

# LAKES HIGHWAY DISTRICT

FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

# Lakes Highway District

September 30, 2014

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

## **INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Lakes Highway District  
Hayden Lake, ID 83835

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakes Highway District as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lakes Highway District as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONCLUDED)

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, on our consideration of Lakes Highway District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakes Highway District's internal control over financial reporting and compliance.

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

Magnuson, McHugh & Co., P.A.

January 20, 2015

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

# Lakes Highway District

## STATEMENT OF NET POSITION

September 30, 2014

### ASSETS

Cash and cash equivalents	\$ 2,231,720
Receivables	721,847
Special assessment receivables	75,857
Prepaid insurance	45,355
Land and rock pits	765,504
Construction in progress	38,933
Capital assets, net of accumulated depreciation	<u>46,402,397</u>
Total assets	<u>50,281,613</u>

### LIABILITIES

Accounts payable	513,172
Accrued payroll and payroll taxes	52,164
Accrued interest payable	4,781
Long-term debt, due in one year	20,000
Compensated absences, due in more than one year	273,145
Long-term debt, due in more than one year	<u>110,000</u>
Total liabilities	<u>973,262</u>

### NET POSITION

Net investment in capital assets	47,076,834
Restricted	489,884
Unrestricted	<u>1,741,633</u>
Total net position	<u>\$ 49,308,351</u>

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

# Lakes Highway District

## STATEMENT OF ACTIVITIES For the Year Ended September 30, 2014

### EXPENSES

Highway construction and maintenance:

Direct road maintenance	\$ 1,119,659
Labor and benefits	553,709
Operations	473,296
Administrative, including administrative salaries	500,063
Depreciation expense	1,737,792
Interest expense	5,264
Total program expenses	<u>4,389,783</u>

### PROGRAM REVENUES

Charges for services	17,030
Capital grants and donations of roads	<u>15,689,458</u>
Total program revenues	<u>15,706,488</u>

Net program (expense) revenue 11,316,705

### GENERAL REVENUES

Taxes and assessments	3,201,477
Highway user	1,873,298
Federal forest funds	100,456
Sales tax	143,137
Other	96,142
Gain on sale of assets	16,500
Interest	3,706
Developers contribution funds	31,983
Penalty and interest	36,541
Total general revenues	<u>5,503,240</u>

Increase in net position 16,819,945

Net position - beginning 32,488,406

Net position - ending \$ 49,308,351

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

**Lakes Highway District**

**GOVERNMENTAL FUNDS - BALANCE SHEET**

September 30, 2014

	General Fund	LID #1 * Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,182,427	\$ 49,293	\$ 2,231,720
Receivables:			
Taxes	106,840	-	106,840
Highway user	481,241	-	481,241
Other	133,766	-	133,766
Special assessments receivable	-	75,857	75,857
Prepaid insurance	45,355	-	45,355
Total assets	<u>\$ 2,949,629</u>	<u>\$ 125,150</u>	<u>\$ 3,074,779</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 513,172	-	\$ 513,172
Accrued payroll and payroll taxes	52,164	-	52,164
Total liabilities	<u>565,336</u>	<u>-</u>	<u>565,336</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property taxes	73,877	-	73,877
Unavailable revenue-special assessments	-	75,857	75,857
Total deferred inflows of resources	<u>73,877</u>	<u>75,857</u>	<u>149,734</u>
<b>FUND BALANCES</b>			
Nonspendable	45,355	-	45,355
Restricted:			
Debt service	-	49,293	49,293
Development contributions and federal matching	440,591	-	440,591
Committed for road projects	517,653	-	517,653
Unassigned	1,306,817	-	1,306,817
Total fund balance	<u>2,310,416</u>	<u>49,293</u>	<u>2,359,709</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,949,629</u>	<u>\$ 125,150</u>	<u>\$ 3,074,779</u>

\* Not a major fund

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

## Lakes Highway District

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

September 30, 2014

Total fund balances - Governmental Funds, September 30, 2014		\$ 2,359,709
Cost of capital assets, September 30, 2014	\$ 58,243,976	
Less: Accumulated depreciation, September 30, 2014		
Buildings and improvements	(478,105)	
Office equipment and furniture	(106,742)	
Highway equipment	(3,758,086)	
Roads	<u>(6,694,209)</u>	47,206,834
Elimination of unavailable inflows of resources - property taxes		73,877
Elimination of unavailable inflows of resources - special assessment revenues		75,857
Long-term liabilities at September 30, 2014		
Compensated absences	(273,145)	
Long term debt	(130,000)	
Accrued interest payable	<u>(4,781)</u>	<u>(407,926)</u>
Net position, September 30, 2014		<u>\$ 49,308,351</u>

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

## Lakes Highway District

### GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2014

	General Fund	LID #1 * Debt Service Fund	Total Governmental Funds
<b>REVENUE</b>			
Taxes and assessments	\$ 3,222,369	\$ -	\$ 3,222,369
Highway user	1,873,298	-	1,873,298
Federal forest funds	100,456	-	100,456
Federal and state grants	50,000	-	50,000
Sales tax	143,137	-	143,137
Other	96,142	-	96,142
Other local revenue	228,226	-	228,226
Special assessment principal	-	20,513	20,513
Other interest income	3,706	-	3,706
Charges for services	17,030	-	17,030
Developer contribution funds	31,983	-	31,983
Penalty and interest income	31,439	5,102	36,541
Total revenues	<u>5,797,786</u>	<u>25,615</u>	<u>5,823,401</u>
<b>EXPENDITURES</b>			
Direct road maintenance	3,132,855	-	3,132,855
Labor and benefits	1,093,234	-	1,093,234
Operating expenses	473,296	-	473,296
Administrative, including administrative salaries	506,065	-	506,065
Capital expense	447,852	-	447,852
Debt service:			
Principal payments	-	20,000	20,000
Interest	-	6,000	6,000
Total expenditures	<u>5,653,302</u>	<u>26,000</u>	<u>5,679,302</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from sale of assets	16,500	-	16,500
Total other financing sources	<u>16,500</u>	<u>-</u>	<u>16,500</u>
Net change in fund balances	160,984	(385)	160,599
Fund balances - beginning	<u>2,149,432</u>	<u>49,678</u>	<u>2,199,110</u>
Fund balances - ending	<u>\$ 2,310,416</u>	<u>\$ 49,293</u>	<u>\$ 2,359,709</u>

\* Not a major fund

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

## Lakes Highway District

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2014

Total net changes in fund balances for the year ended September 30, 2014	\$ 160,599
Add: Capital outlay, which is considered expenditures	447,852
Add: Direct road maintenance, which is considered expenditures	2,013,196
Add: Labor and benefits, which is considered expenditures	565,297
Add: Administrative, which is considered expenditures	6,002
Less: Proceeds from sale of assets	(16,500)
Add: Gain on disposal of assets	16,500
Add: Donated capital assets	15,411,232
Less: Depreciation expense for the year ended September 30, 2014	(1,737,792)
Add: Bond payments considered as an expenditure	20,000
Less: Change in compensated absence accrual	(25,772)
Add: Change in accrued interest expense	736
Less: Difference between revenue earned on special assessments on modified accrual basis versus revenue on special assessments on accrual basis	(20,513)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>(20,892)</u>
Change in net position for the year ended September 30, 2014	<u>\$ 16,819,945</u>

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

**Lakes Highway District**

**STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
September 30, 2014**

	<b>Section 125 Agency Funds</b>	<b>Section 457 Agency Funds</b>
<b>ASSETS</b>		
Cash	\$ 1,922	\$ 2,719
Total assets	<u>\$ 1,922</u>	<u>\$ 2,719</u>
<b>LIABILITIES</b>		
Deposits due others	\$ 1,922	\$ 2,719
Total liabilities	<u>\$ 1,922</u>	<u>\$ 2,719</u>

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

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

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

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

#### B. Basis of Presentation – Government-Wide Financial Statements

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

#### C. Basis of Presentation – Fund Financial Statements

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District has the following fund types:

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

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

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

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

The District has the following major governmental fund:

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

Additionally, the District has the following governmental funds type:

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

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

#### D. Measurement Focus and Basis of Accounting

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

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

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

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

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

#### D. Measurement Focus and Basis of Accounting (Concluded)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

#### E. Cash and Cash Equivalents

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

During the fiscal year ended September 30, 2014, investments were limited to the Idaho State Investment Pool. The Idaho State Investment Pool is an investment pool, which allows districts within the State of Idaho to pool their funds for investment purposes. Investments in Idaho State Investment Pool are valued at cost, which materially equals market value.

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

#### F. Capital Assets

General capital assets usually result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements. General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. Improvements and interest incurred during the construction of capital assets are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset are not capitalized.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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

#### F. Capital Assets (Concluded)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	25 – 50 years
Buildings and Improvements	20 – 35 years
Equipment and Furniture	5 – 20 years

#### G. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Paid time off benefits are accrued as a liability as the benefits are earned, if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused paid time off when earned for all employees who qualify. There is a maximum cap of 720 hours that an employee can accumulate for paid time off.

The entire compensated absence liability is reported on the government-wide financial statements.

#### H. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the noncurrent portion of capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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

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

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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

#### I. Deferred Outflows/Inflows of Resources (Concluded)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items, which arises only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, unavailable revenue, are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### J. Fund Balance Classifications

The District has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (required implementation date of June 2011). This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the District to classify and report amounts in the appropriate fund balance classifications. The District's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of non-spendable, restricted, committed, assigned, or unassigned.

The District reports the following classifications:

Non-spendable Fund Balance - Non-spendable fund balances are amounts that cannot be spent because they are either: (a) not in spendable form—such as inventory or prepaid insurance, or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity.

Restricted Fund Balance - Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions are placed on fund balances when legally enforceable legislation establishes a specific purpose for the funds. Legal enforceability means that the District can be compelled by an external party (e.g., citizens, public interest groups, the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

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

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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

#### J. Fund Balance Classifications (Concluded)

Assigned Fund Balance - Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (a) the District Clerk/Treasurer, or (b) an appointed body (e.g., a budget or finance committee) or official to which the Board of Commissioners have delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned fund balance includes: (a) all remaining amounts that are reported in governmental funds (other than the general fund) that are not classified as non-spendable, restricted, or committed, and (b) amounts in the general fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

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

#### K. Fund Balance Flow Assumptions

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

#### L. Net Position Flow Assumptions

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

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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

#### M. Extraordinary and Special items

Extraordinary items are transactions that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transactions occurred during the fiscal year ended September 30, 2014.

#### N. Estimates

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

#### O. Property Taxes

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

### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### Budgetary Data

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the general fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the general fund.

This is in conformance with Idaho State Statutes, which require that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation. The budget was amended in the current fiscal year.

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

- a) The District publishes a proposed budget for public review.
- b) Public hearings are set to obtain taxpayer comments.
- c) Prior to October 1, the budget is adopted by resolution of the Board of Commissioners and published.

Lapsing of Appropriations - At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

### NOTE 3: CASH AND INVESTMENTS

#### General:

State statutes authorize the District's investments and deposits. The District is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred during the year.

#### Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the District's deposits and investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2014, the District's deposits and investments were not exposed to custodial credit risk:

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

Amount insured by FDIC or other agencies collateralized with securities held by the agency in the District's name	\$ 252,719
Funds Held in the District's name by the Idaho State Investment Pool	<u>2,008,095</u>
Total deposits without exposure to custodial credit risk	<u>\$2,260,814</u>

#### Deposits with exposure to custodial credit risk:

Amounts not insured by FDIC or other agencies collateralized with securities held by the agency in the District's name	\$ <u>76,545</u>
Total deposits with exposure to custodial credit risk	<u>\$ 76,545</u>
Total deposits	<u>\$2,337,359</u>

Cash and cash equivalents at September 30, 2014 are classified in the accompanying financial statements as follows:

#### Statement of Net Position:

Cash and cash equivalents	\$ 2,231,720
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#### Statement of Fiduciary Net Position:

Cash – Section 125	1,922
Cash – Section 457	<u>2,719</u>
Total	<u>\$2,236,361</u>

Cash and cash equivalents at September 30, 2014 consist of the following:

Deposit with financial institutions	\$ 228,266
Idaho State Investment Pools	<u>2,008,095</u>
Total cash and cash equivalents	<u>\$ 2,236,361</u>

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

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

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

Fair value:

The District's investments in 2a-7-like pools are valued based upon the value of pool shares. The District invests in one 2a-7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool is duly chartered and administered by the State Treasurer's office and consists of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The balance above that the District has in the Idaho State Investment Pool is carried at cost which approximates fair market value. The District's portion of the Idaho State Investment Pool had an unrealized gain of \$2,611 as of September 30, 2014. As the difference between fair market value and cost is immaterial, the unrealized gain has not been recorded in the District's books.

Credit risk:

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

### NOTE 4: SPECIAL ASSESSMENT RECEIVABLES

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2014:

Deferred principal amounts not currently due, but due at a future date	<u>\$75,857</u>
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# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

### NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning	Adjustments		Transfers	Ending
	Balance	Additions	Deletions		Balance
Capital assets, not being depreciated:					
Land and rock pits	\$ 672,306	\$ 93,198	\$ -	\$ -	\$ 765,504
Construction in progress	2,285,546	8,721,812	-	(10,968,425)	38,933
Total, capital assets not being depreciated	2,957,852	8,815,010	-	(10,968,425)	804,437
Capital assets, being depreciated:					
Buildings and improvements	907,224	-	-	-	907,224
Highway equipment	4,540,987	426,569	(228,029)	-	4,739,527
Roads	31,510,432	9,202,000	-	10,968,425	51,680,857
Office equipment & furniture	111,931	-	-	-	111,931
Total capital assets being depreciated	37,070,574	9,628,569	(228,029)	10,968,425	57,439,539
Less accumulated depreciation for:					
Buildings and improvements	445,830	32,275	-	-	478,105
Highway equipment	3,848,704	137,411	(228,029)	-	3,758,086
Roads	5,128,965	1,565,244	-	-	6,694,209
Office equipment & furniture	103,880	2,862	-	-	106,742
Total accumulated depreciation	9,527,379	1,737,792	(228,029)	-	11,037,142
Capital assets, being depreciated, net	27,543,195	7,890,777	-	10,968,425	46,402,397
Governmental activities capital assets, net	\$ 30,501,047	\$ 16,705,787	\$ -	\$ -	\$ 47,206,834

Depreciation expense of \$1,737,792 for the year ended September 30, 2014 was charged to the highway construction and maintenance governmental function.

### NOTE 6: ACCRUED PAYROLL AND BENEFITS

Accrued payroll includes amounts due employees and related payroll taxes and benefits at September 30, 2014, which were not paid until October 2014.

### NOTE 7: BONDS PAYABLE

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

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

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

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

(Continued)

## Lakes Highway District

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

**NOTE 7: BONDS PAYABLE (CONCLUDED)**

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

Year Ending:	Interest Rate	Principal	Interest	Total
2015	4%	\$ 20,000	\$ 4,781	\$ 24,781
2016	4%	20,000	4,046	24,046
2017	4%	20,000	3,310	23,310
2018	4%	20,000	2,574	22,574
2019	4%	25,000	1,839	26,839
2020	4%	25,000	919	25,919
		<u>\$ 130,000</u>	<u>\$ 17,469</u>	<u>\$ 147,469</u>

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

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

	Beginning Balance	Issued	Retired	Ending Balance	Amount due in one year
Compensated absences	\$ 247,373	\$ 25,772	\$ -	\$ 273,145	\$ -
LID No. 1	150,000	-	(20,000)	130,000	20,000
Total general long-term debt	<u>\$ 397,373</u>	<u>\$ 25,772</u>	<u>\$ (20,000)</u>	<u>\$ 403,145</u>	<u>\$ 20,000</u>

**NOTE 9: FUND BALANCES – RESTRICTIONS AND COMMITMENTS**

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

Development Contribution Projects - various	\$440,591
Debt service	<u>49,293</u>
Total restricted funds	<u>\$489,884</u>

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

Good Hope Road Culvert and Construction	\$325,946
Rehabilitation projects	76,934
Pavement markings	28,625
EHLR Culvert Replacement	26,320
JUB Transportation Plan	22,099
Truck 19 Rebuild	11,347
Strata	9,285
Welch Comer	6,932
NPDES Joint (Ruen Yeager)	3,659
Allwest Testing	2,258
Strata – Good Hope Road	2,109
NPDES LHD (Ruen Yeager)	1,639
Boekel-Huetter Realignment	<u>500</u>
Total committed funds	<u>\$517,653</u>

The District has \$45,355 in non-spendable net positions in the form of prepaid insurance.

(Continued)

## Lakes Highway District

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

#### NOTE 10: DEFINED BENEFIT PENSION PLANS

The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age, and compensation.

In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand-alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website [www.persi.idaho.gov](http://www.persi.idaho.gov).

The actuarially determined contribution requirements of Lakes Highway District and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2014, the required contribution rate as a percentage of covered payroll for members was 6.79% for general members and 8.36% for police/firefighters. The employer rate as a percentage of covered payroll was 11.32% for general members and 11.66% for police/firefighter members. Lakes Highway District's contributions required and paid were \$126,898, \$114,964 and \$112,484, for the three years ended September 30, 2014, 2013, and 2012, respectively.

#### NOTE 11: DEFERRED COMPENSATION PLANS

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

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

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

(Continued)

# Lakes Highway District

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

### NOTE 11: DEFERRED COMPENSATION PLANS (CONCLUDED)

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

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

### NOTE 12: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

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

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

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

### NOTE 13: COMMITMENTS AND CONTINGENCIES

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

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

(Continued)

## Lakes Highway District

### NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

#### **NOTE 13: COMMITMENTS AND CONTINGENCIES (CONCLUDED)**

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

Lancaster Road – U. S. 95 to Ferndale – Key Note 9785: As of September 30, 2014, this reconstruction project was complete, but is still on the active list with the Idaho Transportation Department. Lakes Highway District accepted the completed project in this fiscal year. As of September 30, 2014 this project had matching funds of \$17,866 still with the Idaho Transportation Department. These funds will not be given to the District until ITD has officially closed the project, which may be anywhere from two to five years.

Old Hwy 95 – Hwy 53 to Chilco – Key Note 11992: As of September 30, 2014, this project was complete, but still on the active list with the Idaho Transportation Department. Lakes Highway District accepted the completed project in this fiscal year. As of September 30, 2014 this project had matching funds of \$123,816 still with the Idaho Transportation Department. These funds will not be given to the District until ITD has officially closed the project, which may be anywhere from two to five years.

(Concluded)

REQUIRED SUPPLEMENTARY INFORMATION

## Lakes Highway District

### GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

For the Year Ended September 30, 2014

	Original Budget	Amended Budget	Actual Amount	Variance With Final Budget
<b>REVENUES</b>				
Taxes and assessments	\$ 3,257,414	\$ 3,214,471	\$ 3,222,369	\$ 7,898
Highway user	1,800,000	1,834,109	1,873,298	39,189
Federal forest funds	78,014	100,456	100,456	-
Federal and state grants	-	-	50,000	50,000
Sales tax	100,000	143,137	143,137	-
Other	43,000	320,296	96,142	(224,154)
Other local revenue	-	-	228,226	228,226
Other interest income	3,400	3,400	3,706	306
Charges for services	10,000	17,000	17,030	30
Developer contribution funds	-	-	31,983	31,983
Penalty and interest income	25,000	81,571	31,439	(50,132)
Total revenues	<u>5,316,828</u>	<u>5,714,440</u>	<u>5,797,786</u>	<u>83,346</u>
<b>EXPENDITURES</b>				
Direct road maintenance	3,160,604	3,347,993	3,132,855	(215,138)
Salaries and benefits	1,105,331	1,184,968	1,093,234	(91,734)
Operations	489,652	511,652	473,296	(38,356)
Administrative, including administrative salaries	526,241	530,854	506,065	(24,789)
Capital expense	61,000	457,744	447,852	(9,892)
Contingency	996,722	1,016,836	-	(1,016,836)
Total expenditures	<u>6,339,550</u>	<u>7,050,047</u>	<u>5,653,302</u>	<u>(1,396,745)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	16,500	16,500
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>16,500</u>	<u>16,500</u>
Net change in fund balances	(1,022,722)	(1,335,607)	160,984	1,496,591
Fund balances - beginning	<u>1,045,000</u>	<u>1,045,000</u>	<u>2,149,432</u>	<u>1,104,432</u>
Fund balances - ending	<u>\$ 22,278</u>	<u>\$ (290,607)</u>	<u>\$ 2,310,416</u>	<u>\$ 2,601,023</u>

REPORT REQUIRED BY THE GAO

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

Independent Auditors' Report

Board of Commissioners  
Lakes Highway District  
Hayden Lake, ID 83835

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major funds of Lakes Highway District as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Lakes Highway District's basic financial statements, and have issued our report thereon dated January 20, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Lakes Highway District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lakes Highway District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lakes Highway District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

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

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

***Purpose of this Report***

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

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

Magnuson, McHugh & Co., P.A.

January 20, 2015