature serially beginning April 30, 1996, and annually on each year thereafter until April 30, 2010. Receipt of annual assessment installments in February is used for paying annual maturity of said bonds.

On September 13, 1996, the County created Local Improvement District No. 96-1 (LID No. 96-1). LID No. 96-1 was used for the acquisition, construction, and installation of pavement improvements to Lower Pack River Road. On October 14, 1997, the Board of County Commissioners adopted by ordinance the assessment roll for LID No. 96-1 in the amount of \$136,626. LID No. 96-1 assessments are due from property owners within the local improvement district and are receivable annually over ten years.

On December 4, 1997, the Board of County Commissioners adopted by ordinance approval for the issuance and sale of LID No. 96-1 bonds in the aggregate principal amount of \$120,862. Such bonds mature serially beginning November 15, 1999, and annually each year thereafter until November 2007. Receipt of annual assessment installments in October is used for paying annual maturity of said bonds.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 12 — DEFERRED COMPENSATION PLAN:

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the participant or beneficiary) solely the property of the participant. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

It is the opinion of management that the County 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. The County believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 13 — DEFINED CONTRIBUTION PENSION PLAN:

On February 20, 2000, the County converted the Bonner County Retirement Plan from a defined benefit plan to a defined contribution plan.

The Bonner County Retirement Plan (the Plan) is a defined contribution plan established by the County to provide benefits at retirement to all employees of the County.

All County eligible employees participate in the Plan established by the County Commissioners. The Plan is a single-employer defined contribution plan requiring employer contributions. Plan provisions and contribution requirements are established and may be amended by the County Commissioners. The Plan year is July 1 through June 30.

All employees scheduled to work at least 1,200 hours per year will be immediately eligible. All County employees are eligible the first payroll after date of hire. Entry dates to the Plan are the first payroll after the hire date.

Required employer contributions are made each payroll by the County and are based on 9.17% of the participant's compensation. The employee is required to make contributions to the Plan. Required employee contributions are 2.5% of the employee's salary, effective February 20, 2000, increasing to 3.5% on October 1, 2000, and increasing 1% each year thereafter, to a maximum salary deferral of 7.5% in 2004.

Employee contributions are fully vested. Employer contributions are not vested until five years of service have been completed, and then the employer contributions are 100% vested. Employees hired on or after September 30, 2001, are not vested until ten years of service have been completed. Effective May 20, 2003, the County amended the Plan to change the vesting schedule to a zero (0) year difference for all employees currently employed.

Employees may retire at age 60 and the completion of the required years of service based upon hiring date. Employees may elect early retirement at age 55 and the completion of five years of service.

For the Plan's fiscal year ended June 30, 2003, the employer and employees contributed \$847,885 and \$485,433, respectively. The County has discontinued contributions to the Plan effective June 30, 2003.

Subsequent to September 30, 2003, the County elected to transfer the participants' funds from the defined contribution plan provider to the Public Employees Retirement System of Idaho (PERSI). The County's former defined contribution plan provider asserts that it is entitled to approximately \$275,000 in deferred sales charges and will refuse to relinquish such amount of fees when the funds are transferred to PERSI. The County is pursuing legal action regarding the recovery of the retained fees by the former plan provider.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 14 — DEFINED BENEFIT PENSION PLAN:

On July 1, 2003, the County joined the Public Employee Retirement System of Idaho (the System). The System administers the Public Employee Retirement Fund Base Plan (PERSI). A cost sharing multiple-employer public retirement system created by the Idaho State Legislature and the retirement board, appointed by the Governor, manages and establishes funding policies for the System. It is a defined benefit plan requiring that both the member and the employer contribute. 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. Financial reports are available from PERSI upon request.

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. The annual service retirement allowance is 1.971% or 2.225% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months times the months of credited service.

For the period July 1, 2003 to September 30, 2003, the required employer contribution rate for employees was 9.77% and 10.11% for general employees and police members, respectively. The required employee contribution rate was 5.86% for general employees and 7.21% for police members for the same period.

Bonner County contributions required and paid were \$272,413 for the three months ended September 30, 2003.

NOTE 15 — RISK MANAGEMENT:

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance.

NOTE 16 — CONDUIT DEBT OBLIGATIONS:

During the fiscal year ended September 30, 2001, the County issued Industrial Revenue Bonds to provide financial assistance to a private sector entity for the acquisition and construction of an industrial development facility deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received from the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facility transfers to the private sector entity served by the bond issuance. Neither the County, State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2003, there were three series of Industrial Revenue Bonds outstanding. The aggregate principal of their original issue amounts total \$6,150,000.

NOTE 17 — EXCESS OF EXPENDITURE OVER BUDGET IN INDIVIDUAL FUNDS:

	Budgeted		Actual Expenditures	Over (Under)
	Original	Final		
Special revenue: Road and bridge	\$5,826,508	\$6,278,778	\$6,502,547	\$ (223,769)

Road and bridge overexpenditures are the result of unbudgeted capital lease activities that were not included in the annual operating plan. Had these activities been budgeted for, the general fund results would have shown a more typical underexpenditure for the year of \$132,503.

Bonner County, Idaho

Sandpoint, Idaho

Notes to Financial Statements

NOTE 18 — RESTATEMENT OF FUND BALANCE:

As discussed in note 1, the County adopted GASB Statement No. 34 in 2003, which resulted in the following restatements of September 30, 2002, fund balances:

	September 30, 2002, as Previously Reported	Changes in Accounting Principle		September 30, 2002, as Restated
		Reclassifications	Other	
Governmental funds and activities:				
Major funds:				
General fund	\$ 1,769,548	\$ -	\$ -	\$ 1,769,548
Justice	3,696,092	-	-	3,696,092
Road and bridge	1,116,534	-	-	1,116,534
Debt service	542,698	-	-	542,698
Total major governmental funds	<u>7,124,872</u>	<u>-</u>	<u>-</u>	<u>7,124,872</u>
Nonmajor funds:				
Special revenue funds	3,348,901	-	-	3,348,901
Capital projects funds	1,159,183	-	-	1,159,183
Total nonmajor governmental funds	<u>4,508,084</u>	<u>-</u>	<u>-</u>	<u>4,508,084</u>
Total governmental funds - fund balances	<u>11,632,956</u>	<u>-</u>	<u>-</u>	<u>11,632,956</u>
Governmental activities adjustments:				
Capital assets, net of depreciation	-	4,089,930	-	4,089,930
Revenue recognition	-	-	869,974	869,974
Expense recognition	-	-	(645,015)	(645,015)
Bonds, notes, and leases payable	-	(2,933,316)	-	(2,933,316)
Compensated absences	-	-	(86,807)	(86,807)
Total governmental activities adjustments	<u>-</u>	<u>1,156,614</u>	<u>138,152</u>	<u>1,294,766</u>
Total government activities - net assets	<u>\$ 11,632,956</u>	<u>\$ 1,156,614</u>	<u>\$ 138,152</u>	<u>\$ 12,927,722</u>
Proprietary funds and business-type activities:				
Solid Waste Enterprise fund	\$ 5,289,930	\$ -	\$ -	\$ 5,289,930
Account groups:				
General fixed assets*	\$ -	\$ -	\$ -	\$ -

* Bonner County elected not to record the general fixed assets account group at September 30, 2002, which is a departure from accounting principles generally accepted in the United States of America and which resulted in a qualified opinion. As such, there is no adjustment for the general fixed assets account group.

SUPPLEMENTAL INFORMATION

Bonner County, Idaho
Sandpoint, Idaho

Combining Balance Sheet -
Nonmajor Governmental Funds

September 30, 2003

	Total Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Total
Assets			
Cash and cash equivalents	\$4,131,208	\$1,118,980	\$5,250,188
Receivables, net of allowance for uncollectibles:			
Taxes	216,012	1,570	217,582
Interest	84	-	84
Accounts	104,979	-	104,979
Due from other governments	157,699	-	157,699
Due from other funds	19,005	-	19,005
	<u>\$4,628,987</u>	<u>\$1,120,550</u>	<u>\$5,749,537</u>
Total assets			
	<u>\$4,628,987</u>	<u>\$1,120,550</u>	<u>\$5,749,537</u>
Liabilities and Fund Balances			
LIABILITIES:			
Warrants payable	\$ 518,010	\$ 9,138	\$ 527,148
Vouchers payable	17,016	-	17,016
Accrued payroll	77,253	-	77,253
Accrued retirement payable	7,179	-	7,179
Due to other funds	18,000	-	18,000
Deferred revenue	267,059	1,542	268,601
Compensated absences payable	39,343	-	39,343
Total liabilities	<u>943,860</u>	<u>10,680</u>	<u>954,540</u>
FUND BALANCES:			
Fund balances:			
Unreserved	3,685,127	1,109,870	4,794,997
Total fund balances	<u>3,685,127</u>	<u>1,109,870</u>	<u>4,794,997</u>
Total liabilities and fund balances	<u>\$4,628,987</u>	<u>\$1,120,550</u>	<u>\$5,749,537</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Combining Balance Sheet — Nonmajor Special Revenue Funds

	<u>Airport</u>	<u>Junior College</u>	<u>Revaluation</u>	<u>Historical Society</u>	<u>District Court</u>	<u>Special Highway</u>	<u>County Fair</u>	<u>911</u>	<u>Indigent and Charity</u>
Assets									
Cash and cash equivalents	\$ 254,211	\$ 359,345	\$ 495,342	\$ 13,554	\$ 639,181	\$ 380,902	\$ 85,523	\$ 153,624	\$ 211,860
Receivables, net of allowance for uncollectibles:									
Taxes	1,765	4,615	62,310	1,213	42,858	-	7,235	-	5,477
Accounts	13,527	-	4,082	-	28,248	-	-	26,568	28,519
Interest	-	-	-	-	-	-	-	21	-
Due from other governments	59,392	-	1,000	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 328,895</u>	<u>\$ 363,960</u>	<u>\$ 562,734</u>	<u>\$ 14,767</u>	<u>\$ 710,287</u>	<u>\$ 380,902</u>	<u>\$ 92,758</u>	<u>\$ 180,213</u>	<u>\$ 245,856</u>
Liabilities and Fund Balances									
LIABILITIES:									
Warrants payable	\$ 72,319	\$ 167,192	\$ 21,646	\$ -	\$ 35,913	\$ -	\$ 1,097	\$ 8,035	\$ 29,140
Vouchers payable	6,282	10,095	-	-	-	-	-	-	139
Accrued payroll	-	-	31,332	-	29,751	-	3,385	-	6,823
Accrued retirement payable	-	-	2,717	-	2,656	-	222	-	971
Due to other funds	-	-	-	-	-	-	-	18,000	-
Deferred revenue	63,013	4,409	59,253	1,171	40,811	-	6,916	-	5,255
Compensated absences payable	-	-	8,242	-	16,663	-	1,514	-	7,075
Total liabilities	<u>141,614</u>	<u>181,696</u>	<u>123,190</u>	<u>1,171</u>	<u>125,794</u>	<u>-</u>	<u>13,134</u>	<u>26,035</u>	<u>49,403</u>
FUND BALANCES	<u>187,281</u>	<u>182,264</u>	<u>439,544</u>	<u>13,596</u>	<u>584,493</u>	<u>380,902</u>	<u>79,624</u>	<u>154,178</u>	<u>196,453</u>
Total liabilities and fund balances	<u>\$ 328,895</u>	<u>\$ 363,960</u>	<u>\$ 562,734</u>	<u>\$ 14,767</u>	<u>\$ 710,287</u>	<u>\$ 380,902</u>	<u>\$ 92,758</u>	<u>\$ 180,213</u>	<u>\$ 245,856</u>

See accompanying independent auditors' report.

September 30, 2003

<u>Weeds</u>	<u>Tort</u>	<u>Health District</u>	<u>Snowmobile- Priest Lake</u>	<u>Snowmobile- Sandpoint</u>	<u>Waterways</u>	<u>Parks and Recreation</u>	<u>Court Facilities</u>	<u>Court Interlock</u>	<u>Grants</u>	<u>Drug Court</u>	<u>Total</u>
\$ 185,308	\$ 451,911	\$ 90,736	\$ 43,578	\$ 45,228	\$ 149,476	\$ 58,853	\$ 222,465	\$ 13,982	\$ 237,420	\$ 38,709	\$ 4,131,208
8,010	66,506	14,424	-	-	-	1,599	-	-	-	-	216,012
-	-	-	-	-	-	-	1,320	577	2,138	-	104,979
-	-	-	-	3,000	4,525	-	-	-	63	-	84
-	-	-	-	-	-	19,005	-	-	89,782	-	157,699
-	-	-	-	-	-	-	-	-	-	-	19,005
<u>\$ 193,318</u>	<u>\$ 518,417</u>	<u>\$ 105,160</u>	<u>\$ 43,578</u>	<u>\$ 48,228</u>	<u>\$ 154,001</u>	<u>\$ 79,457</u>	<u>\$ 223,785</u>	<u>\$ 14,559</u>	<u>\$ 329,403</u>	<u>\$ 38,709</u>	<u>\$ 4,628,987</u>
\$ 56,086	\$ 25	\$ 51,989	\$ -	\$ 164	\$ 6,197	\$ 1,418	\$ -	\$ -	\$ 66,777	\$ 12	\$ 518,010
-	-	-	-	-	-	-	-	-	500	-	17,016
1,530	-	-	-	-	235	-	-	-	3,325	872	77,253
264	-	-	-	-	-	-	-	-	270	79	7,179
-	-	-	-	-	-	-	-	-	-	-	18,000
7,652	63,284	13,753	-	-	-	1,542	-	-	-	-	267,059
1,956	-	-	-	-	3,073	-	-	-	820	-	39,343
<u>67,488</u>	<u>63,309</u>	<u>65,742</u>	<u>-</u>	<u>164</u>	<u>9,505</u>	<u>2,960</u>	<u>-</u>	<u>-</u>	<u>71,692</u>	<u>963</u>	<u>943,860</u>
<u>125,830</u>	<u>455,108</u>	<u>39,418</u>	<u>43,578</u>	<u>48,064</u>	<u>144,496</u>	<u>76,497</u>	<u>223,785</u>	<u>14,559</u>	<u>257,711</u>	<u>37,746</u>	<u>3,685,127</u>
<u>\$ 193,318</u>	<u>\$ 518,417</u>	<u>\$ 105,160</u>	<u>\$ 43,578</u>	<u>\$ 48,228</u>	<u>\$ 154,001</u>	<u>\$ 79,457</u>	<u>\$ 223,785</u>	<u>\$ 14,559</u>	<u>\$ 329,403</u>	<u>\$ 38,709</u>	<u>\$ 4,628,987</u>

Bonner County, Idaho
Sandpoint, Idaho

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds**

Year Ended September 30, 2003

	Total Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Total
REVENUES:			
Taxes	\$2,968,551	\$ -	\$2,968,551
Licenses and permits	131,192	-	131,192
Intergovernmental	2,302,583	-	2,302,583
Charges for services	353,773	-	353,773
Fines	189,833	-	189,833
Special assessments	-	6,300	6,300
Interest income	373	-	373
Miscellaneous	311,978	-	311,978
Total revenues	<u>6,258,283</u>	<u>6,300</u>	<u>6,264,583</u>
EXPENDITURES:			
Current:			
General government	3,297,341	-	3,297,341
Public safety	732,552	-	732,552
Highways and streets	423,476	-	423,476
Sanitation	138,606	-	138,606
Health	207,956	-	207,956
Welfare	404,108	-	404,108
Education	344,220	-	344,220
Culture and recreation	420,752	-	420,752
Capital outlay	108,875	55,613	164,488
Total expenditures	<u>6,077,886</u>	<u>55,613</u>	<u>6,133,499</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	180,397	(49,313)	131,084
OTHER FINANCING SOURCES:			
Operating transfers in	<u>155,829</u>	<u>-</u>	<u>155,829</u>
NET CHANGE IN FUND BALANCE	336,226	(49,313)	286,913
FUND BALANCES, BEGINNING OF YEAR	<u>3,348,901</u>	<u>1,159,183</u>	<u>4,508,084</u>
FUND BALANCES, END OF YEAR	<u>\$3,685,127</u>	<u>\$1,109,870</u>	<u>\$4,794,997</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances — Nonmajor Special Revenue Funds**

	Airport	Junior College	Revaluation	Historical Society	District Court	Special Highway	County Fair	911	Indigent and Charity
REVENUES:									
Taxes	\$ 39,458	\$ 159,061	\$ 808,142	\$ 15,611	\$ 560,766	\$ -	\$ 104,896	\$ -	\$ 70,763
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	150,665	286,733	71,000	-	136,250	458,000	45,291	-	-
Charges for services	9,312	-	-	-	-	-	-	310,902	-
Fines	-	-	-	-	189,833	-	-	-	-
Interest income	-	-	-	-	-	-	-	313	-
Miscellaneous	45,979	-	15,068	-	156,755	-	-	-	80,388
Total revenues	<u>245,414</u>	<u>445,794</u>	<u>894,210</u>	<u>15,611</u>	<u>1,043,604</u>	<u>458,000</u>	<u>150,187</u>	<u>311,215</u>	<u>151,151</u>
EXPENDITURES:									
Current:									
General government	226,350	-	814,417	-	911,566	-	-	-	-
Public safety	-	-	-	-	-	-	-	252,839	-
Highways and streets	-	-	-	-	-	423,476	-	-	-
Sanitation	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-
Welfare	-	-	-	-	-	-	-	-	404,108
Education	-	344,220	-	-	-	-	-	-	-
Culture and recreation	-	-	-	20,000	-	-	106,835	-	-
Capital outlay	-	-	11,833	-	9,394	-	-	-	7,359
Total expenditures	<u>226,350</u>	<u>344,220</u>	<u>826,250</u>	<u>20,000</u>	<u>920,960</u>	<u>423,476</u>	<u>106,835</u>	<u>252,839</u>	<u>411,467</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	19,064	101,574	67,960	(4,389)	122,644	34,524	43,352	58,376	(260,316)
OTHER FINANCING SOURCES (USES):									
Operating transfers in (out)	-	-	-	-	(17,296)	-	-	-	-
NET CHANGE IN FUND BALANCE	19,064	101,574	67,960	(4,389)	105,348	34,524	43,352	58,376	(260,316)
FUND BALANCES, BEGINNING OF YEAR	168,217	80,690	371,584	17,985	479,145	346,378	36,272	95,802	456,769
FUND BALANCES, END OF YEAR	<u>\$ 187,281</u>	<u>\$ 182,264</u>	<u>\$ 439,544</u>	<u>\$ 13,596</u>	<u>\$ 584,493</u>	<u>\$ 380,902</u>	<u>\$ 79,624</u>	<u>\$ 154,178</u>	<u>\$ 196,453</u>

See accompanying independent auditors' report.

Year Ended September 30, 2003

<u>Weeds</u>	<u>Tort</u>	<u>Health District</u>	<u>Snowmobile- Priest Lake</u>	<u>Snowmobile- Sandpoint</u>	<u>Waterways</u>	<u>Parks and Recreation</u>	<u>Court Facilities</u>	<u>Court Interlock</u>	<u>Grants</u>	<u>Drug Court</u>	<u>Total</u>
\$ 109,790	\$ 882,643	\$ 184,533	\$ -	\$ -	\$ -	\$ 22,789	\$ -	\$ -	\$ -	\$ 10,099	\$2,968,551
-	-	-	41,725	12,035	77,432	-	-	-	-	-	131,192
33,881	30,000	-	20,500	2,000	-	-	-	-	1,068,263	-	2,302,583
-	-	9,953	-	-	-	-	16,040	7,566	-	-	353,773
-	-	-	-	-	-	-	-	-	-	-	189,833
-	-	-	-	-	-	-	-	-	60	-	373
5,709	-	-	-	3,000	400	4,659	-	-	20	-	311,978
<u>149,380</u>	<u>912,643</u>	<u>194,486</u>	<u>62,225</u>	<u>17,035</u>	<u>77,832</u>	<u>27,448</u>	<u>16,040</u>	<u>7,566</u>	<u>1,068,343</u>	<u>10,099</u>	<u>6,258,283</u>
-	892,911	-	-	-	-	-	-	-	432,188	19,909	3,297,341
-	-	-	-	-	-	-	-	2,640	477,073	-	732,552
-	-	-	-	-	-	-	-	-	-	-	423,476
138,606	-	-	-	-	-	-	-	-	-	-	138,606
-	-	207,956	-	-	-	-	-	-	-	-	207,956
-	-	-	-	-	-	-	-	-	-	-	404,108
-	-	-	67,687	15,975	68,466	16,314	-	-	125,475	-	344,220
-	-	-	-	-	-	-	-	-	80,289	-	420,752
<u>138,606</u>	<u>892,911</u>	<u>207,956</u>	<u>67,687</u>	<u>15,975</u>	<u>68,466</u>	<u>16,314</u>	<u>-</u>	<u>2,640</u>	<u>1,115,025</u>	<u>19,909</u>	<u>6,077,886</u>
10,774	19,732	(13,470)	(5,462)	1,060	9,366	11,134	16,040	4,926	(46,682)	(9,810)	180,397
-	-	-	6,186	-	(12,000)	-	-	-	178,939	-	155,829
10,774	19,732	(13,470)	724	1,060	(2,634)	11,134	16,040	4,926	132,257	(9,810)	336,226
<u>115,056</u>	<u>435,376</u>	<u>52,888</u>	<u>42,854</u>	<u>47,004</u>	<u>147,130</u>	<u>65,363</u>	<u>207,745</u>	<u>9,633</u>	<u>125,454</u>	<u>47,556</u>	<u>3,348,901</u>
<u>\$ 125,830</u>	<u>\$ 455,108</u>	<u>\$ 39,418</u>	<u>\$ 43,578</u>	<u>\$ 48,064</u>	<u>\$ 144,496</u>	<u>\$ 76,497</u>	<u>\$ 223,785</u>	<u>\$ 14,559</u>	<u>\$ 257,711</u>	<u>\$ 37,746</u>	<u>\$3,685,127</u>

Bonner County, Idaho

Sandpoint, Idaho

Statement of Revenues - Budget and Actual - General Fund

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Taxes:				
Current	\$ 1,238,932	\$ 1,238,932	\$ 1,224,538	\$ (14,394)
Penalties and interest	10,140	10,140	22,429	12,289
REA tax	6,185	6,185	10,521	4,336
Total taxes	<u>1,255,257</u>	<u>1,255,257</u>	<u>1,257,488</u>	<u>2,231</u>
Licenses and permits:				
Motor vehicle licenses	253,999	253,999	258,386	4,387
Trailer house licenses	2,755	2,755	2,866	111
Recreation vehicle licenses	5,200	5,200	5,254	54
Boat licenses	5,600	5,600	6,846	1,246
Pawnbroker licenses	60	60	65	5
Auctioneer licenses	20	20	20	-
Conditional use permit	11,200	11,200	7,445	(3,755)
Building licenses and permits	51,675	51,675	60,605	8,930
Total licenses and permits	<u>330,509</u>	<u>330,509</u>	<u>341,487</u>	<u>10,978</u>
Intergovernmental:				
Inventory phase-out	256,000	256,000	256,000	-
Category 58 replacement revenue	24,197	24,197	24,197	-
Inheritance tax	-	-	17,946	17,946
Extension office	9,500	9,500	8,800	(700)
Total intergovernmental	<u>289,697</u>	<u>289,697</u>	<u>306,943</u>	<u>17,246</u>
Charges for services:				
Vehicle inspection fees	8,600	8,600	11,382	2,782
Recorder's fees	185,200	185,200	286,847	101,647
Planning fees	59,240	59,240	108,253	49,013
Treasurer fees	81,000	81,000	52,490	(28,510)
Assessor's fees	8,800	8,800	10,980	2,180
Title company billings and access fees	17,400	17,400	24,189	6,789
Total charges for services	<u>360,240</u>	<u>360,240</u>	<u>494,141</u>	<u>133,901</u>
Fines:				
Motor vehicle fines	-	-	954	954
Total fines	<u>-</u>	<u>-</u>	<u>954</u>	<u>954</u>
Miscellaneous:				
Elections	6,000	6,000	50	(5,950)
Refunds and reimbursements	14,783	14,783	26,273	11,490
Miscellaneous	4,050	4,050	6,658	2,608
Postage	2,200	2,200	1,367	(833)
Copies	10,200	10,200	14,578	4,378
Total miscellaneous	<u>37,233</u>	<u>37,233</u>	<u>48,926</u>	<u>11,693</u>
Interest:				
Interest income	460,000	460,000	377,463	(82,537)
Total general fund revenues	<u>\$2,732,936</u>	<u>\$2,732,936</u>	<u>\$2,827,402</u>	<u>\$ 94,466</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Expenditures - Budget and Actual -
General Fund

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Clerk - Auditor:				
General government:				
Salaries	\$ 226,934	\$ 226,934	\$ 225,075	\$ 1,859
Other services and charges	61,849	61,849	58,996	2,853
Capital outlay	51,500	51,500	50,834	666
Total clerk - auditor	<u>340,283</u>	<u>340,283</u>	<u>334,905</u>	<u>5,378</u>
Treasurer:				
General government:				
Salaries	149,253	149,253	143,411	5,842
Other services and charges	59,675	59,675	48,675	11,000
Capital outlay	-	-	5,490	(5,490)
Total treasurer	<u>208,928</u>	<u>208,928</u>	<u>197,576</u>	<u>11,352</u>
Emergency management:				
Public safety:				
Salaries	15,602	15,602	15,489	113
Other services and charges	3,000	5,000	4,669	331
Capital outlay	2,500	2,500	1,766	734
Total emergency management	<u>21,102</u>	<u>23,102</u>	<u>21,924</u>	<u>1,178</u>
Commissioners:				
General government:				
Salaries	186,284	186,284	183,018	3,266
Other services and charges	6,200	6,200	6,373	(173)
Capital outlay	250	250	-	250
Total commissioners	<u>192,734</u>	<u>192,734</u>	<u>189,391</u>	<u>3,343</u>
Coroner:				
Public safety:				
Salaries	16,191	16,191	14,584	1,607
Other services and charges	39,400	39,400	29,921	9,479
Total coroner	<u>55,591</u>	<u>55,591</u>	<u>44,505</u>	<u>11,086</u>
Buildings and grounds:				
General government:				
Salaries	98,416	98,416	98,343	73
Other services and charges	36,756	36,756	27,720	9,036
Capital outlay	-	17,500	25,881	(8,381)
Total buildings and grounds	<u>135,172</u>	<u>152,672</u>	<u>151,944</u>	<u>728</u>

See accompanying independent auditors' report.

Bonner County, Idaho**Sandpoint, Idaho****Statement of Expenditures - Budget and Actual**
General Fund (Continued)**Year Ended September 30, 2003**

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
General:				
General government:				
Salaries	\$ 71,252	\$ 47,945	\$ 43,823	\$ 4,122
Benefits	448,787	448,787	416,187	32,600
Other services and charges	1,249,063	1,301,539	613,446	688,093
Total general	<u>1,769,102</u>	<u>1,798,271</u>	<u>1,073,456</u>	<u>724,815</u>
Extension office:				
General government:				
Salaries	75,271	75,271	69,084	6,187
Other services and charges	40,180	40,180	40,149	31
Total extension office	<u>115,451</u>	<u>115,451</u>	<u>109,233</u>	<u>6,218</u>
Data processing:				
General government:				
Salaries	37,027	37,027	36,894	133
Other services and charges	67,945	67,945	56,903	11,042
Capital outlay	13,000	13,000	12,840	160
Total data processing	<u>117,972</u>	<u>117,972</u>	<u>106,637</u>	<u>11,335</u>
Assessor – motor vehicle:				
General government:				
Salaries	192,193	192,193	178,333	13,860
Other services and charges	14,725	14,725	12,108	2,617
Capital outlay	3,548	3,548	5,167	(1,619)
Total assessor – motor vehicles	<u>210,466</u>	<u>210,466</u>	<u>195,608</u>	<u>14,858</u>
Planning:				
General government:				
Salaries	229,714	222,369	199,265	23,104
Other services and charges	38,775	46,120	44,517	1,603
Capital outlay	1,700	1,700	-	1,700
Total general planning	<u>270,189</u>	<u>270,189</u>	<u>243,782</u>	<u>26,407</u>

See accompanying independent auditors' report.

Bonner County, Idaho**Sandpoint, Idaho****Statement of Expenditures - Budget and Actual**
General Fund (Continued)**Year Ended September 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Information services:				
General government				
Salaries	\$ 91,172	\$ 80,021	\$ 80,021	\$ -
Other services and charges	6,000	27,151	28,577	(1,426)
Capital outlay	4,500	4,500	1,483	3,017
Total information services	<u>101,672</u>	<u>111,672</u>	<u>110,081</u>	<u>1,591</u>
Personnel:				
General government				
Salaries	33,747	33,747	33,714	33
Other services and charges	7,700	7,700	7,682	18
Total personnel	<u>41,447</u>	<u>41,447</u>	<u>41,396</u>	<u>51</u>
Total general fund:				
General government	3,428,918	3,468,087	2,652,314	815,773
Public safety	74,193	76,193	64,663	11,530
Capital outlay	76,998	94,498	103,461	(8,963)
Total general fund	<u>\$3,580,109</u>	<u>\$3,638,778</u>	<u>\$2,820,438</u>	<u>\$ 818,340</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Revenues - Budget and Actual
Justice Fund

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Justice:				
Taxes:				
Current	\$5,597,585	\$5,597,585	\$5,582,791	\$ (14,794)
Penalties and interest	57,797	57,797	170,651	112,854
REA tax	45,126	45,126	47,791	2,665
Total taxes	<u>5,700,508</u>	<u>5,700,508</u>	<u>5,801,233</u>	<u>100,725</u>
Licenses and permits:				
Drivers licenses	51,463	51,463	79,858	28,395
Boat licenses	125,074	125,074	116,148	(8,926)
Beer and liquor licenses	21,500	21,500	22,863	1,363
Concealed weapon permits	2,176	2,176	1,806	(370)
Total licenses and permits	<u>200,213</u>	<u>200,213</u>	<u>220,675</u>	<u>20,462</u>
Intergovernmental:				
State revenue sharing	800,000	800,000	800,000	-
Payment in lieu of taxes	156,000	156,000	82,792	(73,208)
Priest River services	206,100	206,100	210,400	4,300
Clark Fork services	3,600	3,600	3,600	-
Kootenai	1,200	1,200	1,200	-
Oldtown services	3,600	3,600	3,300	(300)
U.S. Forest Service	3,752	3,752	2,028	(1,724)
Army Corps of Engineers	73,000	73,000	83,610	10,610
Law enforcement contracts	12,850	12,850	-	(12,850)
FILT-I F&G	-	-	6,668	6,668
Total intergovernmental	<u>1,260,102</u>	<u>1,260,102</u>	<u>1,193,598</u>	<u>(66,504)</u>
Charges for services:				
Prisoner board	116,120	116,120	345,302	229,182
Public defender costs	14,000	14,000	12,034	(1,966)
ITD reinstatement	22,000	22,000	33,120	11,120
Processing and servicing fees	15,300	15,300	20,014	4,714
Fingerprinting and bonding fees	21,000	21,000	18,395	(2,605)
Work release and inmate labor	40,000	40,000	65,717	25,717
Handling charges	8,000	8,000	8,186	186
Court surcharge	38,000	38,000	50,827	12,827
Other	9,826	9,826	45,606	35,780
Total charges for services	<u>284,246</u>	<u>284,246</u>	<u>599,201</u>	<u>314,955</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Revenues - Budget and Actual
Justice Fund (Continued)

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Justice (continued):				
Miscellaneous:				
Sale of County property	\$ -	\$ -	\$ 3,980	\$ 3,980
Reimbursements	18,000	18,000	95,424	77,424
Pay phone commissions	200	200	1,141	941
Miscellaneous	-	-	6,766	6,766
Kitchen fund	600	600	1,295	695
Prisoner reimbursements	7,300	7,300	13,420	6,120
Total miscellaneous	26,100	26,100	122,026	95,926
Total justice	7,471,169	7,471,169	7,936,733	465,564
Total all justice funds:				
Taxes	5,700,508	5,700,508	5,801,233	100,725
Licenses and permits	200,213	200,213	220,675	20,462
Intergovernmental	1,260,102	1,260,102	1,193,598	(66,504)
Charges for services	284,246	284,246	599,201	314,955
Miscellaneous	26,100	26,100	122,026	95,926
Total justice fund	\$7,471,169	\$7,471,169	\$7,936,733	\$ 465,564

Bonner County, Idaho

Sandpoint, Idaho

Statement of Expenditures - Budget and Actual - Justice Fund

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Justice:				
Public safety:				
Clerk:				
Salaries	\$ 487,481	\$ 487,481	\$ 484,470	\$ 3,011
Sheriff:				
Salaries	1,956,168	2,018,935	1,896,347	122,588
Other services and charges	394,001	410,334	379,974	30,360
Debt service:				
Principal	12,458	12,458	18,488	(6,030)
Interest	1,142	1,142	1,694	(552)
Capital outlay	18,900	203,900	203,459	441
Total sheriff	<u>2,382,669</u>	<u>2,646,769</u>	<u>2,499,962</u>	<u>146,807</u>
Prosecuting attorney:				
Salaries	530,616	511,688	502,053	9,635
Other services and charges	56,905	75,833	76,837	(1,004)
Capital outlay	3,200	3,200	1,370	1,830
Total prosecuting attorney	<u>590,721</u>	<u>590,721</u>	<u>580,260</u>	<u>10,461</u>
Public defender:				
Salaries	204,889	204,889	203,384	1,505
Other services and charges	47,160	47,160	52,114	(4,954)
Capital outlay	-	22,190	10,025	12,165
Total public defender	<u>252,049</u>	<u>274,239</u>	<u>265,523</u>	<u>8,716</u>
Juvenile detention:				
Salaries	314,211	314,211	311,374	2,837
Other services and charges	115,605	140,827	135,029	5,798
Capital outlay	1,240	1,240	580	660
Total juvenile detention	<u>431,056</u>	<u>456,278</u>	<u>446,983</u>	<u>9,295</u>
General:				
Benefits	1,478,710	1,488,657	1,370,530	118,127
Other services and charges	307,133	308,572	299,372	9,200
Total general	<u>1,785,843</u>	<u>1,797,229</u>	<u>1,669,902</u>	<u>127,327</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Expenditures - Budget and Actual -
Justice Fund (Continued)

Year Ended September 30, 2003

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Justice (continued):				
Public safety (continued):				
Jail:				
Salaries	\$1,121,131	\$1,104,631	\$1,103,479	\$ 1,152
Other services and charges	434,230	450,925	482,327	(31,402)
Capital outlay	74,450	74,450	41,458	32,992
Total jail	<u>1,629,811</u>	<u>1,630,006</u>	<u>1,627,264</u>	<u>2,742</u>
Marine patrol:				
Salaries	102,653	102,653	102,653	-
Other services and charges	45,620	46,340	20,860	25,480
Capital outlay	-	-	25,461	(25,461)
Total marine patrol	<u>148,273</u>	<u>148,993</u>	<u>148,974</u>	<u>19</u>
Building and grounds:				
Other services and charges	16,000	16,000	18,997	(2,997)
Capital outlay	17,500	39,900	36,903	2,997
Total building and grounds	<u>33,500</u>	<u>55,900</u>	<u>55,900</u>	<u>-</u>
Total public safety	7,612,513	7,729,136	7,439,800	289,336
Debt service:				
Principal	12,458	12,458	18,488	(6,030)
Interest	1,142	1,142	1,694	(552)
Total capital outlay	<u>115,290</u>	<u>344,880</u>	<u>319,256</u>	<u>25,624</u>
Total justice	<u>\$7,741,403</u>	<u>\$8,087,616</u>	<u>\$7,779,238</u>	<u>\$ 308,378</u>

See accompanying independent auditors' report.

Bonner County, Idaho

Sandpoint, Idaho

Statement of Revenues and Expenditures - Budget and Actual - Road and Bridge Fund

Year Ended
September 30, 2003

	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual	
Revenues				
Taxes:				
Current	\$2,932,940	\$2,932,940	\$2,965,896	\$ 32,956
Penalties and interest	17,650	17,650	55,210	37,560
REA Tax	35,760	35,760	31,052	(4,708)
Total taxes	<u>2,986,350</u>	<u>2,986,350</u>	<u>3,052,158</u>	<u>65,808</u>
Intergovernmental:				
Highway user revenue	1,668,705	1,668,705	1,487,558	(181,147)
Exchange program	98,899	98,899	108,350	9,451
Sales tax base and excess	94,000	94,000	99,697	5,697
Category 58 replacement revenue	11,026	11,026	11,026	-
State cost sharing	-	-	50,000	50,000
Forest apportionment	827,133	827,133	837,684	10,551
Total intergovernmental	<u>2,699,763</u>	<u>2,699,763</u>	<u>2,594,315</u>	<u>(105,448)</u>
Miscellaneous:				
Sale of County property	-	-	387,690	387,690
Miscellaneous	-	-	25,433	25,433
Refunds and reimbursements	10,000	10,000	32,269	22,269
	<u>10,000</u>	<u>10,000</u>	<u>445,392</u>	<u>435,392</u>
Total revenues	<u>5,696,113</u>	<u>5,696,113</u>	<u>6,091,865</u>	<u>395,752</u>
Expenditures				
Current:				
Salaries	1,433,192	1,433,192	1,302,132	131,060
Benefits	424,468	424,468	397,122	27,346
Other services and charges	3,201,950	3,266,950	3,195,013	71,937
Total current	<u>5,059,610</u>	<u>5,124,610</u>	<u>4,894,267</u>	<u>230,343</u>
Debt service:				
Principal	178,421	178,421	370,810	(192,389)
Interest	34,561	34,561	71,827	(37,266)
Total debt service	<u>212,982</u>	<u>212,982</u>	<u>442,637</u>	<u>(229,655)</u>
Capital outlay	553,916	941,186	1,165,643	(224,457)
Total expenditures	<u>5,826,508</u>	<u>6,278,778</u>	<u>6,502,547</u>	<u>(223,769)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(130,395)	(582,665)	(410,682)	171,983
OTHER FINANCING SOURCES:				
Capital leases	-	-	356,272	356,272
NET CHANGE IN FUND BALANCE	<u>\$ (130,395)</u>	<u>\$ (582,665)</u>	<u>\$ (54,410)</u>	<u>\$ 528,255</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Statement of Revenues and Expenses -

(Non-GAAP Budgetary Basis) - Budget and Actual -

Solid Waste Enterprise Fund

Year Ended September 30, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<i>REVENUES:</i>			
Charges for services:			
Fees	\$ 1,598,826	\$ 1,459,922	\$ (138,904)
Commercial disposal	1,137,946	1,080,411	(57,535)
Gate	52,144	58,902	6,758
Total charges for services	<u>2,788,916</u>	<u>2,599,235</u>	<u>(189,681)</u>
Penalties and interest	18,000	31,114	13,114
Miscellaneous	7,700	24,141	16,441
Total revenues	<u>2,814,616</u>	<u>2,654,490</u>	<u>(160,126)</u>
<i>EXPENSES:</i>			
Salaries	470,758	434,939	35,819
Benefits	158,975	134,249	24,726
Other services and charges	2,102,950	2,205,067	(102,117)
Capital outlay	1,130,200	262,400	867,800
Total expenses	<u>3,862,883</u>	<u>3,036,655</u>	<u>826,228</u>
<i>EXCESS OF EXPENDITURES OVER REVENUES</i>	<u><u>\$(1,048,267)</u></u>	<u><u>\$ (382,165)</u></u>	<u><u>\$ 666,102</u></u>

SINGLE AUDIT

AUDITORS' SECTION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of County Commissioners
Bonner County, Idaho
Sandpoint, Idaho

We have audited the financial statements of Bonner County, Idaho (the County) as of and for the year ended September 30, 2003, and have issued our report thereon dated November 21, 2003, which was qualified due to (1) the inclusion of unaudited information regarding the Pension Trust Fund and (2) the omission of certain general infrastructure assets in the governmental activities. 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.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of audit findings as items 03-1 through 03-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-2 and 03-4 to be material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the County in a separate letter dated November 21, 2003.

This report is intended solely for the information and use of management, the Board of County Commissioners, 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.

LeMaster & Daniels PLLC

Spokane, Washington
November 21, 2003

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Board of County Commissioners
Bonner County, Idaho
Sandpoint, Idaho

Compliance

We have audited the compliance of Bonner County, Idaho (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of County Commissioners, 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.

LeMaster & Daniels PLLC

Spokane, Washington
November 21, 2003

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings

Year Ended September 30, 2003

Section I — Summary of Auditors' Results

FINANCIAL STATEMENTS:

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

 X yes no

- Reportable condition(s) identified that are not considered to be material weakness(es)?

 X yes none reported

Noncompliance material to financial statements noted?

 yes X no

FEDERAL AWARDS:

Internal control over major programs:

- Material weakness(es) identified?

 yes X no

- Reportable condition(s) identified that are not considered to be material weakness(es)?

 yes X no

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

 yes X no

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings (Continued)

Year Ended September 30, 2003

Section I — Summary of Auditors' Results (continued)

FEDERAL AWARDS (continued):

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.106	Department of Transportation – Airport Improvement Program
14.228	Housing and Community Development – Kootenai Ponderay Sewer District ICDBG

Dollar threshold used to distinguish
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____yes X no

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings (Continued)

Year Ended September 30, 2003

Section II — Financial Statement Findings

FINDING 03-1 – PERSONNEL FILE RECORDS DOCUMENTATION

Criteria:

County policy dictates that all personnel files contain supporting documentation of employee pay rates.

Condition:

Reportable condition

We noted during testing of payroll disbursements that personnel files did not contain current supporting documentation of pay rates for the fixed percentage increases during fiscal year 2002/2003.

Effect:

Without a proper documentation process, the County cannot effectively control the pay rates being paid to employees.

Recommendation:

The personnel department should verify that all personnel files contain the proper documentation necessary to support the current rate of pay of all employees.

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings (Continued)

Year Ended September 30, 2003

Section II — Financial Statement Findings (Continued)

FINDING 03-2 – CASH ACCOUNT CUSTODY AND REPORTING

Criteria:

All cash related to the functions of the departments of the County are to be deposited in the County bank account and recorded as received by the Treasurer's office. The State of Idaho Code requires that all funds due to the County are to be remitted to the Treasurer's office. Pursuant to federal regulations, the forfeitures associated with Drug Task Force are to be deposited with the County minus any associated expenses.

Condition:

Material weakness

As previously mentioned in 2002 finding 02-3, we noted that the monies from the forfeitures received by the Drug Task Force are not deposited into the County bank account and recorded on the County's books.

Effect:

The County lacks the ability to maintain proper control over the custody and recording of assets and the ability to misuse or misappropriate funds is unnecessarily high.

Recommendation:

We recommend that all funds be receipted under the control of the Treasurer's and Clerk's offices. All accounting transactions should be reported on the accounting records of the County for asset custody and financial reporting purposes.

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings (Continued)

Year Ended September 30, 2003

Section II — Financial Statement Findings (Continued)

FINDING 03-3 – LEASE AUTHORIZATION AND APPROVAL

Criteria:

County policy requires that all leases be reviewed and approved by the County Treasurer prior to signing.

Condition:

Reportable condition

We noted during testing of leases that a new lease for a Caterpillar grader was not made available for review and approval by the Treasurer.

Effect:

Without a proper approval process, the County may not effectively control the leasing of equipment.

Recommendation:

All leases prior to signing have an approval page attached with a listing of those authorized to sign and approve the lease transaction.

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings (Continued)

Year Ended September 30, 2003

Section II — Financial Statement Findings (Continued)

FINDING 03-4 – FINANCIAL ACCOUNTING AND REPORTING

Criteria:

As required by Statements on Standards issued by the Governmental Accounting Standards Board, maintaining the entity's financial records is the responsibility of management.

Condition:

Material weakness

The County does not record and account for all of the County's financial statement accounts in the financial records of the County. The tax levy budget, long-term debt, pension, and LID (Local Improvement District) have not been recorded.

Effect:

The County lacks assurance it is accounting for all of its assets and liabilities and that the assets are not misappropriated.

Recommendation:

The County is required to implement the steps necessary to ensure that all of the financial information is recorded in the financial records of the County.

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings (Continued)

Year Ended September 30, 2003

Section III — Federal Award Findings

No matters were reported.

AUDITEE'S SECTION

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Expenditures of Federal Awards

Year Ended
September 30, 2003

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Justice:</i>			
Domestic Violence	16.589	N/A	\$ 70,427
Local Law Enforcement Block Grant	16.592	2001-LB-BX-2149	21,985
Kinderhaven Formula Grant	16.540	01-JJ11-02	24,629
COPS Technology Grant	16.710	2002CKWX0049	71,199
Drug Task Force	16.579	02-BYRN-64-TF-02	49,600
Drug Task Force	16.579	03-BYRN-64-TF-03	13,786
Drug Court	16.579	02-BYRN-64-DC-01	13,300
Underage Drinking Law Grant	16.727	00-UD11-02	3,552
JAIBG S.R.O.	16.523	00-JA11-02	<u>32,970</u>
Total U.S. Department of Justice			<u>301,448</u>
<i>U.S. Department of Transportation:</i>			
Passed through State of Idaho Department of Parks and Recreation:			
Federal Boat Safety	20.005	42-03-09-01	33,948
Passed through Idaho Transportation Department:			
Occupant Protection 2003	20.602	SD21201	1,217
Probation DUI	20.600	SD3J804	15,121
Federal Aviation Administration	20.106		<u>150,968</u>
Total U.S. Department of Transportation			<u>201,254</u>

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Year Ended
September 30, 2003

Schedule of Expenditures of Federal Awards (Continued)

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
<i>Department of the Interior:</i>			
EMS Fire Assistance Grant	15.228	DLA020423	<u>\$ 255</u>
<i>Federal Emergency Management Agency:</i>			
Passed through Idaho Military Division:			
Civil Defense	83.552	EMS-2002-GR-3091	<u>21,924</u>
<i>Housing and Community Development</i>			
Kootenai Ponderay Sewer District ICDBG	14.228	ICDBG-02-I-8PF	<u>305,237</u>
<i>Department of Agriculture</i>			
NFP Xylem Rotary Screener	10.664	NFP-01-I-16-EAP	42,955
IDC Mulch Colorizer Grant	10.664	NFP-03-I-1-EA	<u>30,000</u>
Total Department of Agriculture			<u>72,955</u>
Total expenditures of federal awards			<u><u>\$903,073</u></u>

Note 1 — Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bonner County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Amounts presented in this schedule agree with the amounts presented in, or used in, the preparation of the financial statements.

Bonner County, Idaho
Sandpoint, Idaho

Corrective Action Plan

Year Ended September 30, 2003

03-1—PERSONNEL FILE RECORDS DOCUMENTATION

CONTACT PERSON: MARIE SCOTT

COMMENT PREPARED BY: MARIE SCOTT

Based on the finding, the Personnel Department will be made aware of the finding and will be asked to institute further procedures to ensure that supporting documentation is maintained in personnel files.

03-2—CASH ACCOUNT CUSTODY AND REPORTING

CONTACT PERSON: MARIE SCOTT

COMMENT PREPARED BY: MARIE SCOTT

Based on the finding, the Prosecutor's and Sheriff's Departments will be made aware of the finding and asked to comply with the finding as noted.

03-3—LEASE AUTHORIZATION AND APPROVAL

CONTACT PERSON: MARIE SCOTT

COMMENT PREPARED BY: MARIE SCOTT

The County will implement procedures to ensure that all lease documents will be reviewed and approved by the Treasurer prior to signing.

03-4—FINANCIAL ACCOUNTING AND REPORTING

CONTACT PERSON: MARIE SCOTT

COMMENT PREPARED BY: MARIE SCOTT

The County has implemented procedures for the proper recording of all of the County's financial statement accounts in the financial records of the County.

Bonner County, Idaho
Sandpoint, Idaho

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2003

Findings From Year Ended September 30, 2002:

Finding 02-1: General Fixed Asset Accounting

The finding was a reportable condition that the County does not have a system to record and account for general fixed assets on a historical basis.

Status:

The County has implemented a general fixed asset accounting system, as required by GASB Statement No. 34, for all assets greater than \$5,000 as of September 30, 2003.

Finding 02-2: Claim Form Approval

The finding was a reportable condition that claim forms, which are generated by department heads, are not always approved by an employee of higher authority.

Testing of cash disbursements revealed that an invoice approval form had only one signature approving the disbursement.

Status:

Current year testing of cash disbursements reported no exceptions to the invoice approval policy. Per inquiry, management has indicated that the policy is being complied with.

Finding 02-3: Cash Account Custody and Reporting

The finding was reported as a material weakness stating that monies from the forfeitures received by the Drug Task Force are not deposited into the County bank account and recorded on the County's books.

Status: Repeated as item 03-2 in the current year Schedule of Audit Findings.

The County will ask the Prosecutor's and Sheriff's Departments to comply with the finding as noted.