

CITY OF SANDPOINT

FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

CITY OF SANDPOINT

September 30, 2025

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of the
City of Sandpoint
Sandpoint, ID 83864

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sandpoint, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Sandpoint's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sandpoint, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Sandpoint Urban Renewal Agency, which represent 100% percent, respectively, of the assets, net position, and revenues of the discretely presented component unit as of September 30, 2025. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sandpoint Urban Renewal Agency, is based solely on the report of the other auditors.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Sandpoint, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of Management for the Financial Statements (Concluded)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Sandpoint's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Sandpoint's ability to continue as a going concern for a reasonable period of time.

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, and certain GASB No. 68 pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandpoint's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2026, on our consideration of the City of Sandpoint's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Sandpoint's 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 the City of Sandpoint's internal control over financial reporting and compliance.

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

February 23, 2026

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

As management of the City of Sandpoint, we offer readers of the City of Sandpoint's financial statements this narrative overview and analysis of the financial activities of the City of Sandpoint for the fiscal year ended September 30, 2025. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the accompanying *Notes* which are a part of this audit report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Sandpoint exceeded its liabilities at the close of the most recent fiscal year by \$146,534,786. Of this amount, \$44,056,546 represents the unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Sandpoint's total net position increased \$11,617,418 from the prior year (\$3,487,757 for Governmental Activities and \$8,129,661 for Business-type Activities).
- As of the close of the current fiscal year, the City of Sandpoint's governmental funds reported a combined fund balance of \$27,337,778, an increase of \$1,525,450 in comparison with the prior fiscal year.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$9,257,584 or approximately 78% of the total general fund expenditures.
- The Governmental Accounting Standards Board statement (GASB 68) requires the City to reflect the City's proportionate share of the unfunded actuarial accrued liability of PERSI as a liability on the financial statements. While this directly affects the City's Net Position on the financial statements, it is merely a reporting number and does not directly affect the cash or debt load.
- The Governmental Accounting Standards Board statement (GASB 87) requires the City to include financial lease liabilities on the financial statements. While this directly affects the City's Net Position on the financial statements, it is merely a reporting number and does not directly affect the cash or debt load.
- The City has considered the effects of the Governmental Accounting Standards Board statements (GASB 94 and GASB 96) and the City has noted no agreements applicable to either statement.
- The Governmental Accounting Standards Board introduced statement on Compensated Absences (GASB 101). The City has adopted and implemented all requirements related to this statement.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

The *statement of net position* presents information on all of the City of Sandpoint's assets and liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Sandpoint is improving or deteriorating.

The *statement of activities* presents information showing how the City of Sandpoint's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of 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).

Both of the government wide financial statements distinguish functions of the City of Sandpoint 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 the City of Sandpoint include general government, public safety, streets, local sales tax projects, and culture and recreation. The business-type activities of the City of Sandpoint include water treatment and distribution, sewage collection and treatment, sanitation, and streetlights.

The government-wide financial statements include not only the City of Sandpoint itself (known as the primary government) but also a legally separate urban renewal agency and a business improvement district for which the City of Sandpoint is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statement can be found in the audit section 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. The City of Sandpoint, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sandpoint 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 as those reported as governmental activities in the government-wide financial statements. However, unlike 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 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 government activities in the government-wide financial statements. By doing so, the reader 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*.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Governmental Funds (Concluded)

The City of Sandpoint maintains eight 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 and the parks improvement fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and individual fund statements and schedules section of this report.

The City of Sandpoint adopts an annual appropriated budget for its general fund and parks improvement fund. A budgetary comparison statement has been provided for the general fund and parks improvement fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19 – 22 of this report.

Proprietary Funds – The City of Sandpoint maintains four different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Sandpoint uses enterprise funds to account for its water and sewer operations, sanitation, and bond payment fund.

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 water, sewer, and bond payment funds, all of which are considered to be major funds of the City of Sandpoint. The sanitation fund is considered a nonmajor fund.

The basic proprietary fund financial statements can be found on pages 23 – 25 of this report.

Notes to Financial Statements – The notes provide additional information that is necessary to acquire 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 – 56 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City of Sandpoint's budget and actual expenditures of the General fund and Parks Improvement fund on pages 57 – 58 of this report. The required GASB 68 supplementary information can be found on pages 59 – 60 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 62 – 67 of this report.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

GOVERNMENTAL – WIDE OVERALL FINANCIAL ANALYSIS

As noted previously, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Sandpoint, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$146,534,786 at the close of the most recent fiscal year.

Table 1

STATEMENTS OF NET POSITION

	Governmental activities		Business-type activities		Total	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 29,274,634	\$ 28,650,165	\$ 44,336,953	\$ 39,930,283	\$ 73,611,587	\$ 68,580,448
Endowment	29,816	25,000	-	-	29,816	25,000
Lease receivable	1,100,856	58,912	-	-	1,100,856	58,912
Net pension asset	2,658,259	2,291,905	-	-	2,658,259	2,291,905
Capital and intangible assets, net of accumulated depreciation and amortization	34,119,934	32,471,264	54,155,803	51,317,554	88,275,737	83,788,818
Total assets	67,183,499	63,497,246	98,492,756	91,247,837	165,676,255	154,745,083
Deferred outflow of resources						
Proportionate share of collective deferred outflows of resources - PERSI Base Plan	797,635	1,205,108	237,597	339,466	1,035,232	1,544,574
Proportionate share of collective deferred outflows of resources - Firefighters' Retirement Fund	-	73,673	-	-	-	73,673
Total deferred outflow of resources	797,635	1,278,781	237,597	339,466	1,035,232	1,618,247
Long-term liabilities outstanding	585,767	634,941	11,083,110	11,568,567	11,668,877	12,203,508
Net pension liability	2,334,091	3,620,594	638,475	960,101	2,972,566	4,580,695
Other liabilities	1,843,138	2,795,498	1,253,098	1,660,661	3,096,236	4,456,159
Total liabilities	4,762,996	7,051,033	12,974,683	14,189,329	17,737,679	21,240,362
Deferred inflow of resources						
Proportionate share of collective deferred outflows of resources - PERSI Base Plan	892,439	(19,702)	394,425	166,390	1,286,864	146,688
Proportionate share of collective deferred outflows of resources - Firefighters' Retirement Fund	51,302	-	-	-	51,302	-
Deferred inflows of resources from leases receivable	1,100,856	58,912	-	-	1,100,856	58,912
Total deferred inflow of resources	2,044,597	39,210	394,425	166,390	2,439,022	205,600
Net position:						
Net investment in capital assets and leases	34,119,281	32,431,486	42,699,311	39,349,132	76,818,592	71,780,618
Restricted	613,579	2,300,157	25,046,069	24,344,655	25,659,648	26,644,812
Unrestricted	26,440,681	22,954,141	17,615,865	13,537,797	44,056,546	36,491,938
Total net position	\$ 61,173,541	\$ 57,685,784	\$ 85,361,245	\$ 77,231,584	\$ 146,534,786	\$ 134,917,368

By far, the largest portion of the City of Sandpoint's net position, 52% reflects its investment in capital assets and leases (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Sandpoint uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Sandpoint's investments in capital assets and leases is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets and leases themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Sandpoint's net position, 18% represents resources that are subject to external restrictions on how they may be used. The remaining balance \$44,056,546 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

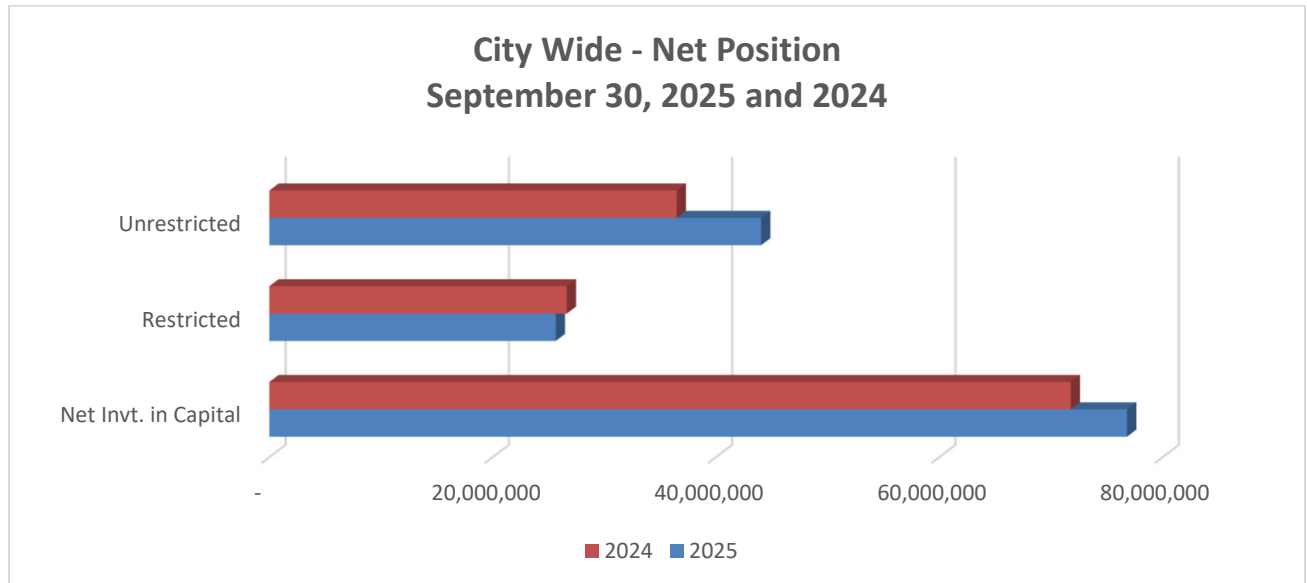
GOVERNMENTAL – WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

At the end of the current fiscal year, the City of Sandpoint is able to report positive balances in all three categories of net position both for the government as a whole, as well as its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City of Sandpoint's overall net position increased \$11,617,418 from the prior fiscal year. The reason for this overall increase is discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for the governmental activities increased 6.05% or \$3,487,757 from the prior fiscal year for an ending balance of \$61,173,541 compared to prior year's balance of \$57,685,784. This increase is related to an increase in net investment in capital assets and leases and the reporting of the City's proportionate share of deferred outflows and inflows related to the State's pension plan.

Business-type activities. For the City of Sandpoint's business-type activities, the results for the current fiscal year were a positive net position of \$85,361,245. The total increase in net position for business-type activities (water, sewer, bond payment, and sanitation) was \$8,129,661 or 11.48% from the prior fiscal year. The growth, in large part, is attributed to increases in our reserves due to delays in water and wastewater projects and improvements to the wastewater treatment plant.



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

GOVERNMENTAL – WIDE OVERALL FINANCIAL ANALYSIS (CONTINUED)

Table 2

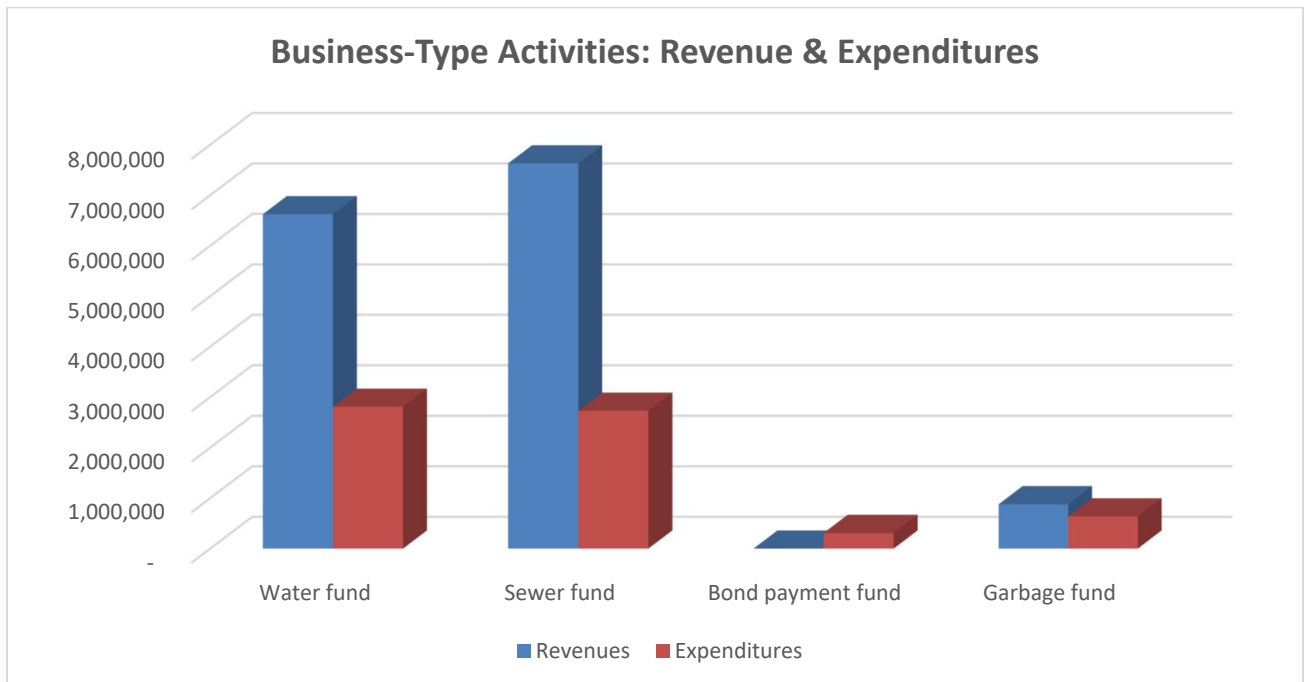
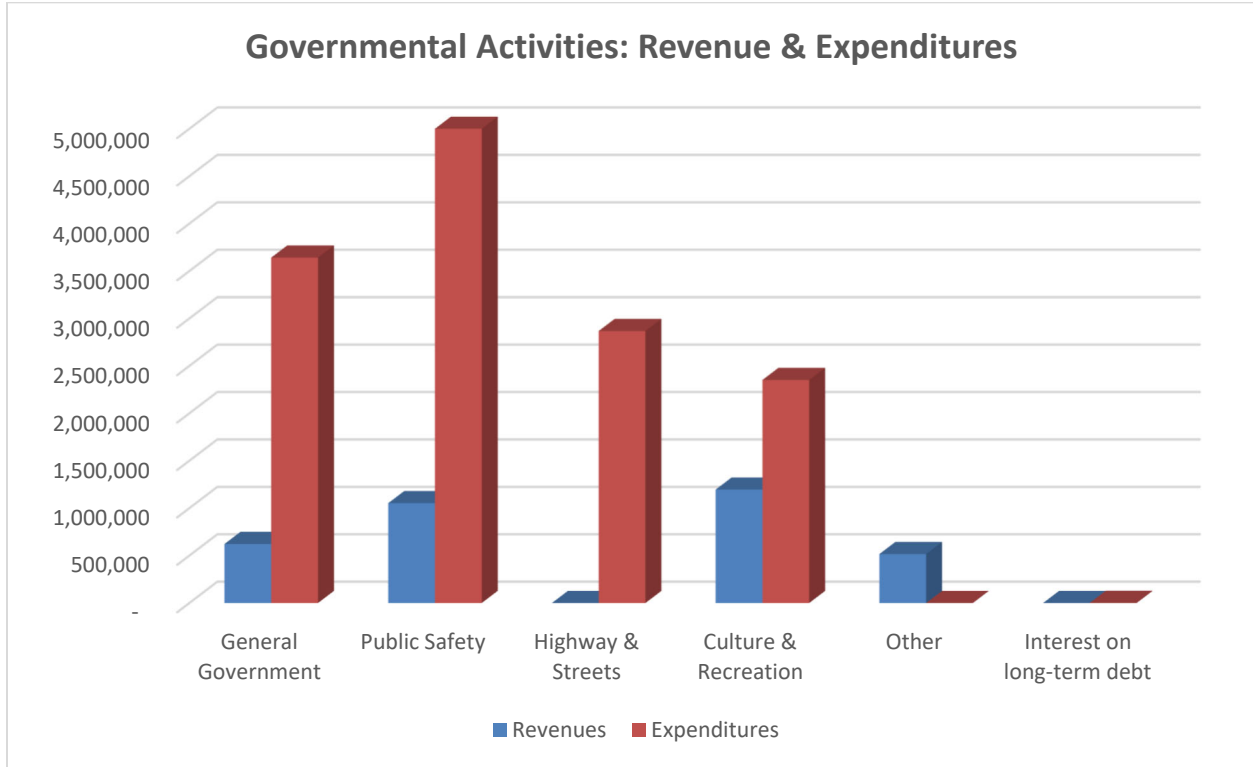
CHANGES IN NET POSITION

	Governmental activities		Business-type activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 2,846,141	\$ 3,773,802	\$ 12,650,042	\$ 11,331,265	\$ 15,496,183	\$ 15,105,067
Capital Grants	540,007	218,783	2,480,899	2,165,475	3,020,906	2,384,258
General revenues:						
Property taxes & special assessments	6,447,089	6,267,581	-	-	6,447,089	6,267,581
Investment Earnings	1,119,825	1,403,947	1,831,686	1,936,462	2,951,511	3,340,409
Intergovernmental	3,894,814	3,653,135	-	-	3,894,814	3,653,135
Gain on disposal of assets	-	18,128	-	57,929	-	76,057
Total revenues	<u>14,847,876</u>	<u>15,335,376</u>	<u>16,962,627</u>	<u>15,491,131</u>	<u>31,810,503</u>	<u>30,826,507</u>
Expenses:						
General government	3,641,911	3,465,580	-	-	3,641,911	3,465,580
Public safety	5,054,690	6,170,089	-	-	5,054,690	6,170,089
Highways & streets	2,867,994	3,091,803	-	-	2,867,994	3,091,803
Culture & recreation	2,351,498	1,935,408	-	-	2,351,498	1,935,408
Interest on long-term debt	1,580	2,992	-	-	1,580	2,992
Change in net pension liability	396,468	861,268	-	-	396,468	861,268
Unallocated actual PERSI contributions	(604,736)	(570,292)	-	-	(604,736)	(570,292)
Water	-	-	2,809,368	2,655,238	2,809,368	2,655,238
Sewer	-	-	2,727,994	2,484,009	2,727,994	2,484,009
Bond payment fund	-	-	308,821	322,126	308,821	322,126
Other proprietary funds	-	-	637,497	706,001	637,497	706,001
Total expenses	<u>13,709,405</u>	<u>14,956,848</u>	<u>6,483,680</u>	<u>6,167,374</u>	<u>20,193,085</u>	<u>21,124,222</u>
(Decreases) Increases in net position before transfers	1,138,471	378,528	10,478,947	9,323,757	11,617,418	9,702,285
Transfers	2,349,286	2,920,568	(2,349,286)	(2,920,568)	-	-
Increase in net position	<u>3,487,757</u>	<u>3,299,096</u>	<u>8,129,661</u>	<u>6,403,189</u>	<u>11,617,418</u>	<u>9,702,285</u>
Net position – beginning	57,685,784	54,386,688	77,231,584	70,828,395	134,917,368	125,215,083
Net position – ending	<u>\$ 61,173,541</u>	<u>\$ 57,685,784</u>	<u>\$ 85,361,245</u>	<u>\$ 77,231,584</u>	<u>\$ 146,534,786</u>	<u>\$ 134,917,368</u>

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

GOVERNMENTAL – WIDE OVERALL FINANCIAL ANALYSIS (CONCLUDED)



City of Sandpoint

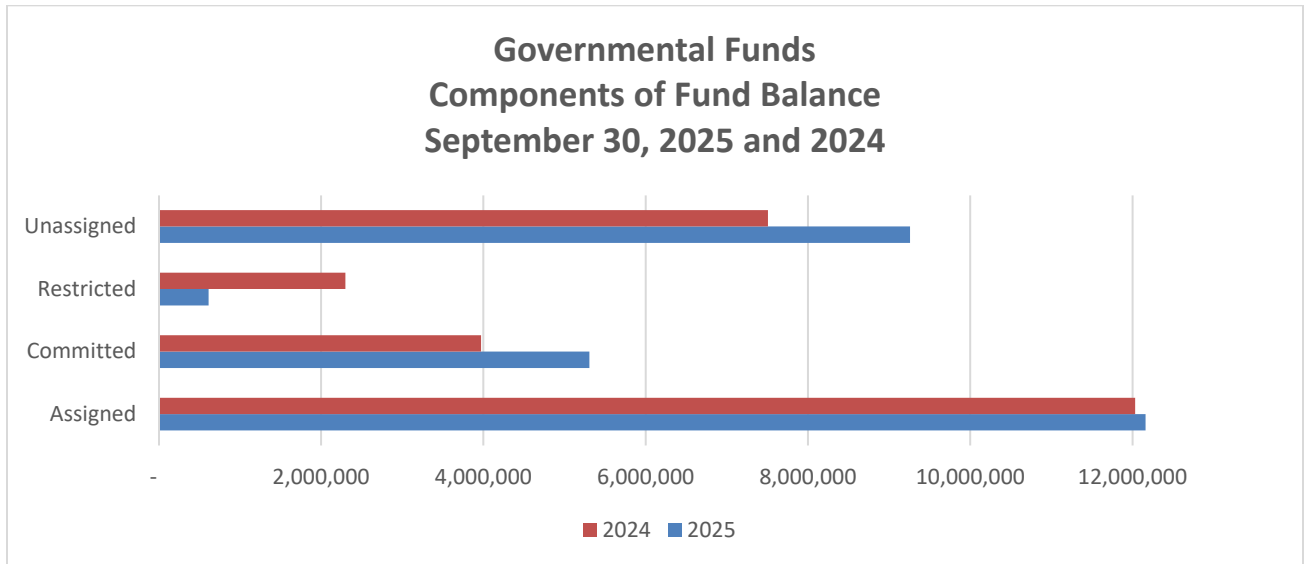
MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Sandpoint uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Sandpoint's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Sandpoint's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Sandpoint itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the City of Sandpoint's Council.

On September 30, 2025, the City of Sandpoint's governmental funds reported combined fund balances of \$27,337,778, an increase of \$1,525,450 in comparison with the prior year. Approximately 34% of this amount \$9,257,584 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form \$0, 2) legally required to be maintained intact \$0, 3) restricted for a particular purpose \$613,579, 4) committed for particular purposes \$5,305,661 or 5) assigned for particular purposes \$12,160,954.



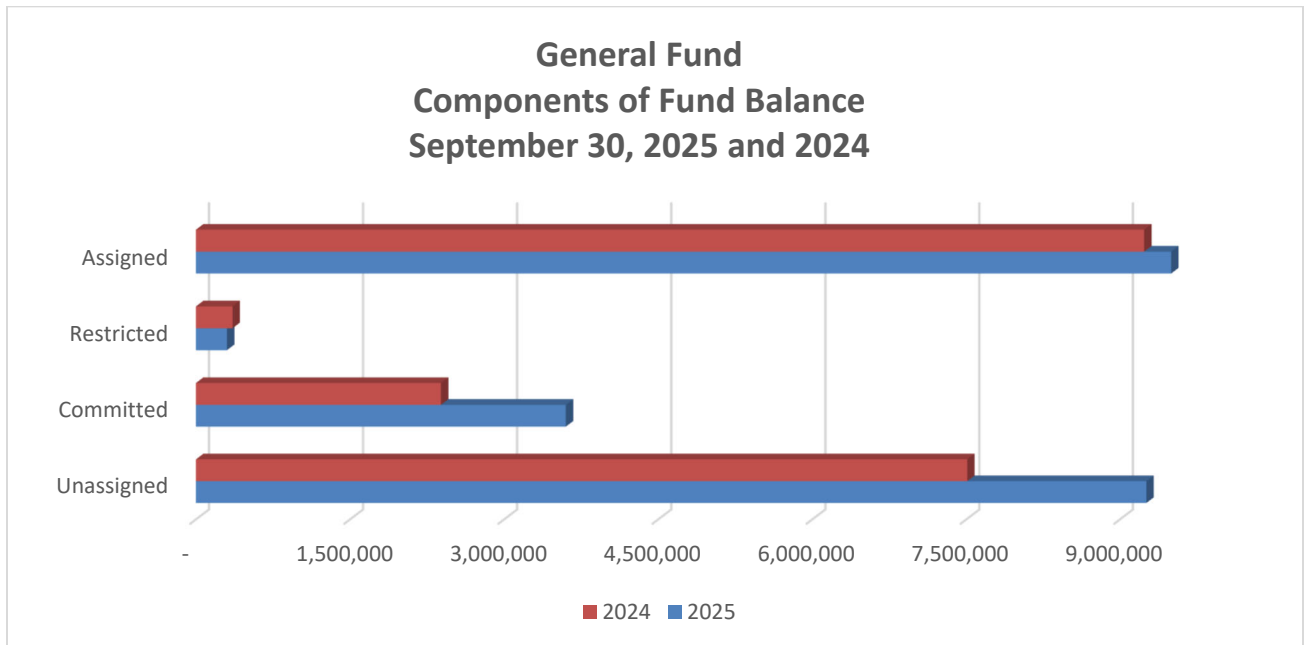
City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONCLUDED)

The general fund is the chief operating fund of the City of Sandpoint. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$9,257,584 while the total fund balance reached \$22,708,842. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

The fund balance of the City of Sandpoint's general fund increased by \$3,223,264 during the current fiscal year. This is due to an increase in actual property tax revenue, charges for services revenue and investment/interest revenue.



City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. During the year, there was no need for any significant amendments to increase the original budgeted appropriations.

**Table 3
CITY OF SANDPOINT GENERAL FUND – BUDGET TO ACTUALS
September 30, 2025**

<u>Revenue source</u>	<u>Estimated revenues</u>	<u>Actual revenues</u>	<u>Difference</u>
Taxes and special assessments	6,386,362	6,200,790	(185,572)
Licenses and permits	408,900	532,629	123,729
Grants	4,585,500	79,097	(4,506,403)
Intergovernmental revenue	5,353,789	3,894,814	(1,458,975)
Interest	30,000	920,934	890,934
Charges for services	309,306	575,573	266,267
Fines and forfeits	100,500	127,643	27,143
Miscellaneous revenues	2,214,181	358,139	(1,856,042)
<u>Expenses</u>	<u>Estimated expenses</u>	<u>Actual expenses</u>	<u>Difference</u>
General government	4,234,503	3,420,824	813,679
Public safety	5,348,923	4,894,429	454,494
Highways and streets	7,788,799	1,912,010	5,876,789
Culture and recreation	992,271	898,079	94,192
Capital outlay	3,344,300	722,705	2,621,595
Debt service:			
Principal retirement	36,537	39,125	(2,588)
Interest expense	1,089	1,139	(50)

Final budget compared to actual results. The most significant differences between estimated expenses and revenues and actual expenses and revenues were as follows:

The surplus/shortfalls in the above revenue sources were caused for various reasons. The unfavorable variance in Grant and Intergovernmental revenues was primarily due to budgeting for projected grant/SURA (Sandpoint Urban Renewal Agency) projects that were delayed to future periods and not a loss of those funds.

The shortfall in budget to actual Tax revenues noted above directly correlates to resort city occupancy taxes.

Over the last decade, the City of Sandpoint has worked to identify and implement charges for various programs and activities. This has included licenses and permits, charges for services, rental rates for community buildings and moorage, and parking fines. The goal of this effort has been to increase the percentage of total revenues that are provided for these services that have been generally funded or subsidized by property taxes in the past. These efforts have been necessary to maintain service levels to Sandpoint citizens at levels they are accustomed to in spite of rising costs.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

GENERAL FUND BUDGETARY HIGHLIGHTS (CONCLUDED)

Expense variances are apparent in all categories where the actual expenditures are less than estimated. This is in part due to the delay of several capital projects. Some projects were not able to be completed by September 30 and were extended into the next fiscal year. General government and public safety savings was due to employee turnover that resulted in salary savings; as well as lower costs in most categories for professional and technical services.

Proprietary Funds – The City of Sandpoint's proprietary funds provide the same type of information as found in the government-wide financial statements, but in more detail. The unrestricted net position of the Water Fund at the end of the year was \$7,274,162 and the Sewer Fund was \$9,737,911. The total change in net position for both funds was \$2,843,098 and \$4,640,138, respectively. As noted earlier in the discussion of business-type activities, the increase for the Water and Sewer Funds results from an increase in assets (cash and investments) due to delays in projects and capital improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City of Sandpoint's investment in capital assets for its governmental and business-type activities as of September 30, 2025, increased to \$88,275,737 (net of accumulated depreciation and amortization) from \$83,788,818. This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park/recreation facilities, right-of-use lease assets and the water and sewer treatment facilities. The total increase in capital assets for the current fiscal year was 5% or \$4,486,919.

Table 4

CITY OF SANDPOINT'S CAPITAL ASSETS (net of depreciation and amortization)

	Governmental activities		Business-type activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 2,369,186	\$ 2,369,186	\$ 6,311,579	\$ 6,311,579	\$ 8,680,765	\$ 8,680,765
Construction in progress	269,272	7,096,661	4,065,343	1,393,308	4,334,615	8,489,969
Right-of-use lease assets	629	3,144	-	-	629	3,144
Buildings	12,998,900	5,047,201	315,881	327,638	13,314,781	5,374,839
Improvements other than buildings	15,812,656	15,058,841	208,617	221,436	16,021,273	15,280,277
Machinery and equipment	2,118,630	2,333,518	1,396,588	1,686,151	3,515,218	4,019,669
Infrastructure	550,661	562,713	41,857,795	41,377,442	42,408,456	41,940,155
Total	<u>\$ 34,119,934</u>	<u>\$ 32,471,264</u>	<u>\$ 54,155,803</u>	<u>\$ 51,317,554</u>	<u>\$ 88,275,737</u>	<u>\$ 83,788,818</u>

Major capital assets purchased during the current fiscal year include the following:

- Sidewalks and Pathway Projects \$35,184
- Government Building and Parking Lot Projects \$516,982
- James E. Russell Sports Center Facility, Travers All-Wheel Park Improvements, Travers Tennis Courts and the Travers Playground & Splashpad and Travers Picnic Shelter \$2,814,600
- Vehicles & Equipment – Public Safety \$102,723, Parks \$77,816, and Sewer \$46,505
- Water Treatment Lining/Coating, Generator and SCADA Projects \$455,277
- Water and Sewer Mainline Projects \$450,560
- Sewer Lift Station, Manhole and SCADA Projects \$1,752,318
- Sewer Treatment Facility and Bridge Projects \$508,738
- Water and Sewer Contributed Capital \$1,155,800

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Additional information on the City of Sandpoint capital assets can be found in the Note section of this report.

Long-term Debt – At the end of the current fiscal year, the total City of Sandpoint principal bond indebtedness was \$11,480,943. Of this amount, \$11,456,492 is backed by the full faith and credit of the government and \$24,451 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Sandpoint's long-term debt obligations is comprised of compensated absences and financed purchase leases and lease liabilities.

Table 5

CITY OF SANDPOINT'S OUTSTANDING DEBT

	Governmental activities		Business-type activities		Total	
	2025	2024	2025	2024	2025	2024
Compensated absences	\$ 567,011	\$ 609,837	\$ 152,030	\$ 112,076	\$ 719,041	\$ 721,913
Special assessments	24,451	29,888	-	-	24,451	29,888
Financed purchase	-	36,537	-	-	-	36,537
Lease liabilities	653	3,241	-	-	653	3,241
Revenue bonds	-	-	11,456,492	11,968,422	11,456,492	11,968,422
Total	\$ 592,115	\$ 679,503	\$ 11,608,522	\$ 12,080,498	\$ 12,200,637	\$ 12,760,001

The City of Sandpoint's total indebtedness decreased by 5% or \$559,364 during the current fiscal year. The reason for the decrease is due to regular annual payments that reduced the principal.

Additional information on the City of Sandpoint's long-term debt can be found in the Note section of this report.

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

The following economic factors currently affect the City of Sandpoint and were considered in developing the 2025-2026 fiscal year budgets.

- Aerospace, high-tech, and advanced manufacturing businesses continue to be major drivers of the City of Sandpoint's employment base and fiscal stability. Companies such as Kochava, Biomedical Innovations, Daher (formerly Quest), Litehouse, Tamarack Aerospace Group Inc., and Timberline Helicopters have maintained or expanded their workforce, reinforcing Sandpoint's position as a leading innovation and aviation hub in North Idaho. Timberline Helicopters' recent \$14 million facility expansion at the Sandpoint Airport represents a significant private capital investment and further strengthens the region's aerospace cluster. This growth reflects long-term confidence in Sandpoint's workforce, infrastructure, and quality of life. According to the Idaho Airport Economic Impact Analysis Update (February 2020), the Sandpoint Airport supports 873 jobs, generates \$51.7 million in annual earnings, contributes \$101.4 million in annual GDP, and produces \$306.8 million in total annual economic output. These figures place Sandpoint among the top-performing general aviation airports in Idaho in terms of economic output, demonstrating that the airport is not simply a transportation asset, but a critical piece of economic infrastructure. The continued expansion of aerospace and aviation-related businesses at and around the airport has translated into sustained employment, increased payroll circulating in the local economy, and strengthened city revenues. This diversified industrial base provides resilience against tourism fluctuations and supports long-term economic stability for Sandpoint residents.

City of Sandpoint

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2025

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES (CONCLUDED)

- In July 2017 the Council adopted the Fiscal Policies for Fund Balance, Reserves and Use of One-time Resources and Construction Reserve Policies. As of the end of the FY 2025 the City has \$3,519,390 assigned for Operating Reserve, \$1,508,310 assigned for an Emergency Reserve and \$4,000,000 assigned for the Construction Reserve. The Construction Reserve funds the construction of the Downtown Revitalization Projects. This construction began in FY 2018 and will continue through FY 2027 (or longer) with the SURA funding to occur through FY 2029. This has improved utilization of the City Funds and restricts funds in case of emergencies.
- The City continues phase two in bringing dark fiber to Sandpoint. IRU and leasing fees have been established and franchise agreements have been brought to City Council for the various telecommunication companies that the City is providing fiber to. These are both in the commercial and residential zones. These agreements increase revenues and enhance services to residents.
- The 2025-2026 Budget was adopted at \$49,927,665, a decrease of \$571,389 or 1.13% over the prior year fiscal budget of \$50,499,054. The budget includes \$13,622,600 of unspent funds from prior years. Over 72% of these unspent funds are due to water and sewer reserves to be used for infrastructure upgrades. The remaining is due to unspent funds in the Governmental Funds.
- Property taxes were budgeted for the 2025-2026 fiscal year at \$5,343,205, an increase of \$290,338 or 5.75% over last year's property tax amount. Community growth has contributed to this revenue increase, which will be used to fund increases in recurring expenditures and obligations.

Requests for Information

This financial report is designed to provide a general overview of the City of Sandpoint'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:

**Sarah Lynds - Finance Director
City of Sandpoint
1123 Lake Street
Sandpoint, Idaho 83864**

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

City of Sandpoint

STATEMENT OF NET POSITION
September 30, 2025

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
ASSETS				
Cash and investments	\$ 26,602,461	\$ 16,673,340	\$ 43,275,801	\$ 7,577,919
Receivables, net	1,478,590	2,463,222	3,941,812	2,301,965
Due from SURA component unit	609,820	-	609,820	-
Inventory	-	154,322	154,322	-
Lease receivable	1,100,856	-	1,100,856	-
Net pension asset - Firefighters' Retirement Fund	2,658,259	-	2,658,259	-
Land	2,369,186	6,311,579	8,680,765	-
Construction in progress	269,272	4,065,343	4,334,615	-
Capital and intangible assets, net of accumulated depreciation and amortization	31,481,476	43,778,881	75,260,357	-
Restricted assets:				
Cash and investments	582,885	25,046,069	25,628,954	84,792
Endowment	29,816	-	29,816	-
Interest receivable	878	-	878	-
Total assets	<u>67,183,499</u>	<u>98,492,756</u>	<u>165,676,255</u>	<u>9,964,676</u>
DEFERRED OUTFLOWS OF RESOURCES				
Proportionate share of collective deferred outflows of resources - PERSI Base Plan	797,635	237,597	1,035,232	-
Total deferred outflows of resources	<u>797,635</u>	<u>237,597</u>	<u>1,035,232</u>	<u>-</u>
LIABILITIES				
Accounts payable and accrued expenses	1,424,751	592,953	2,017,704	37,294
Unearned property taxes	-	-	-	2,251,010
Payable from restricted assets:				
Customer deposits	412,039	-	412,039	-
Accrued interest payable	-	134,733	134,733	-
Lease liabilities - current portion	653	-	653	-
Special assessment bond - current portion	5,695	-	5,695	-
Notes payable - current portion	-	-	-	145,429
Revenue bonds - current portion	-	525,412	525,412	-
Noncurrent liabilities:				
Compensated absences - noncurrent portion	567,011	152,030	719,041	-
Special assessment bond - noncurrent portion	18,756	-	18,756	-
Notes payable - noncurrent portion	-	-	-	1,042,936
Revenue bonds - noncurrent portion	-	10,931,080	10,931,080	-
Net pension liability	2,334,091	638,475	2,972,566	-
Total liabilities	<u>4,762,996</u>	<u>12,974,683</u>	<u>17,737,679</u>	<u>3,476,669</u>
DEFERRED INFLOWS OF RESOURCES				
Proportionate share of collective deferred inflows of resources - PERSI Base Plan	892,439	394,425	1,286,864	-
Proportionate share of collective deferred inflows of resources - Firefighters' Retirement Fund	51,302	-	51,302	-
Deferred inflows of resources from lease receivable	1,100,856	-	1,100,856	-
Total deferred inflows of resources	<u>2,044,597</u>	<u>394,425</u>	<u>2,439,022</u>	<u>-</u>
NET POSITION				
Net investment in capital and intangible assets	34,119,281	42,699,311	76,818,592	-
Restricted for:				
Contributions	7,138	-	7,138	-
RCT property tax relief fund	294,574	-	294,574	-
James E. Russell Sports Center	25,000	-	25,000	-
Endowment - nonexpendable	29,816	-	29,816	-
Capital improvements	6,316	20,172,587	20,178,903	-
Debt	250,735	1,715,134	1,965,869	-
Inflow and infiltration	-	1,954,400	1,954,400	-
Watershed protection	-	716,714	716,714	-
Ponderay impact	-	101,932	101,932	-
Other	-	385,302	385,302	-
Downtown district	-	-	-	899,575
Northern district	-	-	-	5,588,432
Unrestricted	26,440,681	17,615,865	44,056,546	-
Total net position	<u>\$ 61,173,541</u>	<u>\$ 85,361,245</u>	<u>\$ 146,534,786</u>	<u>\$ 6,488,007</u>

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

City of Sandpoint

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2025**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Capital Grants	Primary Government			Component Units
				Governmental Activities	Business-type Activities	Total	Sandpoint Urban Renewal Agency
Governmental activities:							
General government	\$ 3,641,911	\$ 572,167	\$ 49,921	\$ (3,019,823)	\$ -	\$ (3,019,823)	\$ -
Public safety	5,054,690	1,023,028	29,176	(4,002,486)	-	(4,002,486)	-
Highways and streets	2,867,994	-	-	(2,867,994)	-	(2,867,994)	-
Culture and recreation	2,351,498	734,794	460,910	(1,155,794)	-	(1,155,794)	-
Other	-	516,152	-	516,152	-	516,152	-
Interest on long-term debt	1,580	-	-	(1,580)	-	(1,580)	-
Change in net pension liability	396,468	-	-	(396,468)	-	(396,468)	-
Unallocated actual PERSI contributions	(604,736)	-	-	604,736	-	604,736	-
Total governmental activities	13,709,405	2,846,141	540,007	(10,323,257)	-	(10,323,257)	-
Business-type activities:							
Water	2,809,368	4,863,435	1,759,420	-	3,813,487	3,813,487	-
Sewer	2,727,994	6,909,414	721,479	-	4,902,899	4,902,899	-
Bond payment fund	308,821	-	-	-	(308,821)	(308,821)	-
Other proprietary funds	637,497	877,193	-	-	239,696	239,696	-
Total business-type activities	6,483,680	12,650,042	2,480,899	-	8,647,261	8,647,261	-
Total primary government	\$ 20,193,085	\$ 15,496,183	\$ 3,020,906	(10,323,257)	8,647,261	(1,675,996)	-
Component unit:							
Community development							568,981
Interest expense							26,201
Total component unit							595,182
General revenues:							
Property taxes and special assessments				6,447,089	-	6,447,089	1,843,454
Penalties and interest				-	-	-	301,654
Investment earnings				1,119,825	1,831,686	2,951,511	-
Intergovernmental revenue				3,894,814	-	3,894,814	-
Transfers				2,349,286	(2,349,286)	-	-
Total general revenues and transfers				13,811,014	(517,600)	13,293,414	2,145,108
Change in net position				3,487,757	8,129,661	11,617,418	1,549,926
Net position - beginning				57,685,784	77,231,584	134,917,368	4,938,081
Net position - ending				\$ 61,173,541	\$ 85,361,245	\$ 146,534,786	\$ 6,488,007

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

City of Sandpoint

GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2025

	General	Parks Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 22,019,237	\$ 1,209,351	\$ 3,373,873	\$ 26,602,461
Receivables	391,328	559,750	20,533	971,611
Due from SURA component unit	609,820	-	-	609,820
Due from other governments	506,979	-	-	506,979
Restricted assets:				
Cash and investments	301,712	6,316	274,857	582,885
Endowment	-	-	29,816	29,816
Interest receivable	-	-	878	878
Total assets	<u>\$ 23,829,076</u>	<u>\$ 1,775,417</u>	<u>\$ 3,699,957</u>	<u>\$ 29,304,450</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 588,718	\$ 80,710	\$ 755,323	\$ 1,424,751
Customer deposits	412,039	-	-	412,039
Total liabilities	<u>1,000,757</u>	<u>80,710</u>	<u>755,323</u>	<u>1,836,790</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	119,477	-	5,630	125,107
Unavailable revenue-special assessments	-	-	4,775	4,775
Total deferred inflows of resources	<u>119,477</u>	<u>-</u>	<u>10,405</u>	<u>129,882</u>
FUND BALANCES:				
Restricted for:				
Historic Commission Donation	479	-	-	479
Art Contributions	2,500	-	-	2,500
Tennis Court Donations	-	933	-	933
Parks Non-Res Dev Fee	-	1,233	-	1,233
Dog Park	-	4,150	-	4,150
Debt Service	-	-	250,735	250,735
Police Contributions	4,159	-	-	4,159
RCT property tax relief fund	294,574	-	-	294,574
James E. Russell Sports Center	-	-	25,000	25,000
Endowment - nonexpendable	-	-	29,816	29,816
Committed to:				
Downtown Farmin Landing	256,592	-	-	256,592
Downtown Parking Dedicated Funds	61,108	-	-	61,108
In Lieu of Sidewalk Dedicated Funds	165,371	-	-	165,371
Memorial Field Replacement / Maintenance	-	542,529	-	542,529
FY26 Recreation Budget	-	-	2,252	2,252
FY26 Capital Improvement Fund (impact fees)	-	-	1,160,000	1,160,000
FY26 General Fund Budget	3,117,809	-	-	3,117,809
Assigned to:				
Byway Pump	60,000	-	-	60,000
Healthcare	104,767	-	-	104,767
Recreation Fund	-	-	382,234	382,234
Operating Reserve	3,519,390	-	-	3,519,390
Emergency Reserve	1,508,310	-	-	1,508,310
Construction Reserve	4,000,000	-	-	4,000,000
Street and sidewalk projects - RCT	356,199	-	-	356,199
Capital Improvement Fund (impact fees)	-	-	919,204	919,204
Parks Capital Improvement Fund	-	1,145,862	-	1,145,862
Fiber Optic Fund	-	-	164,988	164,988
Unassigned:				
General fund	9,257,584	-	-	9,257,584
Total fund balances	<u>22,708,842</u>	<u>1,694,707</u>	<u>2,934,229</u>	<u>27,337,778</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 23,829,076</u>	<u>\$ 1,775,417</u>	<u>\$ 3,699,957</u>	<u>\$ 29,304,450</u>

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

City of Sandpoint

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION September 30, 2025

Total fund balance at September 30, 2025 - Governmental Funds		\$ 27,337,778
Leases receivable		1,100,856
Cost of capital and intangible assets	\$ 51,261,966	
Less: accumulated depreciation and amortization		
Right-of-use lease assets	(12,575)	
Buildings	(1,786,671)	
Improvements other than buildings	(10,424,050)	
Machinery and equipment	(4,842,990)	
Infrastructure	<u>(75,746)</u>	34,119,934
Elimination of deferred inflows of resources		129,882
Lease liabilities - current portion		(653)
Special assessment bond - current portion		(5,695)
Long-term liabilities		
Compensated absences	(567,011)	
Special assessment bond payable - noncurrent portion	<u>(18,756)</u>	(585,767)
Deferred inflows of resources from leases receivable		(1,100,856)
Items related to GASB 68 and reporting net pension asset (liability):		
Proportionate share of collective deferred outflows of resources	797,635	
Proportionate share of collective deferred inflows of resources	(943,741)	
Net pension asset	2,658,259	
Net pension liability	<u>(2,334,091)</u>	<u>178,062</u>
Net position at September 30, 2025		<u><u>\$ 61,173,541</u></u>

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

City of Sandpoint

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2025

	General	Parks Improvement	Other Governmental Funds	Total
REVENUES				
Special assessments and property taxes	\$ 6,200,790	\$ -	\$ 229,297	\$ 6,430,087
Licenses and permits	532,629	-	-	532,629
Grants	79,097	460,910	-	540,007
Intergovernmental revenue	3,894,814	-	-	3,894,814
Interest	920,934	65,493	133,398	1,119,825
Impact fees	-	-	516,152	516,152
Charges for services	575,573	523,054	163,357	1,261,984
Fines and forfeits	127,643	-	-	127,643
Miscellaneous revenues	358,139	1,500	48,094	407,733
Total revenues	<u>12,689,619</u>	<u>1,050,957</u>	<u>1,090,298</u>	<u>14,830,874</u>
EXPENDITURES				
General government	3,420,824	-	17,176	3,438,000
Public safety	4,894,429	-	-	4,894,429
Highways and streets	1,912,010	-	350,019	2,262,029
Culture and recreation	898,079	135,606	432,142	1,465,827
Capital outlay	722,705	2,616,886	207,713	3,547,304
Debt service:				
Principal	39,125	-	5,437	44,562
Interest	1,139	-	1,420	2,559
Total expenditures	<u>11,888,311</u>	<u>2,752,492</u>	<u>1,013,907</u>	<u>15,654,710</u>
Excess (deficiency) of revenues over (under) expenditures	<u>801,308</u>	<u>(1,701,535)</u>	<u>76,391</u>	<u>(823,836)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,437,616	53	27,899	2,465,568
Transfers (out)	(15,660)	(25,000)	(75,622)	(116,282)
Total other financing sources (uses)	<u>2,421,956</u>	<u>(24,947)</u>	<u>(47,723)</u>	<u>2,349,286</u>
Net change in fund balances	3,223,264	(1,726,482)	28,668	1,525,450
Fund balances - beginning	<u>19,485,578</u>	<u>3,421,189</u>	<u>2,905,561</u>	<u>25,812,328</u>
Fund balances - ending	<u>\$ 22,708,842</u>	<u>\$ 1,694,707</u>	<u>\$ 2,934,229</u>	<u>\$ 27,337,778</u>

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

City of Sandpoint

**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, 2025**

Total net changes in fund balances for the year ended September 30, 2025	\$ 1,525,450
Add: Capital outlay which is considered expenditures	3,547,304
Less: Depreciation and amortization expense	(1,898,634)
Add: Special assessment debt payments considered as expenditures	5,437
Add: Financed purchase debt payments considered as expenditures	36,537
Add: Lease liabilities debt payments considered as expenditures	2,588
Add: Change in accrued interest expense	979
Add: Change in compensated absences	42,826
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	17,002
Less: Change in net pension liability	(396,468)
Add: Unallocated actual PERSI contributions	604,736
Change in net position for year ended September 30, 2025	<u>\$ 3,487,757</u>

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

City of Sandpoint

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2025**

	Water	Sewer	Bond Payment Fund	Sanitation*	Total
ASSETS					
Current assets:					
Cash and investments	\$ 6,861,505	\$ 9,183,920	\$ 131,152	\$ 496,763	\$ 16,673,340
Receivables, net	1,018,085	1,334,527	3,581	107,029	2,463,222
Inventory	154,322	-	-	-	154,322
Total current assets	<u>8,033,912</u>	<u>10,518,447</u>	<u>134,733</u>	<u>603,792</u>	<u>19,290,884</u>
Noncurrent assets:					
Restricted cash and investments	11,769,855	12,383,510	888,384	4,320	25,046,069
Land	5,121,649	1,189,930	-	-	6,311,579
Construction in progress	631,371	3,433,972	-	-	4,065,343
Capital and intangible assets, net of accumulated depreciation and amortization	30,436,144	13,342,737	-	-	43,778,881
Total noncurrent assets	<u>47,959,019</u>	<u>30,350,149</u>	<u>888,384</u>	<u>4,320</u>	<u>79,201,872</u>
Total assets	<u>55,992,931</u>	<u>40,868,596</u>	<u>1,023,117</u>	<u>608,112</u>	<u>98,492,756</u>
DEFERRED OUTFLOWS OF RESOURCES					
Proportionate share of collective deferred outflows of resources	140,969	96,628	-	-	237,597
Total deferred outflows of resources - PERSI Base Plan	<u>140,969</u>	<u>96,628</u>	<u>-</u>	<u>-</u>	<u>237,597</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	205,430	387,523	-	-	592,953
Payable from restricted assets:					
Accrued interest payable	-	-	134,733	-	134,733
Revenue bonds - current portion	-	-	525,412	-	525,412
Total current liabilities	<u>205,430</u>	<u>387,523</u>	<u>660,145</u>	<u>-</u>	<u>1,253,098</u>
Noncurrent liabilities:					
Revenue bonds - noncurrent portion	-	-	10,931,080	-	10,931,080
Compensated absences - noncurrent portion	77,427	74,603	-	-	152,030
Net pension liability	422,155	216,320	-	-	638,475
Total noncurrent liabilities	<u>499,582</u>	<u>290,923</u>	<u>10,931,080</u>	<u>-</u>	<u>11,721,585</u>
Total liabilities	<u>705,012</u>	<u>678,446</u>	<u>11,591,225</u>	<u>-</u>	<u>12,974,683</u>
DEFERRED INFLOWS OF RESOURCES					
Proportionate share of collective deferred inflows of resources	195,707	198,718	-	-	394,425
Total deferred inflows of resources - PERSI Base Plan	<u>195,707</u>	<u>198,718</u>	<u>-</u>	<u>-</u>	<u>394,425</u>
NET POSITION					
Net investment in capital and intangible assets	36,189,164	17,966,639	(11,456,492)	-	42,699,311
Restricted for:					
Capital improvements	9,743,477	10,429,110	-	-	20,172,587
Debt	826,750	-	888,384	-	1,715,134
Inflow and infiltration	-	1,954,400	-	-	1,954,400
Watershed protection	716,714	-	-	-	716,714
Ponderay impact	101,932	-	-	-	101,932
Other	380,982	-	-	4,320	385,302
Unrestricted	<u>7,274,162</u>	<u>9,737,911</u>	<u>-</u>	<u>603,792</u>	<u>17,615,865</u>
Total net position	<u>\$ 55,233,181</u>	<u>\$ 40,088,060</u>	<u>\$ (10,568,108)</u>	<u>\$ 608,112</u>	<u>\$ 85,361,245</u>

*Not a major fund

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

City of Sandpoint

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended September 30, 2025**

	Water	Sewer	Bond Payment Fund	Sanitation*	Total
OPERATING REVENUES					
Charges for services	\$ 4,762,788	\$ 6,909,413	\$ -	\$ 877,193	\$ 12,549,394
Miscellaneous revenues	100,647	1	-	-	100,648
Total operating revenues	<u>4,863,435</u>	<u>6,909,414</u>	<u>-</u>	<u>877,193</u>	<u>12,650,042</u>
OPERATING EXPENSES					
Personal services	1,048,865	851,272	-	-	1,900,137
Contractual services	396,462	487,724	-	625,712	1,509,898
Other services and charges	437,579	359,104	-	11,785	808,468
Heat, lights, and power	134,341	131,603	-	-	265,944
Depreciation	704,417	826,533	-	-	1,530,950
Change in net pension liability	87,704	71,758	-	-	159,462
Total operating expenses	<u>2,809,368</u>	<u>2,727,994</u>	<u>-</u>	<u>637,497</u>	<u>6,174,859</u>
Operating income	<u>2,054,067</u>	<u>4,181,420</u>	<u>-</u>	<u>239,696</u>	<u>6,475,183</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	811,605	953,618	44,883	21,580	1,831,686
Interest expense	-	-	(308,821)	-	(308,821)
Total nonoperating revenues (expenses)	<u>811,605</u>	<u>953,618</u>	<u>(263,938)</u>	<u>21,580</u>	<u>1,522,865</u>
Income (loss) before contributions and transfers	<u>2,865,672</u>	<u>5,135,038</u>	<u>(263,938)</u>	<u>261,276</u>	<u>7,998,048</u>
Capital contributions - cap fees	1,759,420	721,479	-	-	2,480,899
Transfers in	160,758	6,235	826,750	-	993,743
Transfers (out)	(1,942,752)	(1,222,614)	-	(177,663)	(3,343,029)
Total transfers	<u>(1,781,994)</u>	<u>(1,216,379)</u>	<u>826,750</u>	<u>(177,663)</u>	<u>(2,349,286)</u>
Change in net position	2,843,098	4,640,138	562,812	83,613	8,129,661
Total net position - beginning	<u>52,390,083</u>	<u>35,447,922</u>	<u>(11,130,920)</u>	<u>524,499</u>	<u>77,231,584</u>
Total net position - ending	<u>\$ 55,233,181</u>	<u>\$ 40,088,060</u>	<u>\$ (10,568,108)</u>	<u>\$ 608,112</u>	<u>\$ 85,361,245</u>

*Not a major fund

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

City of Sandpoint

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2025

	Water	Sewer	Bond Payment	Sanitation*	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 4,752,664	\$ 6,623,014	\$ -	\$ 873,183	\$ 12,248,861
Payments to employees	(1,132,016)	(906,051)	-	-	(2,038,067)
Payments to suppliers	(1,628,620)	(803,631)	-	(639,295)	(3,071,546)
Net cash provided (used) by operating activities	1,992,028	4,913,332	-	233,888	7,139,248
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Additional contributed capital	1,759,420	721,479	-	-	2,480,899
Operating transfers (out) in	(1,781,994)	(1,216,379)	826,750	(177,663)	(2,349,286)
Net cash provided (used) by noncapital financing activities	(22,574)	(494,900)	826,750	(177,663)	131,613
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of fixed assets	(1,626,963)	(2,742,236)	-	-	(4,369,199)
Principal paid on bonds and leases	-	-	(511,930)	-	(511,930)
Interest paid	-	-	(314,819)	-	(314,819)
Net cash provided (used) by capital and related financing activities	(1,626,963)	(2,742,236)	(826,749)	-	(5,195,948)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	811,605	953,618	45,434	21,580	1,832,237
Net cash provided (used) by investing activities	811,605	953,618	45,434	21,580	1,832,237
Net increase (decrease) in cash and investments	1,154,096	2,629,814	45,435	77,805	3,907,150
Cash and investments, beginning	17,477,264	18,937,616	974,101	423,278	37,812,259
Cash and investments, ending	\$ 18,631,360	\$ 21,567,430	\$ 1,019,536	\$ 501,083	\$ 41,719,409
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 2,054,067	\$ 4,181,420	\$ -	\$ 239,696	\$ 6,475,183
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	704,417	826,533	-	-	1,530,950
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(101,165)	(286,400)	-	(4,010)	(391,575)
Inventory	(108,496)	-	-	-	(108,496)
Increase (decrease) in:					
Vouchers payable	(551,742)	188,054	-	(1,798)	(365,486)
Items related to net pension liability	4,553	3,725	-	-	8,278
Customer deposits	(9,606)	-	-	-	(9,606)
Net cash provided (used) by operating activities	\$ 1,992,028	\$ 4,913,332	\$ -	\$ 233,888	\$ 7,139,248
Reconciliation of cash to the statement of net position:					
Cash and investments	\$ 6,861,505	\$ 9,183,920	\$ 131,152	\$ 496,763	\$ 16,673,340
Restricted cash and investments	11,769,855	12,383,510	888,384	4,320	25,046,069
	\$ 18,631,360	\$ 21,567,430	\$ 1,019,536	\$ 501,083	\$ 41,719,409

*Not a major fund

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

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Sandpoint (the "City") is an incorporated city of the State of Idaho. The City of Sandpoint, Idaho operates under a Mayor/Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services.

The City is governed by an elected Mayor and City Council. The City provides a wide range of municipal services that include police, fire, and other services. Water, sewer, bond payment, and sanitation services are provided by the City and are accounted for as enterprise funds.

The financial statements include all operations controlled by the City. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading.

The Sandpoint Urban Renewal Agency (the "Agency") was established to promote urban development and improvement in deteriorated areas within the Agency's boundaries. The Agency is governed by a seven-member Board of Commissioners appointed by the Mayor of the City and confirmed by the City Council. The City Council has the ability to appoint, reassign or dismiss the board members of the Agency. The Agency is considered a discretely presented component unit of the City and is reported in the discretely presented component unit column in the government wide financial statements to emphasize it is legally separate from the City. Complete financial statements for the Agency can be obtained at the clerk's office.

The financial statements of the City 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 City'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. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds. The City, at this time, does not report internal service funds.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

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

The *Parks Improvement Fund* is used to account for user fees, program fees and private donations restricted for the development of public properties devoted to parks and recreation.

The government reports the following major proprietary funds:

The *Water Fund* accounts for the provision of water services to residential, commercial, and wholesale users. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing, and related debt service.

The *Sewer Fund* accounts for the provision of wastewater services to residential and commercial users. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing, and related debt service.

The *Bond Payment Fund* accounts for the payment of bond debt associated with the proprietary funds.

The government reports the following nonmajor proprietary fund:

The *Sanitation Fund* accounts for the provision of sanitation services to residents of the City. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations and maintenance. Commercial users are billed by the City's service provider, and a portion of the billings is remitted to the City.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in the governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

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 City 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 and intangible asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

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 City.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Concluded)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, wastewater and sanitation funds are charges to customers for sales and services. The water and sewer fund also recognize as operating revenue the portion of cap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Investments

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

For purposes of reporting cash flows, cash (unrestricted as well as restricted cash) and cash equivalents include: cash on hand, amount due from banks, and investments with maturities of less than 90 days. If maturity is greater than 90 days, the certificates of deposit are classified as cash equivalents since they are part of the City's cash management activity, short-term and readily convertible to known amounts of cash. Investments are stated at cost, which approximates market. Investments on hand at September 30, 2025 meet the guidelines as set by regulations of the State of Idaho.

F. Capital and Intangible Assets

Capital and intangible assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and right-of-use lease assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

The City contracted with an independent appraisal firm to perform a complete inventory of capital assets in June of 2004. Capital assets were valued at estimated historical costs when original costs were not available. The City continues to update this inventory. Donated fixed assets are capitalized at fair value on the date donated.

Capital and intangible assets valued at \$15,000 or more which have a useful life of more than three years are capitalized.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital and Intangible Assets (Concluded)

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Equipment	5 – 15
Infrastructure	75
Other improvements	20

Intangible right-of-use lease assets are recorded at net present value, and lease liabilities are amortized using the straight-line method over the life of the lease.

G. Compensated Absences

Newly hired employees will start to earn paid time off (“PTO”) time at the rate of 14 hours per month (28.8 per month for firefighters). Accrual rates increase with an employee’s years of service and cannot exceed two times the annual accrual rate. Employees must have five years of experience to request a cash out of PTO balances in excess of the required minimum balance of 160 hours (480 hour minimum for firefighters). Upon separation from service for any reason other than retirement, employees will be cashed out at 100% of their PTO balance.

Employees must be in paid status for more than one-half (1/2) of their scheduled workdays during the month to earn credit for PTO time. Employees working percentage time (permanent part-time) will accrue PTO time on a pro-rated basis.

H. Accrued Liabilities and Long-term Obligations

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

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred outflows relating to the accounting for the net pension obligation on the government-wide and proprietary funds statement of net position, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Outflows/Inflows of Resources (Concluded)

In addition to liabilities, the statement of net 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 City has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has two types of items, which arise under full accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, proportionate share of collective deferred inflows of resources, and lease receivable, are reported only on the government-wide and proprietary funds statement of net position. The government-wide and proprietary funds statement of net position reports proportionate share of collective deferred inflows of resources from one source: accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

J. Fund Balance Classifications

The City has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (required implementation date of September 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 City is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the City to classify and report amounts in the appropriate fund balance classifications. The City's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned.

The City reports the following classifications:

Nonspendable Fund Balance — Nonspendable 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 City 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.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance Classifications (Concluded)

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

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

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the general fund. This classification represents general fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the general fund.

K. Fund Balance Flow Assumptions

Sometimes, the City 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 City'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, deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital and intangible assets, net of related debt consists of capital and intangible assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Net Position Flow Assumptions (Concluded)

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

M. 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.

N. Property Taxes

Property Taxes - Property taxes are levied by the board of commissioners on the first Monday in September and become payable on December 20. Taxpayers may pay one-half on December 20, and the remaining half the following June 20. Property taxes are computed from levies and collections verified by inspection of records of the Bonner County auditor's office. Bonner County collects all property tax revenue for the City.

Bonner County – Due from Bonner County are taxes and other county collections allocable to the fiscal year ended September 30, 2025, which were collected and held by the county at September 30, 2025, but not yet remitted to the City until after September 30, 2025.

O. Pensions

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

For purposes of measuring the net pension asset and pension expense (revenue), information about the fiduciary net position of the Firefighters' Retirement Fund Plan (FRF) and additions to/deductions from FRF's fiduciary net position have been determined on the same basis as they are reported by the FRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Beneficial Interest – Assets Held by the Innovia Foundation

On February 26, 2024, the City established an endowment fund that is perpetual in nature. The fund is held and invested by the Innovia Foundation for the City's benefit and is reported at fair value in the statement of net position, with distributions and changes in fair value recognized in the statement of activities.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Q. New Accounting Pronouncements

In June 2022, the Governmental Accounting Standards Board (GASB) issued Summary of Statement Number 101 Compensated Absences (GASB 101), which is required to be adopted for entities with fiscal years beginning after December 15, 2023. The objective of GASB 101 is to better meet the needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The City has considered the effect that GASB 101 will have on the financial statements and has adopted and implemented the requirements of GASB 101 for the year ended September 30, 2025, with retroactive application.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to September 1, the Finance Director, the Mayor, and the City Council prepare a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted at the city hall to obtain taxpayer comments.
- 3) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- 4) The City Council by following the same budgetary procedures used to adopt the original budget may amend it to a greater amount if additional revenue will accrue to the City as a result of increases in state or federal grants or allocations, as a result of an increase in revenues from any source other than ad valorem tax revenues or as a result of an increase in enterprise funds to finance the operation and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges.
- 5) Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds and capital project funds.
- 6) Budgets for the general and special revenue funds are adopted on a basis that differs with generally accepted accounting principles (GAAP) as applied to government units. Generally accepted accounting principles require that the total cost of equipment purchased through leases for the current year be recorded as an expenditure. The City budgets for the payment on these leases only and not the total cost of the equipment.
- 7) Budgeted amounts are as originally adopted or as amended by the City Council.

The City does not use the encumbrance method of accounting.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 3: CASH AND INVESTMENTS

General:

State statutes authorize the City's deposits and investments. The City 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 City's deposits and investments may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2025, the City's deposits and investments were exposed to custodial credit risk as follows:

Deposits without exposure to custodial credit risk:

Amount insured by FDIC	\$ 250,000
Amount collateralized with securities held in trust, but not to the City's name	65,866,915
Total deposits without exposure to custodial credit risk	<u>66,116,915</u>

Deposits with exposure to custodial credit risk:

Amount not insured by FDIC	1,377,266
Total deposits with exposure to custodial credit risk	<u>1,377,266</u>

Total deposits	<u>\$ 67,494,181</u>
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The following is a recap of the carrying amount:

Statement of net position:

Cash and investments	\$ 43,275,801
Restricted cash	25,628,954
	<u>\$ 68,904,755</u>

Fair value:

The City invests in 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 City considers funds held in the Idaho State Investment Pool and DBF to be cash equivalents, as the City is able to liquidate their account at any time.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 3: CASH AND INVESTMENTS (CONCLUDED)

Credit risk:

The Idaho State Investment Pool and DBF do not have an established credit rating but invests in entities with credit ratings as stipulated by Idaho code. The City does not have a formal policy for credit risk. Financial information on the Idaho State Investment Pool and DBF can be obtained by contacting the Idaho State Treasurer.

NOTE 4: ACCOUNTS RECEIVABLE

Enterprise accounts receivable consist of the following as of September 30, 2025:

<u>Receivables</u>	<u>Water</u>	<u>Sewer</u>	<u>Bond Payment</u>	<u>Sanitation</u>	<u>Total</u>
Accounts	\$ 952,639	\$ 1,258,767	\$ -	\$ 105,269	\$ 2,316,675
Interest	65,446	75,760	3,581	1,760	146,547
Gross receivables	1,018,085	1,334,527	3,581	107,029	2,463,222
Less: Allowance for uncollectible	-	-	-	-	-
Net receivables	<u>\$ 1,018,085</u>	<u>\$ 1,334,527</u>	<u>\$ 3,581</u>	<u>\$ 107,029</u>	<u>\$ 2,463,222</u>

NOTE 5: CHANGES IN FIXED ASSETS

Plant and equipment and accumulated depreciation and amortization are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital and intangible assets, not being depreciated and amortized:					
Land	\$ 2,369,186	\$ -	\$ -	\$ -	\$ 2,369,186
Construction in progress	7,096,661	3,270,933	-	(10,098,322)	269,272
Total capital and intangible assets, not being depreciated and amortized	<u>9,465,847</u>	<u>3,270,933</u>	<u>-</u>	<u>(10,098,322)</u>	<u>2,638,458</u>
Capital and intangible assets, being depreciated and amortized:					
Right-of-use lease assets	13,204	-	-	-	13,204
Buildings	6,543,783	-	-	8,241,788	14,785,571
Improvements other than buildings	24,285,609	94,563	-	1,856,534	26,236,706
Machinery and equipment	6,779,812	181,808	-	-	6,961,620
Infrastructure	626,407	-	-	-	626,407
Total capital and intangible assets being depreciated and amortized	<u>38,248,815</u>	<u>276,371</u>	<u>-</u>	<u>10,098,322</u>	<u>48,623,508</u>
Less accumulated depreciation and amortization for:					
Right-of-use lease assets	(10,060)	(2,515)	-	-	(12,575)
Buildings	(1,496,582)	(290,089)	-	-	(1,786,671)
Improvements other than buildings	(9,226,768)	(1,197,282)	-	-	(10,424,050)
Machinery and equipment	(4,446,294)	(396,696)	-	-	(4,842,990)
Infrastructure	(63,694)	(12,052)	-	-	(75,746)
Total accumulated depreciation and amortization	<u>(15,243,398)</u>	<u>(1,898,634)</u>	<u>-</u>	<u>-</u>	<u>(17,142,032)</u>
Total capital and intangible assets, being depreciated and amortized, net	<u>23,005,417</u>	<u>(1,622,263)</u>	<u>-</u>	<u>10,098,322</u>	<u>31,481,476</u>
Governmental activities capital and intangible assets, net	<u>\$ 32,471,264</u>	<u>\$ 1,648,670</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,119,934</u>

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 5: CHANGES IN FIXED ASSETS (CONCLUDED)

Plant and equipment and accumulated depreciation and amortization are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital and intangible assets, not being depreciated and amortized:					
Land	\$ 6,311,579	\$ -	\$ -	\$ -	\$ 6,311,579
Construction in progress	1,393,308	2,672,035	-	-	4,065,343
Total capital and intangible assets, not being depreciated and amortized	<u>7,704,887</u>	<u>2,672,035</u>	<u>-</u>	<u>-</u>	<u>10,376,922</u>
Capital and intangible assets, being depreciated and amortized:					
Buildings	607,108	-	-	-	607,108
Improvements other than buildings	271,488	-	-	-	271,488
Machinery and equipment	4,122,338	91,470	-	-	4,213,808
Infrastructure	61,810,344	1,605,694	-	-	63,416,038
Total capital and intangible assets being depreciated and amortized	<u>66,811,278</u>	<u>1,697,164</u>	<u>-</u>	<u>-</u>	<u>68,508,442</u>
Less accumulated depreciation and amortization for:					
Buildings	(279,470)	(11,757)	-	-	(291,227)
Improvements other than buildings	(50,052)	(12,819)	-	-	(62,871)
Machinery and equipment	(2,436,187)	(381,033)	-	-	(2,817,220)
Infrastructure	(20,432,902)	(1,125,341)	-	-	(21,558,243)
Total accumulated depreciation and amortization	<u>(23,198,611)</u>	<u>(1,530,950)</u>	<u>-</u>	<u>-</u>	<u>(24,729,561)</u>
Total capital and intangible assets, being depreciated and amortized, net	<u>43,612,667</u>	<u>166,214</u>	<u>-</u>	<u>-</u>	<u>43,778,881</u>
Business-type activities capital and intangible assets, net	<u>\$ 51,317,554</u>	<u>\$ 2,838,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,155,803</u>

Depreciation and amortization expense were charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 246,737
Public safety	160,261
Highways and streets, including depreciation of general infrastructure assets	605,965
Culture and recreation	885,671
Total depreciation and amortization expense - governmental activities	<u>\$ 1,898,634</u>
Business-type activities:	
Water	\$ 704,417
Sewer	826,533
Total depreciation and amortization expense - business-type activities	<u>\$ 1,530,950</u>

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 6: BONDS PAYABLE

Bonds payable at September 30, 2025, are comprised of the following individual revenue bond issues:

2012 Water Facility Improvement Bonds

Payable in annual installments of \$444,510 including 2.75% interest	\$ 5,970,593
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2013 Water Facility Improvement Bonds

Payable in annual installments of \$382,240 including 2.50% interest	5,485,899
	<u>\$ 11,456,492</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 525,412	\$ 301,338
2027	539,247	287,503
2028	553,449	273,301
2029	568,025	258,725
2030	582,985	243,765
2031-2035	3,153,534	980,216
2036-2040	3,591,449	542,301
2041-2043	1,942,391	91,054
	<u>\$ 11,456,492</u>	<u>\$ 2,978,203</u>

The above outstanding bonds are secured by a first lien on net revenues earned by enterprise funds. Net revenues are defined in the bond agreements. The enterprise funds are required to establish bond reserves in the amounts of \$444,510 and \$382,240. The required reserve is on hand. The enterprise funds are also required to establish user fees and rates that will yield net revenues equal to at least 1.4 times the debt service that will become due in the following year.

NOTE 7: SPECIAL ASSESSMENT DEBT

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	4.75%	\$ 5,695	\$ 1,162	\$ 6,857
2027	4.75%	5,966	891	6,857
2028	4.75%	6,249	608	6,857
2029	4.75%	6,541	311	6,852
		<u>\$ 24,451</u>	<u>\$ 2,972</u>	<u>\$ 27,423</u>

The City is fully obligated for the local improvement debt, placing liens against the property owners to ensure payment to the City. The LID Guarantee Fund was established by ordinance to provide additional security for the local improvement district bondholders.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025

NOTE 8: LEASE LIABILITIES

Governmental leases:

The City of Sandpoint entered into a lease agreement as lessee for a copier in October 2020. The lease is for 63 months with monthly payments of \$218.31. The City of Sandpoint has used an estimated incremental borrowing rate of 1.541%.

The right-of-use lease assets are listed as follows:

Governmental activities:

Right-of-use lease asset	\$	13,204
Less accumulated amortization		(12,575)
		629
Right-of-use lease asset, net amortization	\$	629

Future minimum lease payments are as follows:

Governmental activities:

For the year ended,	Equipment		
	Principal	Interest	Total
2026	\$ 653	\$ 2	\$ 655
	\$ 653	\$ 2	\$ 655

NOTE 9: LEASE RECEIVABLE

The City of Sandpoint entered into a lease agreement as lessor for a building in January 2016. The lease was for 9 years with monthly payments starting at \$19,637.23 including a 1% annual increase, and 0% interest. The lease expired during the year ended September 30, 2025.

The City of Sandpoint entered into a lease agreement as lessor for a building in January 2025. The lease is for 5 years with monthly payments starting at \$21,084.33 including a 1% annual increase, and 0% interest.

The City of Sandpoint received \$248,671 in lease revenue during the year ending September 30, 2025. The lease receivable at September 30, 2025, is listed as follows:

Governmental activities:

Building and Land Leases:

Leases receivable	\$	1,100,856
Deferred inflows of resources		(1,100,856)
		629
	\$	(1,100,856)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 9: LEASE RECEIVABLE (CONCLUDED)

Future minimum lease payments to be received are as follows:

Governmental activities:

For the year ended,	Building and Land Leases		
	Principal	Interest	Total
2026	\$ 254,910	\$ -	\$ 254,910
2027	257,459	-	257,459
2028	260,033	-	260,033
2029	262,634	-	262,634
2030	65,820	-	65,820
	\$ 1,100,856	\$ -	\$ 1,100,856

NOTE 10: FINANCED PURCHASE

The City of Sandpoint's lease purchase agreement included a Rosenbauer Fire Apparatus with annual lease payments of \$37,977.23 through November 2024, and a 2.95% interest rate. The financed purchase was paid in its entirety during the year ended September 30, 2025.

NOTE 11: CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 609,837	\$ -	\$ 42,826	\$ 567,011	\$ -
Special assessment bonds payable	29,888	-	5,437	24,451	5,695
Financed purchase	36,537	-	36,537	-	-
Lease liabilities	3,241	-	2,588	653	653
Governmental activities long-term liabilities	\$ 679,503	\$ -	\$ 87,388	\$ 592,115	\$ 6,348
Business-type activities:					
Revenue bonds payable	\$ 11,968,422	\$ -	\$ 511,930	\$11,456,492	\$ 525,412
Compensated absences	112,076	39,954	-	152,030	-
Business-type activities long-term liabilities	\$ 12,080,498	\$ 39,954	\$ 511,930	\$11,608,522	\$ 525,412

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025

NOTE 12: SEGMENT INFORMATION FOR CERTAIN ENTERPRISE FUNDS

The government issued revenue bonds to finance its water department. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Summary financial information for the water department is presented as follows:

	Water Fund
Condensed statement of net position:	
Assets:	
Current assets	\$ 8,033,912
Restricted assets - cash investments	11,769,855
Capital and intangible assets, net of accumulated depreciation and amortization	36,189,164
Total assets	55,992,931
Deferred outflows of resources:	
Proportionate share of collective deferred outflows of resources	140,969
Liabilities:	
Current liabilities	205,430
Noncurrent liabilities	499,582
Total liabilities	705,012
Deferred inflows of resources:	
Proportionate share of collective deferred inflows of resources	195,707
Net position:	
Net investment in capital and intangible assets	36,189,164
Restricted	2,026,378
Unrestricted	7,274,162
Total net position	\$ 45,489,704

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025

NOTE 12: SEGMENT INFORMATION FOR CERTAIN ENTERPRISE FUNDS (CONCLUDED)

Summary financial information for the water department and sewer department is presented as follows (concluded):

	Water Fund
Condensed statement of revenues, expenses and changes in net position:	
Operating revenues	\$ 4,863,435
Operating expenses	(2,809,368)
Operating income	2,054,067
Nonoperating revenues (expenses)	811,605
Capital contributions - cap fees	1,759,420
Net transfers in/(out)	(1,781,994)
	789,031
Change in net position	2,843,098
Beginning net position	52,390,083
Ending net position	\$ 55,233,181
Condensed statement of cash flows:	
Net cash provided (used) by:	
Operating activities	\$ 1,992,028
Noncapital financing activities	(22,574)
Capital and related financing activities	(1,626,963)
Investing activities	811,605
Net increase (decrease)	1,154,096
Beginning cash and cash equivalents	17,477,264
Ending cash and cash equivalents	\$ 18,631,360

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 13: INTERFUND TRANSACTIONS

Interfund transfers (net) during the fiscal year ended September 30, 2025 were as follows:

	Transfers In	Transfers Out
General fund	\$ 2,437,616	\$ 15,660
Parks Improvement	53	25,000
Nonmajor governmental funds	27,899	75,622
Major enterprise funds	993,743	3,165,366
Nonmajor enterprise funds	-	177,663
	\$ 3,459,311	\$ 3,459,311

The principal purposes for the transfer of funds from the Enterprise Funds to the General Fund are to cover the administration costs of operating the City's utility division and payment of revenue bonds.

NOTE 14: DEFINED BENEFIT PENSION PLAN – BASE PLAN

Plan Description

The City of Sandpoint contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

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

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

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 14: DEFINED BENEFIT PENSION PLAN – BASE PLAN (CONTINUED)

Member and Employer Contributions

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

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for public safety. As of June 30, 2025, it was 7.18% for general employees and 10.36% for public safety. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.96% general employees and 13.98% for police and firefighters. The City's contributions were \$881,893 for the year ended September 30, 2025.

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

At September 30, 2025, the City reported a liability for the base plan for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2025 the City's proportion was 0.1229267 percent.

For the year ended September 30, 2025, the City of Sandpoint recognized pension expense of \$797,310. At September 30, 2025, the City of Sandpoint reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual	\$ -	\$ 764,146
Changes of assumptions	-	522,718
Net difference between projected and actual earnings on pension plan investments	560,162	-
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	-
City's contributions subsequent to the measurement	475,070	-
Total	\$ 1,035,232	\$ 1,286,864

\$475,070 was reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2026.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 14: DEFINED BENEFIT PENSION PLAN – BASE PLAN (CONTINUED)

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

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2025, the beginning of the measurement period ended June 30, 2024, is 4.6 years and 4.6 years for the measurement period June 30, 2025.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended September 30:

2026	\$ 508,400
2027	\$ (496,805)
2028	\$ (454,636)
2029	\$ (283,662)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.15%
Salary inflation	3.15%
Investment rate of return, net of investment fees	6.55%
Cost-of-living (COLA) adjustments	1.00%

Contributing Member, Service Retirement Members, and Beneficiaries:

- General Employees and All Beneficiaries – Males Pub-2010 General Tables, increased 11%.
- General Employees and All Beneficiaries – Females Pub-2010 General Tables, increased 21%.
- Teachers – Males Pub-2010 Teacher Tables, increased 12%.
- Teachers – Females Pub-2010 Teacher Tables, increased 21%.
- Fire & Police – Males Pub-2010 Safety Tables, increased 21%.
- Fire & Police – Females Pub-2010 Safety Tables, increased 26%.
- Disabled Members – Males Pub-2010 Disabled Tables, increased 38%.
- Disabled Members – Females Pub-2010 Disabled Tables, increased 36%.

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 14: DEFINED BENEFIT PENSION PLAN – BASE PLAN (CONTINUED)

Actuarial Assumptions (Concluded)

An experience study was performed for the period July 1, 2015, through June 30, 2020, which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2025 is based on the results of an actuarial valuation date July 1, 2025.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System’s asset allocation. The assumptions and the System’s formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System’s assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of 2025.

	2025	
Asset Class	DB Plans	Sick Leave
Fixed Income	30.0%	50.0%
US/Global Equity	55.0%	39.3%
International Equity	15.0%	10.7%
Cash	0.0%	0.0%
Total	100%	100%

Discount Rate

The discount rate used to measure the total pension liability was 6.55%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans’ net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 14: DEFINED BENEFIT PENSION PLAN – BASE PLAN (CONCLUDED)

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

The following presents the Employer's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.55 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.55 percent) or 1-percentage-point higher (7.55 percent) than the current rate:

	<u>1% Decrease (5.55%)</u>	<u>Current Discount Rate (6.55%)</u>	<u>1% Increase (7.55%)</u>
City's net pension liability (asset)	\$ 7,152,010	\$ 2,972,566	\$ (441,853)

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

At September 30, 2025, the City of Sandpoint reported payables to the defined benefit pension plan of \$0 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

NOTE 15: DEFINED BENEFIT PENSION PLAN – FIREFIGHTERS' RETIREMENT FUND

The City contributes to the Firefighters' Retirement Fund (FRF) which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers a closed group of firefighters who were hired before October 1, 1980, and who received benefits in addition to those provided under the PERSI Base Plan. The cost to administer the plan is financed through the contributions and investment earnings of the FRF. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the FRF is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active System members with at least ten years of service and three members who are Idaho citizens not members of the System except by reason of having served on the Board.

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 15: DEFINED BENEFIT PENSION PLAN – FIREFIGHTERS’ RETIREMENT FUND (CONTINUED)

Pension Benefits

The FRF provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members’ years of service as well as the final average salary. A firefighter must have 5 years of service to be eligible for a lifetime retirement allowance at age 60. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance is based on Idaho Code Title 72 Chapter 14.

The benefit payments for the FRF are calculated using a benefit formula adopted by the Idaho legislature. The FRF cost of living increase is based on the increase in the statewide average firefighter’s wage.

Member and Employer Contributions

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

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

At September 30, 2025, the City reported an asset for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2025, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City’s proportion of the net pension asset was based on the City’s share of contributions in the FRF pension plan relative to the total contributions of all participating FRF employers. At June 30, 2025, the City’s proportion was 0.9105842 percent.

For the year ended September 30, 2025, the City recognized pension expense (offset) of (\$241,379). At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	51,302
Changes in the employer’s proportion and differences between the employer’s contributions and the employer’s proportionate contributions	-	-
City’s contributions subsequent to the measurement date	-	-
Total	\$ -	\$ 51,302

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 15: DEFINED BENEFIT PENSION PLAN – FIREFIGHTERS’ RETIREMENT FUND (CONTINUED)

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

\$0 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ending September 30, 2025.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2024 the beginning of the measurement period ended June 30, 2025 is 1.0 year and 1.0 year for the measurement period June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended September 30:

2026	\$ 85,440
2027	\$ (60,372)
2028	\$ (38,442)
2029	\$ (37,928)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year’s earnings of the individual between entry age and assumed exit age. Unfunded actuarial accrued liability for FRF is the difference between the actuarial present value of the FRF benefits not provided by the Base Plan and the FRF assets. Currently FRF assets exceed this actuarial present value; therefore there is not an unfunded liability to amortize at this time. The maximum amortization period for the FRF permitted under Section 59-1394, Idaho Code, is 50 years.

The total pension asset in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases including inflation	3.15%*
Investment rate of return net investment fees	6.55%
Cost-of-living adjustments	expenses 3.15%

Contributing Members, Service Retirement Members, and Beneficiaries:

- Fire & Police - Males Pub-2010 Safety Tables, increased 21%
- Fire & Police - Females Pub-2010 Safety Tables, increased 26%
- Disabled Members - Males Pub-2010 Disabled Tables, increased 38%
- Disabled Members - Females Pub-2010 Disabled Tables, increased 36%

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 15: DEFINED BENEFIT PENSION PLAN – FIREFIGHTERS’ RETIREMENT FUND (CONTINUED)

Actuarial Assumptions (Concluded)

An experience study was performed for the period July 1, 2011 through June 30, 2015 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The total pension asset as of June 30, 2025, is based on the results of an actuarial valuation date of July 1, 2025.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System’s asset allocation. The assumptions and the System’s formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System’s assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of 2024.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap US Equity	22.00%	4.75%
Small/Mid Cap US Equity	10.00%	4.95%
International Equity	11.00%	4.75%
Emerging Markets Equity	11.00%	4.95%
Domestic Fixed	20.00%	2.25%
TIPS	10.00%	2.05%
Core Real Estate	8.00%	3.75%
Private Equity	8.00%	6.00%

Discount Rate

The discount rate used to measure the total pension asset was 6.55%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans’ net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 15: DEFINED BENEFIT PENSION PLAN – FIREFIGHTERS’ RETIREMENT FUND (CONCLUDED)

Sensitivity of the Employer’s Proportionate Share of the Net Pension Asset to Changes in the Discount Rate

The following presents the Employer’s proportionate share of the net pension asset calculated using the discount rate of 6.55 percent, as well as what the Employer’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (5.55 percent) or 1-percentage-point higher (7.55 percent) than the current rate:

	1% Decrease (5.55%)	Current Discount Rate (6.55%)	1% Increase (7.55%)
The City’s proportionate share of the net pension asset	\$ (2,490,986)	\$ (2,658,259)	\$ (2,805,182)

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

At September 30, 2025, there were no payables to the defined benefit pension plan for legally required employer contributions or for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

NOTE 16: CONTINGENCIES

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement from grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City management believes such disallowances, if any, will be immaterial. The City is a party to legal actions arising in the ordinary course of its business. In management’s opinion, the City has adequate legal defenses and/or insurance coverage regarding these legal actions and does not believe that they will materially affect the City’s operations or financial position.

NOTE 17: DEFERRED COMPENSATION PLANS

Employees of the City 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 City. 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.

(Concluded)

City of Sandpoint

NOTES TO THE FINANCIAL STATEMENTS September 30, 2025

NOTE 17: DEFERRED COMPENSATION PLANS (CONCLUDED)

A financial advisor, unrelated to the City, 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 City, subject only to the claims of the general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the City, and each participant's rights are equal to his or her share of the fair market value of the plan assets. The City believes that it is unlikely that plan assets will be needed to satisfy any claims of general creditors. It is the opinion of the City's legal counsel that the City 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.

NOTE 18: ENDOWMENT

The endowment fund of the City consists of one fund designated by the City Council to function as an endowment for the purpose of establishing a source of medium-to-long-term support for improvements to the James E. Russel Sports Center.

The endowment fund was opened with an initial principal contribution of \$25,000, without donor restriction, on February 26, 2024. No additional funds have been contributed since the initial contribution.

NOTE 19: FAIR VALUE MEASUREMENTS

The City's investments are reported at fair value in the accompanying statement of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective future fair values. Furthermore, although the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Level 1	Level 2	Level 3
<u>September 30, 2025</u>				
CIF Pool	\$ 29,816	\$ -	\$ -	\$ 29,816
Total	\$ 29,816	\$ -	\$ -	\$ 29,816

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of significant other observable inputs other than quoted prices for identical assets; and Level 3 consists of significant unobservable input and has the lowest priority. The City uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. There were only level 3 inputs during the fiscal year ended September 30, 2025.

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 20: RISK MANAGEMENT

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

NOTE 21: DEFICIT FUND BALANCE

A deficit balance exists in the following individual fund:

	<u>Deficit Net Position Balance</u>
Bond Payment	\$ (10,568,108)

NOTE 22: EXCESS ACTUAL EXPENDITURES OVER BUDGET

<u>Fund</u>	<u>Final Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Excess of Budgeted Expenditures</u>	<u>Actual Revenues</u>
Parks improvement	<u>\$ 2,109,822</u>	<u>\$ 2,752,492</u>	<u>\$ 642,670</u>	<u>\$ 1,050,957</u>

NOTE 23: DUE FROM COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY

As of September 30, 2025, the City of Sandpoint had a \$609,820 balance due from Sandpoint Urban Renewal Agency (SURA). This balance consists of two portions, one related to the Downtown Revitalization Project and the other related to miscellaneous projects. The amount related to the Downtown Revitalization project was \$572,528, and this was recorded as a long-term note payable on SURA's financial statements. The remainder of the balance is related to miscellaneous projects and was recorded as accounts payable on SURA's financial statements.

NOTE 24: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY

CASH AND INVESTMENTS

Cash and cash equivalents consist of deposits held in checking and money market accounts with a local bank, and amounts invested in the Idaho State Local Government Investment Pool (LGIP). Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At September 30, 2025, the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Both the carrying amount of cash and investments on the Agency's books (including restricted cash), and bank balances and deposits with LGIP at September 30, 2025, totaled \$7,662,711.

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 24: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONTINUED)

CASH AND INVESTMENTS (CONCLUDED)

A summary of the total insured and uninsured bank and LGIP balances at September 30, 2025, is as follows:

Bank balances	\$	547,374
LGIP balances		7,115,337
		7,662,711
Portion insured by FDIC		(250,000)
		7,412,711
Uninsured bank and LGIP balances	\$	7,412,711

The Agency has not adopted a formal investment policy. At September 30, 2025, the Agency had the following investments:

Investments	Maturities	Fair Value
Idaho State Local Government Investment Pool	106 days (weighted average)	\$ 7,115,337

Interest Rate Risk: The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: State law limits investments to obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and State of Idaho investment pools and funds. The Agency has no investment policy that would further limit its investment choices. At September 30, 2025, the Agency's investment in the LGIP is not rated.

Concentration of Credit Risk: The Agency places no limit on the amount the Agency may invest in any one issuer. All of the Agency's investments are in the LGIP.

The LGIP is overseen and managed by the State of Idaho Treasurer's Office.

RECEIVABLES

Property taxes receivable at September 30, 2025, are summarized as follows:

Unearned property taxes receivable	\$	2,251,010
Property taxes receivable		4,045
Delinquent property taxes receivable		21,687
		21,687
	\$	2,276,742

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 24: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONTINUED)

RECEIVABLES (CONCLUDED)

Unearned property taxes receivable consist of property taxes levied for collection in the next fiscal year. These amounts have been offset by unearned property tax revenue in the entity-wide and governmental funds financial statements. Property taxes receivable consist of property taxes received within the first 30 days after the end of the Agency’s fiscal year end that relate to taxes levied for the current or prior fiscal years. Delinquent property taxes receivable consist of property taxes levied for the current and prior fiscal years, which were not collected within the current period or within 30 days after the end of the Agency’s fiscal year. These amounts have been offset by a deferred inflow of resources in the governmental funds financial statements.

LONG-TERM OBLIGATIONS

Note Payable to the City of Sandpoint

The Agency and the City have entered into an informal agreement in which certain large community development projects are initially funded by the City and will be repaid by the Agency as future property taxes are collected. The informal agreement does not contain a specific repayment schedule and, therefore, no portion of the long-term debt is considered to be due and payable. Although the note payable to the City of Sandpoint does not have a formal repayment schedule, the balance was paid on October 14, 2025.

Revenue Allocation Note Payable

On September 7, 2018, the Agency issued a \$1,500,000 revenue allocation note, with an interest rate of 3.63% per annum. The purpose of the note is for the acquisition, construction, and installation of public improvements within the Downtown District. The note, which requires semi-annual payments of approximately \$83,378 including interest, required an initial payment beginning on March 15, 2019, and matures on September 15, 2029.

At September 30, 2025, the Agency had restricted cash of \$84,792, which is held in a separate debt service payment account. The use of this cash is restricted to paying the semi-annual installments on the note.

The annual requirements to pay the above revenue allocation notes are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 145,429	\$ 21,327	\$ 166,756
2027	150,831	15,925	166,756
2028	156,400	10,356	166,756
2029	163,177	4,514	167,691
	<u>\$ 615,837</u>	<u>\$ 52,122</u>	<u>\$ 667,959</u>

(Concluded)

City of Sandpoint

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025**

NOTE 24: COMPONENT UNIT – SANDPOINT URBAN RENEWAL AGENCY (CONCLUDED)

LONG-TERM OBLIGATIONS (CONCLUDED)

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2025, is as follows:

	Long-Term Obligations September 30, 2024	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations September 30, 2025	Due Within One Year
Note payable to the City	\$ 572,528	\$ -	\$ -	\$ 572,528	\$ -
2018 Revenue Allocation	756,392	-	(140,555)	615,837	145,429
	<u>\$ 1,328,920</u>	<u>\$ -</u>	<u>\$ (140,555)</u>	<u>\$ 1,188,365</u>	<u>\$ 145,429</u>

COMMITMENTS AND CONTINGENCIES (SURA)

As of September 30, 2025, the Agency was involved in discussions with several interested parties on future urban development projects, although none of these projects had been formalized and the Agency had not entered into any agreements to provide funding for the projects. It is anticipated that any approved projects will be funded through the Agency and tax increment financing in the future.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

City of Sandpoint

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

For the Year Ended September 30, 2025

	Original Budget Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Special assessments and property taxes	\$ 6,386,362	\$ 6,200,790	\$ (185,572)
Licenses and permits	408,900	532,629	123,729
Grants	4,585,500	79,097	(4,506,403)
Intergovernmental revenue	5,353,789	3,894,814	(1,458,975)
Interest	30,000	920,934	890,934
Charges for services	309,306	575,573	266,267
Fines and forfeits	100,500	127,643	27,143
Miscellaneous revenues	2,214,181	358,139	(1,856,042)
Total revenues	<u>19,388,538</u>	<u>12,689,619</u>	<u>(6,698,919)</u>
EXPENDITURES			
General government	4,234,503	3,420,824	813,679
Public safety	5,348,923	4,894,429	454,494
Highways and streets	7,788,799	1,912,010	5,876,789
Culture and recreation	992,271	898,079	94,192
Capital outlay	3,344,300	722,705	2,621,595
Debt service:			
Principal	36,537	39,125	(2,588)
Interest	1,089	1,139	(50)
Total expenditures	<u>21,746,422</u>	<u>11,888,311</u>	<u>9,858,111</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,357,884)</u>	<u>801,308</u>	<u>3,159,192</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,359,677	2,437,616	77,939
Transfers (out)	(1,793)	(15,660)	(13,867)
Total other financing sources (uses)	<u>2,357,884</u>	<u>2,421,956</u>	<u>64,072</u>
Net change in fund balances	-	3,223,264	3,223,264
Fund balances - beginning	-	19,485,578	19,485,578
Fund balances - ending	<u>\$ -</u>	<u>\$ 22,708,842</u>	<u>\$ 22,708,842</u>

* The original budget was not amended.

City of Sandpoint

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
PARKS IMPROVEMENT**

For the Year Ended September 30, 2025

	Original Budget Amounts *	Actual Amounts	Variance With Final Budget
REVENUES			
Grants	\$ 580,584	\$ 460,910	\$ (119,674)
Interest	-	65,493	65,493
Charges for services	536,585	523,054	(13,531)
Miscellaneous revenues	-	1,500	1,500
Total revenues	<u>1,117,169</u>	<u>1,050,957</u>	<u>(66,212)</u>
EXPENDITURES			
Culture and recreation	174,822	135,606	39,216
Capital outlay	1,935,000	2,616,886	(681,886)
Total expenditures	<u>2,109,822</u>	<u>2,752,492</u>	<u>(642,670)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(992,653)</u>	<u>(1,701,535)</u>	<u>(708,882)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	53	53
Transfers (out)	-	(25,000)	(25,000)
Total other financing sources (uses)	<u>-</u>	<u>(24,947)</u>	<u>(24,947)</u>
Net change in fund balances	(992,653)	(1,726,482)	(733,829)
Fund balances - beginning	992,653	3,421,189	2,428,536
Fund balances - ending	<u>\$ -</u>	<u>\$ 1,694,707</u>	<u>\$ 1,694,707</u>

* The original budget was not amended.

City of Sandpoint

**GASB 68 Required Supplementary Information
For the Year Ended September 30, 2025**

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Employer's portion of the net pension asset (liability)	0.1229267%	0.1224574%	0.1255165%	0.1233079%	0.1295803%	0.1302963%	0.1332440%	0.1348010%	0.1249960%	0.1529441%
Employer's proportionate share of the net pension asset (liability)	\$ (2,972,566)	\$ (4,580,695)	\$ (5,008,948)	\$ (4,856,801)	\$ 102,340	\$ (3,025,652)	\$ (1,520,943)	\$ (1,988,338)	\$ (1,964,722)	\$ (3,100,412)
Employer's covered-employee payroll	\$ 6,880,805	\$ 7,356,531	\$ 7,367,101	\$ 6,898,144	\$ 6,242,562	\$ 5,161,140	\$ 4,115,964	\$ 4,429,874	\$ 3,937,266	\$ 3,810,467
Employer's proportional share of the net pension asset (liability) as a percentage of its covered employee payroll	-43.20%	-62.27%	-67.99%	-70.41%	1.64%	-58.62%	-36.95%	-44.88%	-49.90%	-81.37%
Plan fiduciary net position as a percentage of the total pension asset (liability)	90.89%	85.54%	83.83%	83.09%	100.36%	88.22%	93.79%	91.69%	90.68%	87.26%

* GASB Statement No. 68 requires ten years of information to be presented in this table.

Data reported is measured as of June 30, 2025.

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contribution	\$ 881,893	\$ 902,109	\$ 901,992	\$ 834,732	\$ 692,518	\$ 640,453	\$ 554,406	\$ 505,362	\$ 449,242	\$ 434,757
Contributions in relation to the statutorily required contribution	881,893	902,109	901,992	834,732	692,518	640,453	554,406	505,362	449,242	434,757
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ 6,880,805	\$ 7,356,531	\$ 7,367,101	\$ 6,898,144	\$ 6,242,562	\$ 5,161,140	\$ 4,115,964	\$ 4,429,874	\$ 3,937,266	\$ 3,810,467
Contributions as a percentage of covered-employee payroll	12.82%	12.26%	12.24%	12.10%	11.09%	12.41%	13.47%	11.41%	11.41%	11.41%

* GASB Statement No. 68 requires ten years of information to be presented in this table.

Data reported is reported as of September 30, 2025.

City of Sandpoint

**GASB 68 Required Supplementary Information
For the Year Ended September 30, 2025**

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Employer's portion of the net pension asset	0.9105842%	0.9105842%	0.9105842%	0.9105842%	0.9105842%	0.9105842%	1.0017533%	0.9423588%	0.8313845%	0.9377482%
Employer's proportionate share of the net pension asset	\$ 2,658,259	\$ 2,291,905	\$ 2,152,646	\$ 591,296	\$ 2,460,643	\$ 1,355,852	\$ 1,440,057	\$ 1,066,469	\$ 713,292	\$ 504,025
Employer's covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215,648	\$ 236,122	\$ 211,741	\$ 623,257	\$ 439,502
Employer's proportional share of the net pension asset as a percentage of its covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	628.73%	609.88%	503.67%	114.45%	114.68%
Plan fiduciary net position as a percentage of the total pension asset	227.13%	207.66%	200.58%	184.72%	211.83%	155.55%	152.74%	140.15%	129.65%	118.42%

* GASB Statement No. 68 requires ten years of information to be presented in this table.

Data reported is measured as of June 30, 2025.

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,927	\$ 39,338	\$ 35,276	\$ 102,809	\$ 73,221
Contributions in relation to the statutorily required contribution	-	-	-	-	-	35,927	39,338	35,276	102,809	73,221
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215,648	\$ 236,122	\$ 211,741	\$ 623,257	\$ 439,502
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	16.66%	16.66%	16.66%	16.50%	16.66%

* GASB Statement No. 68 requires ten years of information to be presented in this table.

Data reported is reported as of September 30, 2025.

FINANCIAL SECTION

SUPPLEMENTARY INFORMATION

City of Sandpoint

NONMAJOR GOVERNMENTAL FUNDS September 30, 2025

Activities

Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources and payments of special assessment bond principal and interest from special assessment levies, and consist of Local Improvement District (LID) funds.

LID #32 – accounts for the accumulation of resources and payment of special assessment bond principal and interest from special assessment levies.

LID Guarantee – accounts for the additional security for the LID Bonds. This is established by ordinance.

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

Recreation – This fund is used to account for tax levies and program revenues committed and/or assigned to the administration and development of recreation programs.

Impact Fees – This fund is used to account for impact fee revenue committed and/or assigned for the development as identified in the City’s “Development Impact Fee Program/Capital Improvement Plan”.

Fiber Optic Network – This fund is used to account for program revenues committed and/or assigned to the administration and use of the fiber optic network.

Payroll Benefits Clearing – This fund is used as a payment clearing account for payroll benefits incurred in the other funds.

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2025**

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ -	\$ 3,373,873	\$ 3,373,873
Receivables	4,775	15,758	20,533
Restricted assets:			
Cash and investments	249,857	25,000	274,857
Endowment	-	29,816	29,816
Interest receivable	878	-	878
 Total assets	 <u>\$ 255,510</u>	 <u>\$ 3,444,447</u>	 <u>\$ 3,699,957</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 755,323	\$ 755,323
Total liabilities	<u>-</u>	<u>755,323</u>	<u>755,323</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	-	5,630	5,630
Unavailable revenue-special assessments	4,775	-	4,775
Total deferred inflows of resources	<u>4,775</u>	<u>5,630</u>	<u>10,405</u>
FUND BALANCES			
Restricted	250,735	54,816	305,551
Committed	-	1,162,252	1,162,252
Assigned	-	1,466,426	1,466,426
Total fund balances	<u>250,735</u>	<u>2,683,494</u>	<u>2,934,229</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 255,510</u>	 <u>\$ 3,444,447</u>	 <u>\$ 3,699,957</u>

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2025

	Debt Service Funds	Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES			
Special assessments and property taxes	\$ 1,375	\$ 227,922	\$ 229,297
Interest	11,705	121,693	133,398
Impact fees	-	516,152	516,152
Charges for services	-	163,357	163,357
Miscellaneous revenues	-	48,094	48,094
Total revenues	<u>13,080</u>	<u>1,077,218</u>	<u>1,090,298</u>
EXPENDITURES			
General government	58	17,118	17,176
Highways and streets	-	350,019	350,019
Culture and recreation	-	432,142	432,142
Capital outlay	-	207,713	207,713
Debt service:			
Principal	5,437	-	5,437
Interest	1,420	-	1,420
Total expenditures	<u>6,915</u>	<u>1,006,992</u>	<u>1,013,907</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,165</u>	<u>70,226</u>	<u>76,391</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	27,899	27,899
Transfers (out)	-	(75,622)	(75,622)
Total other financing sources (uses)	<u>-</u>	<u>(47,723)</u>	<u>(47,723)</u>
Net change in fund balances	6,165	22,503	28,668
Fund balances - beginning	<u>244,570</u>	<u>2,660,991</u>	<u>2,905,561</u>
Fund balances - ending	<u>\$ 250,735</u>	<u>\$ 2,683,494</u>	<u>\$ 2,934,229</u>

City of Sandpoint

COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS September 30, 2025

	LID #32	LID Guarantee	Total
ASSETS			
Receivables:			
Special assessments	\$ 4,775	\$ -	\$ 4,775
Restricted assets:			
Cash and investments	210,144	39,713	249,857
Interest receivable	738	140	878
Total assets	\$ 215,657	\$ 39,853	\$ 255,510
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	\$ 4,775	\$ -	\$ 4,775
Total deferred inflows of resources	4,775	-	4,775
FUND BALANCES			
Restricted for debt service	210,882	39,853	250,735
Total deferred inflows of resources and fund balances	\$ 215,657	\$ 39,853	\$ 255,510

City of Sandpoint

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS For the Year Ended September 30, 2025

	<u>LID #32</u>	<u>LID Guarantee</u>	<u>Total</u>
REVENUES			
Special assessments	\$ 1,375	\$ -	\$ 1,375
Interest	9,932	1,773	11,705
Total revenues	<u>11,307</u>	<u>1,773</u>	<u>13,080</u>
EXPENDITURES			
General government	58	-	58
Debt service:			
Principal	5,437	-	5,437
Interest	1,420	-	1,420
Total expenditures	<u>6,915</u>	<u>-</u>	<u>6,915</u>
Net change in fund balances	4,392	1,773	6,165
Fund balances - beginning	<u>206,490</u>	<u>38,080</u>	<u>244,570</u>
Fund balances - ending	<u>\$ 210,882</u>	<u>\$ 39,853</u>	<u>\$ 250,735</u>

City of Sandpoint

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2025**

	Recreation	Impact Fees	Fiber Optic Network	Payroll Benefits Clearing	Total
ASSETS					
Cash and investments	\$ 490,336	\$ 2,071,926	\$ 164,410	\$ 647,201	\$ 3,373,873
Receivables:					
Taxes	6,092	-	-	-	6,092
Interest	1,810	7,278	578	-	9,666
Restricted assets:					
Cash and investments	25,000	-	-	-	25,000
Endowment	29,816	-	-	-	29,816
Total assets	<u>\$ 553,054</u>	<u>\$ 2,079,204</u>	<u>\$ 164,988</u>	<u>\$ 647,201</u>	<u>\$ 3,444,447</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 108,122	\$ -	\$ -	\$ 647,201	\$ 755,323
Total liabilities	<u>108,122</u>	<u>-</u>	<u>-</u>	<u>647,201</u>	<u>755,323</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	5,630	-	-	-	5,630
Total deferred inflows of resources	<u>5,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,630</u>
FUND BALANCES					
Restricted	54,816	-	-	-	54,816
Committed	2,252	1,160,000	-	-	1,162,252
Assigned	382,234	919,204	164,988	-	1,466,426
Total fund balances	<u>439,302</u>	<u>2,079,204</u>	<u>164,988</u>	<u>-</u>	<u>2,683,494</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 553,054</u>	<u>\$ 2,079,204</u>	<u>\$ 164,988</u>	<u>\$ 647,201</u>	<u>\$ 3,444,447</u>

City of Sandpoint

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2025**

	Recreation	Impact Fees	Fiber Optic Network	Payroll Benefits Clearing	Total
REVENUES					
Special assessments and property taxes	\$ 227,922	\$ -	\$ -	\$ -	\$ 227,922
Interest	27,808	88,336	5,549	-	121,693
Impact fees	-	516,152	-	-	516,152
Charges for services	150,215	-	13,142	-	163,357
Miscellaneous revenues	-	-	48,094	-	48,094
Total revenues	<u>405,945</u>	<u>604,488</u>	<u>66,785</u>	<u>-</u>	<u>1,077,218</u>
EXPENDITURES					
General government	-	-	17,118	-	17,118
Highways and streets	-	350,019	-	-	350,019
Culture and recreation	432,142	-	-	-	432,142
Capital outlay	-	207,713	-	-	207,713
Total expenditures	<u>432,142</u>	<u>557,732</u>	<u>17,118</u>	<u>-</u>	<u>1,006,992</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,197)</u>	<u>46,756</u>	<u>49,667</u>	<u>-</u>	<u>70,226</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	27,899	-	-	-	27,899
Transfers (out)	-	(75,622)	-	-	(75,622)
Total other financing sources (uses)	<u>27,899</u>	<u>(75,622)</u>	<u>-</u>	<u>-</u>	<u>(47,723)</u>
Net change in fund balances	1,702	(28,866)	49,667	-	22,503
Fund balances - beginning	<u>437,600</u>	<u>2,108,070</u>	<u>115,321</u>	<u>-</u>	<u>2,660,991</u>
Fund balances - ending	<u>\$ 439,302</u>	<u>\$ 2,079,204</u>	<u>\$ 164,988</u>	<u>\$ -</u>	<u>\$ 2,683,494</u>

REPORT REQUIRED BY GAO



**INDEPENDENT AUDITOR'S 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**

To the Honorable Mayor and City Council
City of Sandpoint
Sandpoint, Idaho 83864

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sandpoint as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Sandpoint's basic financial statements, and have issued our report thereon dated February 23, 2026. Our report includes a reference to other auditors who audited the financial statements of Sandpoint Urban Renewal Agency, as described in our report on the City of Sandpoint's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control over Financial Reporting

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

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

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

INDEPENDENT AUDITOR'S 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)

Report on Compliance and Other Matters

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

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 City of Sandpoint'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 City of Sandpoint's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Magnuson, McHugh, Dougherty CPAs

Magnuson, McHugh, Dougherty CPAs

February 23, 2026