

CITY OF MIDDLETON, IDAHO

Report on Audited
Basic
Financial Statements
and
Supplemental Information

For the Year Ended September 30, 2017

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Millington Zwygart
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor
and City Council
City of Middleton, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Middleton, Idaho (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Middleton, Idaho, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the City's proportionate share of the net pension liability, and schedule of City contributions on pages 31 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middleton, Idaho's basic financial statements. The schedules of revenue by source and expenditures by object are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenue by source and expenditure by object are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedules of revenue by source and expenditure by object 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 March 9, 2018, on our consideration of the City of Middleton, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Middleton, Idaho's internal control over financial reporting and compliance.

Millington Zwyzart CPAs, PLLC

March 9, 2018

City of Middleton, Idaho
Statement of Net Position
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Middleton Urban Renewal Agency
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 382,132	\$ 1,913,547	\$ 2,295,679	\$ 231,937
Property Taxes Receivable, Net	39,219	-	39,219	1,747
Accounts Receivable, Net	17,354	182,463	199,817	-
Prepaid Items	17,121	15,255	32,376	-
Due from Other Governments	304,567	-	304,567	-
Interest Receivable	135	165	300	-
Noncurrent Assets:				
Restricted Cash	-	439,991	439,991	-
Capital Assets:				
Land and Construction in Progress	1,725,661	2,572,907	4,298,568	-
Buildings and Improvements, Net	6,970,493	14,303,487	21,273,980	-
Equipment, Net	526,023	811,637	1,337,660	-
Total Capital Assets	<u>9,222,177</u>	<u>17,688,031</u>	<u>26,910,208</u>	<u>-</u>
Total Assets	<u>9,982,705</u>	<u>20,239,452</u>	<u>30,222,157</u>	<u>233,684</u>
Deferred Outflows				
Pension Related Items	<u>221,736</u>	<u>120,475</u>	<u>342,211</u>	<u>-</u>
Total Deferred Outflows	<u>221,736</u>	<u>120,475</u>	<u>342,211</u>	<u>-</u>
Liabilities				
Current Liabilities:				
Accounts Payable	30,980	79,571	110,551	851
Salaries and Benefits Payable	31,371	7,180	38,551	-
Customer Deposits	-	55,557	55,557	-
Accrued Interest Payable	-	4,483	4,483	3,445
Long-term Liabilities:				
Portion Due or Payable Within One Year:				
Bond Payable	-	125,379	125,379	23,085
Compensated Absences	19,423	8,851	28,274	-
Portion Due or Payable After One Year:				
Bond Payable	-	2,788,440	2,788,440	456,370
Net Pension Liability	417,424	227,056	644,480	-
Total Liabilities	<u>499,198</u>	<u>3,296,517</u>	<u>3,795,715</u>	<u>483,751</u>
Deferred Inflows				
Pension Related Items	<u>61,880</u>	<u>34,795</u>	<u>96,675</u>	<u>-</u>
Total Deferred Inflows	<u>61,880</u>	<u>34,795</u>	<u>96,675</u>	<u>-</u>
Net Position				
Invested in Capital Assets, Net of Related Debt	9,222,177	14,774,212	23,996,389	-
Restricted for:				
Debt Reserve	-	359,332	359,332	-
Streets & Alleys	217,540	-	217,540	-
Other	138,639	-	-	-
Unrestricted (Deficit) Surplus	65,007	1,895,071	2,098,717	(250,067)
Total Net Position	<u>\$ 9,643,363</u>	<u>\$ 17,028,615</u>	<u>\$ 26,671,978</u>	<u>\$ (250,067)</u>

The accompanying notes are an integral
part of the financial statements.

City of Middleton, Idaho
 Balance Sheet -
 Governmental Funds
 September 30, 2017

	General	Streets & Alleys	Nonmajor Funds - Impact Fees	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 242,117	\$ 1,376	\$ 138,639	\$ 382,132
Receivables, Net:				
Property Tax	20,724	18,495	-	39,219
Accounts	4,208	13,146	-	17,354
Interest	68	67	-	135
Prepaid Items	7,721	9,400	-	17,121
Due from Other Governments	112,306	192,261	-	304,567
Total Assets	<u>\$ 387,144</u>	<u>\$ 234,745</u>	<u>\$ 138,639</u>	<u>\$ 760,528</u>
Liabilities				
Accounts Payable	\$ 29,851	\$ 1,129	\$ -	\$ 30,980
Salaries and Benefits Payable	30,818	553	-	31,371
Total Liabilities	<u>60,669</u>	<u>1,682</u>	<u>-</u>	<u>62,351</u>
Deferred Inflows				
Unavailable Revenue - Property Taxes	<u>17,387</u>	<u>15,523</u>	<u>-</u>	<u>32,910</u>
Fund Balances				
Nonspendable:				
Prepays	7,721	9,400	-	17,121
Restricted	-	208,140	138,639	346,779
Unassigned	301,367	-	-	301,367
Total Fund Balances	<u>309,088</u>	<u>217,540</u>	<u>138,639</u>	<u>665,267</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 387,144</u>	<u>\$ 234,745</u>	<u>\$ 138,639</u>	<u>\$ 760,528</u>

The accompanying notes are an integral
 part of the financial statements.

City of Middleton, Idaho
 Reconciliation of the Balance Sheet of the
 Governmental Funds to the Statement of Net Position
 September 30, 2017

Total Fund Balances - Governmental Funds \$ 665,267

Amounts reported for governmental activities in the Statement of Net Position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. Those assets consist of:

Land and Construction in Progress	\$ 1,725,661	
Buildings and Improvements, Net of \$2,269,729 Accum. Depr.	6,970,493	
Equipment, Net of \$940,827 Accumulated Depreciation	<u>526,023</u>	
		9,222,177

Property taxes receivable will be collected this year, but are not available soon enough to pay for current period expenditures and, therefore, are deferred in the funds. 32,910

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Compensated Absences (19,423)

The City participates in the Public Employer Retirement System of Idaho, which is a cost-sharing plan. As a participant they are required to report their share of the Net Pension Liability and the related deferred inflows and outflows on their Statement of Net Position.

Net Pension Liability	\$ (417,424)	
Pension Related Deferred Inflows	(61,880)	
Pension Related Deferred Outflows	<u>221,736</u>	
		<u>(257,568)</u>

Net Position of Governmental Activities \$ 9,643,363

The accompanying notes are an integral
 part of the financial statements.

City of Middleton, Idaho
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2017

	General	Streets & Alleys	Nonmajor Funds - Impact Fees	Total Governmental Funds
Revenues				
Property Taxes	\$ 932,592	\$ 643,744	\$ -	\$ 1,576,336
Intergovernmental	505,065	322,219	-	827,284
Grants and Contributions	45,876	220,972	-	266,848
Charges for Services	747,695	35,785	200,442	983,922
Interest Earned	5,239	667	-	5,906
Other	32,064	58,555	-	90,619
Total Revenues	<u>2,268,531</u>	<u>1,281,942</u>	<u>200,442</u>	<u>3,750,915</u>
Expenditures				
Current:				
Administrative	584,124	-	-	584,124
Streets & Alleys	-	582,795	-	582,795
Public Safety	311,890	-	-	311,890
Police	736,153	-	-	736,153
Culture and Recreation	493,275	-	-	493,275
Capital Outlay	264,446	459,224	61,803	785,473
Total Expenditures	<u>2,389,888</u>	<u>1,042,019</u>	<u>61,803</u>	<u>3,493,710</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(121,357)</u>	<u>239,923</u>	<u>138,639</u>	<u>257,205</u>
Other Financing Sources (Uses)				
Transfer In	217,785	-	-	217,785
Transfer Out	-	(217,785)	-	(217,785)
Total Other Financing Sources (Uses)	<u>217,785</u>	<u>(217,785)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	96,428	22,138	138,639	257,205
Fund Balances - Beginning	212,660	195,402	-	408,062
Fund Balances - Ending	<u>\$ 309,088</u>	<u>\$ 217,540</u>	<u>\$ 138,639</u>	<u>\$ 665,267</u>

The accompanying notes are an integral
part of the financial statements.

City of Middleton, Idaho
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of the
 Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2017

Total Net Change in Fund Balance - Governmental Funds \$ 257,205

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. In the current period these amounts are:

Capital Outlay	\$ 306,888	
Depreciation	<u>(481,317)</u>	(174,429)

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (2,709)

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the net change in compensated absences. 640

The City participates in the Public Employer Retirement System of Idaho, which is a cost-sharing plan. As a participant they are required to report their share of the Net Pension Liability and the related deferred inflows and outflows on their Statement of net Position. The changes in the Net Pension Liability and the related deferred inflows and outflows does not affect the governmental funds, but are reported in the Statement of Activities. 18,205

Change in Net Position of Governmental Activities \$ 98,912

The accompanying notes are an integral
 part of the financial statements.

City of Middleton, Idaho
Statement of Net Position -
Proprietary Funds
September 30, 2017

	Garbage	Water	Sewer	Total
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 83,394	\$ 1,448,499	\$ 381,654	\$ 1,913,547
Accounts Receivable, Net	49,698	45,949	86,816	182,463
Interest Receivable	-	136	29	165
Prepaid Items	-	11,571	3,684	15,255
Total Current Assets	133,092	1,506,155	472,183	2,111,430
Noncurrent Assets:				
Restricted Cash	-	80,659	359,332	439,991
Capital Assets:				
Land and Construction in Progress	-	1,086,518	1,486,389	2,572,907
Buildings and Improvements, Net	-	2,410,079	11,893,408	14,303,487
Equipment, Net	-	388,183	423,454	811,637
Total Noncurrent Assets	-	3,965,439	14,162,583	18,128,022
Total Assets	133,092	5,471,594	14,634,766	20,239,452
Deferred Outflows				
Pension Related Items	3,235	62,981	54,259	120,475
Total Deferred Outflows	3,235	62,981	54,259	120,475
Liabilities				
Current Liabilities:				
Accounts Payable	46,219	704	32,648	79,571
Salaries and Benefits Payable	85	3,728	3,367	7,180
Customer Deposits	-	55,557	-	55,557
Compensated Absences	123	4,996	3,732	8,851
Accrued Interest Payable	-	-	4,483	4,483
Bonds, Notes, and Loans Payable	-	-	-	-
Total Current Liabilities	46,427	64,985	44,230	155,642
Noncurrent Liabilities:				
Bonds, Notes, and Loans Payable	-	-	2,913,819	2,913,819
Net Pension Liability	6,045	118,947	102,064	227,056
Total Noncurrent Liabilities	6,045	118,947	3,015,883	3,140,875
Total Liabilities	52,472	183,932	3,060,113	3,296,517
Deferred Inflows				
Pension Related Items	709	19,298	14,788	34,795
Total Deferred Inflows	709	19,298	14,788	34,795
Net Position				
Invested in Capital Assets, Net of Related Debt	-	3,884,780	10,889,432	14,774,212
Restricted - Debt Reserve	-	-	359,332	359,332
Unrestricted	83,146	1,446,565	365,360	1,895,071
Total Net Position	\$ 83,146	\$ 5,331,345	\$ 11,614,124	\$ 17,028,615

The accompanying notes are an integral
part of the financial statements.

City of Middleton, Idaho
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
For the Year Ended September 30, 2017

	<u>Garbage</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 581,912	\$ 938,224	\$ 1,740,311	\$ 3,260,447
Rent	-	9,014	-	9,014
Grants	-	337,250	-	337,250
Miscellaneous	97	1,091	215	1,403
Total Operating Revenues	<u>582,009</u>	<u>1,285,579</u>	<u>1,740,526</u>	<u>3,608,114</u>
Operating Expenses				
Salaries	8,206	164,589	192,766	365,561
Benefits	3,256	62,118	83,990	149,364
Supplies	1,261	2,149	1,303	4,713
Professional Services	546,537	95,734	95,539	737,810
Utilities	2,201	54,711	66,351	123,263
Miscellaneous	9,367	33,703	162,033	205,103
Repairs and Maintenance	6,919	225,943	188,348	421,210
Depreciation	-	152,577	556,366	708,943
Total Operating Expenses	<u>577,747</u>	<u>791,524</u>	<u>1,346,696</u>	<u>2,715,967</u>
Income (Loss) From Operations	<u>4,262</u>	<u>494,055</u>	<u>393,830</u>	<u>892,147</u>
Nonoperating Revenues (Expenses)				
Interest Earned	98	5,624	4,043	9,765
Interest Expense	-	-	(90,378)	(90,378)
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>98</u>	<u>5,624</u>	<u>(86,335)</u>	<u>(80,613)</u>
Change in Net Position	4,360	499,679	307,495	811,534
Total Net Position - Beginning	<u>78,786</u>	<u>4,831,666</u>	<u>11,306,629</u>	<u>16,217,081</u>
Total Net Position - Ending	<u>\$ 83,146</u>	<u>\$ 5,331,345</u>	<u>\$ 11,614,124</u>	<u>\$ 17,028,615</u>

The accompanying notes are an integral
part of the financial statements.

City of Middleton, Idaho
Statement of Cash Flows -
Proprietary Funds
For the Year Ended September 30, 2017

	<u>Garbage</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash Flows From Operating Activities				
Receipts from Customers	\$ 582,418	\$ 1,274,114	\$ 1,743,683	\$ 3,600,215
Payments to Suppliers	(607,014)	(451,396)	(510,679)	(1,569,089)
Payments to Employees	(11,770)	(232,110)	(285,088)	(528,968)
Net Cash Provided (Used) by Operating Activities	<u>(36,366)</u>	<u>590,608</u>	<u>947,916</u>	<u>1,502,158</u>
Cash Flows From Noncapital Financing Activities				
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities				
Purchases and Construction of Capital Assets	-	(658,349)	(645,599)	(1,303,948)
Principal Paid on Capital Debt	-	-	(121,094)	(121,094)
Interest Paid on Capital Debt	-	-	(90,878)	(90,878)
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(658,349)</u>	<u>(857,571)</u>	<u>(1,515,920)</u>
Cash Flows From Investing Activities				
Interest and Dividends	98	5,624	4,043	9,765
Net Cash Provided (Used) by Investing Activities	<u>98</u>	<u>5,624</u>	<u>4,043</u>	<u>9,765</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(36,268)	(62,117)	94,388	(3,997)
Cash and Cash Equivalents - Beginning	<u>119,662</u>	<u>1,591,275</u>	<u>646,598</u>	<u>2,357,535</u>
Cash and Cash Equivalents - Ending	<u>\$ 83,394</u>	<u>\$ 1,529,158</u>	<u>\$ 740,986</u>	<u>\$ 2,353,538</u>
Displayed As:				
Cash	\$ 83,394	\$ 1,448,499	\$ 381,654	\$ 1,913,547
Restricted Cash	-	80,659	359,332	439,991
	<u>\$ 83,394</u>	<u>\$ 1,529,158</u>	<u>\$ 740,986</u>	<u>\$ 2,353,538</u>

The accompanying notes are an integral part of the financial statements.

City of Middleton, Idaho
Statement of Cash Flows -
Proprietary Funds (continued)
For the Year Ended September 30, 2017

	<u>Garbage</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 4,262	\$ 494,055	\$ 393,830	\$ 892,147
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	-	152,577	556,366	708,943
(Increase) Decrease in Accounts Receivable	409	(7,496)	3,157	(3,930)
(Increase) Decrease in Prepaid Expense	-	(5,919)	2,104	(3,815)
(Increase) Decrease in Deferred Outflows	1,744	31,398	27,909	61,051
Increase (Decrease) in Accounts Payable	(40,729)	(33,237)	791	(73,175)
Increase (Decrease) in Customer Deposits	-	(3,969)	-	(3,969)
Increase (Decrease) in Salaries and Benefits Payable	-	-	-	-
Increase (Decrease) in Compensated Absences	(27)	(362)	(3,850)	(4,239)
Increase (Decrease) in Net Pension Liability	(666)	(11,981)	(10,650)	(23,297)
Increase (Decrease) in Deferred Inflows	(1,359)	(24,458)	(21,741)	(47,558)
Net Cash Provided (Used) by Operating Activities	<u>\$ (36,366)</u>	<u>\$ 590,608</u>	<u>\$ 947,916</u>	<u>\$ 1,502,158</u>

The accompanying notes are an integral part of the financial statements.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of the City of Middleton, Idaho (the City), which has responsibility and control over all activities related to public safety, planning and zoning, parks, roads and streets, water, and sewer services within the City. The City receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the City is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Council members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component unit column in the government-wide statements is the financial data of the Middleton Urban Renewal Agency (the Agency). The Agency is a separate and distinct legal entity created by state statute. The directors are appointed by the Mayor and approved by the City Council. The Agency provides urban development services for the citizens of the city. Complete financial statements can be obtained from the City of Middleton.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the financial activities of the City. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Indirect expenses—expenses of the general government related to the administration and support of the City’s programs, such as personnel and accounting (but not interest on long-term debt)—are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and state formula aid, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City’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. Any remaining governmental and enterprise funds would be aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- *General fund.* This is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.
- *Streets & Alleys fund.* This fund accounts for the activities related to the City’s roads and streets.

Proprietary fund operating revenues and expenses are related to providing sanitation, water, and sewer services to the residents and businesses of the City of Middleton, Idaho and providing services to other parts of the City government. Revenues and expenses that arise from capital and non-capital financing activities and from investing activities are presented as non-operating revenues or expenses.

The City reports the following major enterprise funds:

- *Water fund.* This fund accounts for the activities of the City’s water supply system, pumping stations, and collection systems.
- *Sewer fund.* This fund accounts for the operations and collections of the City’s sewer system.
- *Garbage fund.* This fund accounts for the operations and collections of the City’s sanitation services.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Fund Balance Reporting in Governmental Funds

Different measurement focuses and bases of accounting are used in the government-wide Statement of Net Position and in the governmental fund Balance Sheet.

The City uses the following fund balance categories in the governmental fund Balance Sheet:

- *Nonspendable*. Prepaid items that are permanently precluded from conversion to cash.
- *Restricted*. Balances constrained to a specific purpose by enabling legislation, external parties, or constitutional provisions.
- *Unassigned*. Balances available for any purpose.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The remaining fund balance classifications (committed and assigned) are either not applicable or no formal policy has yet been established to be able to utilize such classifications of fund balance. However, if there had been committed funds, these amounts would have been decided by the City Council, the City's highest level of decision making authority, through a formal action. The City Council would also have the authority to assign funds or authorize another official to do so.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position/fund balance available to finance the program. When both restricted and unrestricted resources are available for use, it is the government's intent to use restricted resources first, then unrestricted resources as they are needed.

There is also no formal policy regarding the use of committed, assigned, or unassigned fund balances. However, it is the City's intent that when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts.

In the Streets & Alleys fund, external parties require that property taxes, grants, and intergovernmental revenues are to be used to maintain, build, or improve the City's roads and streets.

C. Assets and Liabilities

Cash Equivalents

The City requires all cash belonging to the City to be placed in custody of the Treasurer. A "Pooled Cash" concept is therefore used in maintaining the cash and investment accounts in the accounting records. Under this method, all cash is pooled for investment purposes and each fund has equity in the pooled amount. All amounts included in the pooled cash and investment accounts are considered to be cash and cash equivalents. See Note 2.

Receivables

All trade receivables are shown net of an allowance for doubtful accounts. As of September 30, 2017, there were no allowances in any of the funds.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Calendar

The City levies its real property taxes through the county in September of each year based upon the assessed valuation as of the previous July. Property taxes are due in two installments on December 20 and June 20 and are considered delinquent on January 1 and July 1, at which time the property is subject to lien.

Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are shown below:

	<u>Capitalization</u> <u>Policy</u>	<u>Depreciation</u> <u>Method</u>	<u>Estimated</u> <u>Useful Life</u>
Buildings and Improvements	\$5,000	Straight-Line	8 – 40 Years
Equipment and Vehicles	\$5,000	Straight-Line	5 – 20 Years

General infrastructure assets acquired prior to October 2003, are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2003.

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over their estimated useful lives.

Compensated Absences

The City uses the vesting method to compute compensated absences awarded to employees.

Pensions

For purposes of measuring the net pension liability 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 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.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

2. CASH AND INVESTMENTS

Deposits

As of September 30, 2017, the carrying amount of the City's deposits was \$193,270 and the respective bank balances totaled \$539,147. All of the bank balance was insured through the Federal Depository Insurance Corporation (FDIC).

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2017, all of the City's deposits were covered by the federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City. The City also had \$890 of petty cash on hand. The City does not have a formal policy limiting its exposure to custodial credit risk.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The City does not have a formal policy limiting its custodial credit risk for investments.

Interest Rate Risk

The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

2. CASH AND INVESTMENTS (continued)

Investments

The City voluntarily participates in the State of Idaho Investment Pool which does not have a credit rating. The pool is not registered with the Securities and Exchange Commission or any other regulatory body. Oversight of the pool is with the State Treasurer, and Idaho Code defines allowable investments. The fair value of the City's investment in the pool is the same as the value of the pool shares.

It is the City's policy to limit investments to the safest types of securities and to diversify the City's investment portfolio so that potential losses on securities will be minimized. The City follows Idaho Statute that outlines qualifying investment options as follows:

Idaho Code authorizes the City to invest any available funds in obligations issued or guaranteed by the United States Treasury, the State of Idaho, local Idaho municipalities and taxing districts, the Farm Credit System, or Idaho public corporations, as well as time deposit accounts and repurchase agreements.

The City's investments at September 30, 2017, are summarized below:

Investment Type	Fair Value	Maturity (In Years) Less Than 1
Money Market Funds	\$ 1,299,857	\$ 1,299,857
External Investment Pool	<u>1,241,653</u>	<u>1,241,653</u>
	<u>\$ 2,541,510</u>	<u>\$ 2,541,510</u>

At year-end, cash and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ (636,100)	\$ 749,601	\$ 113,501
Restricted Cash and Investments		439,991	439,991
Investments categorized as deposits	<u>1,018,232</u>	<u>1,163,946</u>	<u>2,182,178</u>
	<u>\$ 382,132</u>	<u>\$ 2,353,538</u>	<u>\$ 2,735,670</u>

The City has set aside \$359,332.0 in accordance with debt restrictions.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

3. DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of state revenue sharing of \$112,306 and grants receivable of \$192,261, all due from the State of Idaho.

4. PROPERTY TAXES

The City receives tax revenue from Canyon County. The County is responsible for property valuation and collection of tax levies. The taxes that have not been remitted to the City by the County as of September 30, 2017, are considered by the City as a receivable. Taxes not collected within 60 days after September 30, 2017, are not considered available for use by the City and are recorded as deferred revenue in the fund financial statements.

5. PENSION PLAN

Plan Description

The City of Middleton, Idaho 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.

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

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

5. PENSION PLAN (continued)

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

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. 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 police and firefighters. As of June 30, 2017, it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The City of Middleton, Idaho's contributions were \$154,823 the year ended September 30, 2017.

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

At September 30, 2017, the City of Middleton, Idaho reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Middleton, Idaho's proportion of the net pension liability was based on the City of Middleton Idaho'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, 2017, the City of Middleton, Idaho's proportion was 0.0410020 percent.

For the year ended September 30, 2017, the City of Middleton recognized pension expense/ (revenue) of \$126,415. At September 30, 2017, the City of Middleton, Idaho reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

5. PENSION PLAN (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 89,281	\$ 58,062
Changes in assumptions or other inputs	11,918	-
Net difference between projected and actual earnings on pension plan investments	-	38,614
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	-
City of Middleton, Idaho's contributions subsequent to the measurement date	42,425	-
Total	\$ 143,624	\$ 96,676

\$42,425 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, 2017.

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, 2016, the beginning of the measurement period ended June 30, 2017, is 4.9 years and 5.5 for the measurement period June 30, 2016.

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:

Ended September 30:	PERSI
2018	\$ 7,389
2019	60,549
2020	17,180
2021	(38,170)

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

5. PENSION PLAN (continued)

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2017 is based on the results of an actuarial valuation date of July 1, 2017.

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.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

5. PENSION PLAN (continued)

Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2017.

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	90.00%	0%	0% - 5%
Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%
* Expected arithmetic return net of fess and expenses				
Assumed Inflation - Mean				3.25%
Assumed Inflation - Standard Deviation				
Portfolio Arithmetic Mean Return				2.00%
Portfolio Standard Deviation				8.42%
Portfolio Long-Term Expected Geometric Rate of Return				7.50%
Assumed Investment Expenses				0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses				<u>7.10%</u>

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

5. PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	\$ 1,497,906	\$ 644,481	\$ (64,738)

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.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

6. COMPENSATED ABSENCES

Vacation leave is granted to all regular City employees. In the event of termination, an employee is reimbursed for accumulated vacation leave. Changes in accumulated vacation are as follows:

	<u>9/30/2016</u>	<u>Earned</u>	<u>Used</u>	<u>9/30/2017</u>	<u>Current</u>
Governmental Activities	\$ 20,063	\$ 24,022	\$ 24,662	\$ 19,423	\$ 19,423
Business-type Activities	<u>13,090</u>	<u>12,030</u>	<u>24,662</u>	<u>8,850</u>	<u>8,850</u>
	<u>\$ 33,153</u>	<u>\$ 57,058</u>	<u>\$ 57,271</u>	<u>\$ 33,153</u>	<u>\$ 33,153</u>

7. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

	<u>9/30/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>9/30/2017</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,322,861	\$ 67,589	\$ -	\$ 1,390,450
Construction in Progress	<u>335,211</u>	<u>-</u>	<u>-</u>	<u>335,211</u>
Total	<u>1,658,072</u>	<u>67,589</u>	<u>-</u>	<u>1,725,661</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	9,028,911	211,311	-	9,240,222
Equipment	<u>1,438,862</u>	<u>27,988</u>	<u>-</u>	<u>1,466,850</u>
Total Historical Cost	<u>10,467,773</u>	<u>239,299</u>	<u>-</u>	<u>10,707,072</u>
Less: Accumulated Depreciation				
Buildings and Improvements	1,891,404	378,325	-	2,269,729
Equipment	<u>837,835</u>	<u>102,992</u>	<u>-</u>	<u>940,827</u>
Total Accumulated Depreciation	<u>2,729,239</u>	<u>481,317</u>	<u>-</u>	<u>3,210,556</u>
Net Depreciable Assets	<u>7,738,534</u>	<u>(242,018)</u>	<u>-</u>	<u>7,496,516</u>
Governmental Activities - Net	<u>\$ 9,396,606</u>	<u>\$ (174,429)</u>	<u>\$ -</u>	<u>\$ 9,222,177</u>

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

7. CAPITAL ASSETS

	<u>9/30/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>9/30/2017</u>
<u>Business-type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 1,551,257	\$ 1,021,650	\$ -	\$ 2,572,907
Construction in Progress	342,763	-	(342,763)	-
Total	<u>1,894,020</u>	<u>1,021,650</u>	<u>(342,763)</u>	<u>2,572,907</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	18,439,076	579,361	-	19,018,437
Equipment	<u>1,665,382</u>	<u>45,700</u>	-	<u>1,711,082</u>
Total Historical Cost	<u>20,104,458</u>	<u>625,061</u>	-	<u>20,729,519</u>
Less: Accumulated Depreciation				
Buildings and Improvements	4,111,081	603,869	-	4,714,950
Equipment	<u>794,371</u>	<u>105,074</u>	-	<u>899,445</u>
Total Accumulated Depreciation	<u>4,905,452</u>	<u>708,943</u>	-	<u>5,614,395</u>
Net Depreciable Assets	<u>15,199,006</u>	<u>(83,882)</u>	-	<u>15,115,124</u>
Business-type Activities - Net	<u>\$ 17,093,026</u>	<u>\$ 937,768</u>	<u>\$ (342,763)</u>	<u>\$ 17,688,031</u>

Depreciation expense was charged to the functions of the City as follows:

Governmental Activities:

Administrative	\$ 40,232
Highway and Streets	86,656
Public Safety	333,379
Culture and Recreation	<u>21,050</u>
	<u>\$ 481,317</u>

All assets that were constructed using the bond funds were completed in prior years, so no interest has been capitalized in the enterprise funds.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

7. RISK MANAGEMENT

The City is exposed to a considerable number of risks of loss including, but not limited to, a) damage to and loss of property and contents, b) employee torts, c) professional liabilities, i.e. errors and omissions, d) environmental damage, e) worker's compensation, i.e. employee injuries, and f) medical insurance costs of its employees. Commercial insurance policies are purchased to transfer the risk of loss for property and content damage, employee torts, medical insurance costs, and professional liabilities.

8. LONG-TERM LIABILITIES

Business-type Activities – Sewer Fund Bond Payable

The City issued \$1,200,000 of Series 2002 Revenue Bonds dated July 23, 2002, with a maturity date of July 23, 2032, and bearing interest at 4.5% per annum. Payments are due in July of each year. The Bonds were issued to pay for sewer system upgrades.

The City issued \$2,800,000 of Series 2013 Revenue Bonds dated September 23, 2013, with a maturity date of September 23, 2043, and bearing interest at 2.75% per annum. Payments are due in September of each year. The Bonds were issued to pay for sewer system upgrades.

Business-type Activities – Sewer Fund Note Payable

Changes in long-term obligations for the year ended September 30, 2017, are as follows:

Business-type Activities:

Description	Rate	9/30/2016	Increase	Decrease	9/30/2017	Current Portion
USDA Loan 92-01	4.50%	\$ 423,892	\$ -	\$ (54,605)	\$ 369,287	\$ 57,062
USDA Loan 92-02	2.750%	2,611,021	-	(66,489)	2,544,532	68,317
		<u>\$ 3,034,913</u>	<u>\$ -</u>	<u>\$ (121,094)</u>	<u>\$ 2,913,819</u>	<u>\$ 125,379</u>

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

8. LONG-TERM LIABILITIES (continued)

Debt service requirements on long-term debt at September 30, 2017, are as follows:

Year Ending	Bonds	
September 30,	Principal	Interest
2018	\$ 125,379	\$ 86,593
2019	129,826	82,146
2020	134,440	77,532
2021	139,227	72,745
2022	144,196	67,776
2023-2027	470,444	280,704
2028-2032	473,372	218,088
2033-2037	542,140	149,320
2038-2042	620,899	70,561
2043	133,896	3,681
	<u>\$2,913,819</u>	<u>\$1,109,146</u>

There was \$90,378 of interest expense for the year ended September 30, 2017. No interest was capitalized during the year.

9. TRANSFERS

During the year ended September 30, 2017 the following transfers took place between funds:

\$ 217,785	From the Street Fund to the General Fund to cover administrative costs
<u>\$ 217,785</u>	

10. COMPONENT UNIT

The Middleton Urban Renewal Agency (the Agency) is a separate and distinct legal entity of the City of Middleton created by and existing under the Idaho Urban Renewal Law of 1965, as amended. The Directors for the Agency are appointed by the Mayor and approved by the City Council. The Agency provides urban renewal services for the citizens of the City.

The following is a summary of the disclosures required for a fair presentation of the component unit in the City's financial statements.

City of Middleton, Idaho
Notes to Financial Statements
For the Year Ended September 30, 2017

10. COMPONENT UNIT (continued)

A summary of long-term liability activity for the year ended September 30, 2017, is as follows:

<u>Governmental Activities:</u>	<u>Rate</u>	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>	<u>Estimated Current</u>
Note Payable - CJM LP	3.396%	\$ 222,249	\$ -	\$ (51,707)	\$ 170,542	\$ 8,888
Note Payable - Middleton Village Project	4.110%	308,913	-	-	308,913	14,197
		<u>\$ 531,162</u>	<u>\$ -</u>	<u>\$ (51,707)</u>	<u>\$ 479,455</u>	<u>\$ 23,085</u>

11. RELATED PARTY TRANSACTIONS

Middleton Urban Renewal Agency (the Agency) is a component unit of the City. The capital assets constructed from the Agency's activities are contributed to the City. In the current year, there was no work for assets transferred from the Agency to the City. There are no amounts payable between the Agency and the City as of September 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

City of Middleton, Idaho
 Budgetary (GAAP Basis) Comparison Schedule
 General Fund
 For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Property Taxes	\$ 768,524	\$ 768,524	\$ 932,592	\$ 164,068
Intergovernmental	240,917	240,917	505,065	264,148
Grants and Contributions	920,668	920,668	45,876	(874,792)
Charges for Services	607,525	607,525	747,695	140,170
Interest Earned	2,450	2,450	5,239	2,789
Donated Assets	-	-	-	-
Other	58,300	58,300	32,064	(26,236)
Total Revenues	<u>2,598,384</u>	<u>2,598,384</u>	<u>2,268,531</u>	<u>(329,853)</u>
Expenditures				
Current:				
Administrative	539,371	539,371	584,124	(44,753)
Public Safety	23,000	23,000	26,408	(3,408)
Building	208,908	208,908	285,482	(76,574)
Police	601,906	601,906	736,153	(134,247)
Parks	1,023,651	1,023,651	195,646	828,005
Library	272,249	272,249	297,629	(25,380)
Capital Outlay	428,523	428,523	264,446	164,077
Total Expenditures	<u>3,097,607</u>	<u>3,097,607</u>	<u>2,389,888</u>	<u>707,719</u>
Excess (Deficiency of Revenues Over Expenditures)				
	<u>(499,223)</u>	<u>(499,223)</u>	<u>(121,357)</u>	<u>(1,037,572)</u>
Other Financing Sources (Uses)				
Transfers In	299,223	299,223	217,785	(81,438)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>299,223</u>	<u>299,223</u>	<u>217,785</u>	<u>(81,438)</u>
Net Change in Fund Balances	(200,000)	(200,000)	96,428	296,428
Fund Balances - Beginning	200,000	200,000	212,660	12,660
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,088</u>	<u>\$ 309,088</u>

City of Middleton, Idaho
 Budgetary (GAAP Basis) Comparison Schedule
 Streets & Alleys Fund
 For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Property Taxes	\$ 681,459	\$ 681,459	\$ 643,744	\$ (37,715)
Intergovernmental	512,097	512,097	322,219	(189,878)
Grants and Contributions	293,084	293,084	220,972	(72,112)
Charges for Services	35,000	35,000	35,785	785
Interest Earned	800	800	667	(133)
Other	56,000	56,000	58,555	2,555
Total Revenues	<u>1,578,440</u>	<u>1,578,440</u>	<u>1,281,942</u>	<u>(296,498)</u>
Expenditures				
Current:				
Streets & Alleys	829,859	829,859	582,795	247,064
Capital Outlay	466,639	466,639	459,224	7,415
Total Expenditures	<u>1,296,498</u>	<u>1,296,498</u>	<u>1,042,019</u>	<u>254,479</u>
Excess (Deficiency of Revenues Over Expenditures)	<u>281,942</u>	<u>281,942</u>	<u>239,923</u>	<u>(550,977)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	(281,942)	(281,942)	(217,785)	64,157
Total Other Financing Sources (Uses)	<u>(281,942)</u>	<u>(281,942)</u>	<u>(217,785)</u>	<u>64,157</u>
Net Change in Fund Balances	-	-	22,138	(486,820)
Fund Balances - Beginning	-	-	195,402	195,402
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,540</u>	<u>\$ (291,418)</u>

City of Middleton, Idaho
Notes to Required Supplementary Information
For the Year Ended September 30, 2017

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- A. Prior to September 1, the Department Heads, the City Treasurer, Mayor, and 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.
- B. Public hearings are conducted at the City Hall to obtain landowner and resident comments.
- C. Prior to October 1, the budget is legally enacted through passage of an ordinance.
- D. The City is authorized to transfer budgeted amounts between departments within any non-enterprise fund; however, no revision can be made to increase the overall tax supported funds except when federal or state grants are approved. The City, however, must follow the same budgetary procedures as they followed when the original budget was approved. The budget for enterprise funds may also be revised in the same manner as those situations involving federal and state grants.
- E. Formal budgetary integration is employed as a management control device during the year for the General fund and Special Revenue funds.

City of Middleton, Idaho
 Schedule of the City's Proportionate Share of the
 Net Pension Liability

Public Employees Retirement System of Idaho

Last 10 - Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City proportion of the net pension liability (asset)	0.0410020%	0.0350760%	0.0275714%
City's proportionate share of the net pension liability (asset)	\$ 644,481	\$ 711,044	\$ 363,070
City's covered-employee payroll	\$ 1,354,934	\$ 1,101,439	\$ 821,028
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	47.57%	64.56%	44.22%
Plan fiduciary net position as a percentage of the total pension liability	87.26%	82.26%	91.38%

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

Data reported is measured as of June 30, 2017

City of Middleton, Idaho
Schedule of City Contributions

Public Employees Retirement System of Idaho

Last 10 - Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 154,823	\$ 125,442	\$ 93,306
Contributions in relation to the contractually required contribution	<u>154,823</u>	<u>125,442</u>	<u>93,306</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,354,934	\$ 1,101,439	\$ 821,028
Contributions as a percentage of covered-employee payroll	11.43%	11.39%	11.36%

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

Data reported is measured as of September 30, 2017

SUPPLEMENTAL INFORMATION

City of Middleton, Idaho
Supplemental Schedule of Revenues by Source -
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended Sep 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes:			
Property Taxes	\$ 768,524	\$ 932,592	\$ 164,068
Total Taxes	<u>768,524</u>	<u>932,592</u>	<u>164,068</u>
Intergovernmental:			
State Liquor Apportionment	64,744	138,796	74,052
State Revenue Sharing	126,165	272,916	146,751
State Sales Tax	50,008	93,353	43,345
Total Intergovernmental	<u>240,917</u>	<u>505,065</u>	<u>264,148</u>
Grants and Contributions			
Grants	<u>920,668</u>	<u>45,876</u>	<u>(874,792)</u>
Total Grants and Contributions	<u>920,668</u>	<u>45,876</u>	<u>(874,792)</u>
Charges for Services:			
Beer, Wine, and Liquor Licenses	2,150	2,210	60
Building Permits	465,125	659,809	194,684
Business Permits	4,500	5,385	885
Franchise Fees	36,500	45,668	9,168
Rent	6,500	12,648	6,148
Fines and Fees	18,500	21,975	3,475
Park Impact Fee	74,250	-	(74,250)
Total Licenses and Permits	<u>607,525</u>	<u>747,695</u>	<u>140,170</u>
Other:			
Donations	4,800	8,625	3,825
Reimbursements	42,000	1,766	(40,234)
Mayor Youth Advisory	11,000	7,864	(3,136)
Interest Earned	2,450	5,239	2,789
Miscellaneous Revenue	500	13,809	13,309
Total Other	<u>60,750</u>	<u>37,303</u>	<u>(23,447)</u>
Total Revenue	<u><u>\$ 2,598,384</u></u>	<u><u>\$ 2,268,531</u></u>	<u><u>\$ (329,853)</u></u>

City of Middleton, Idaho
Supplemental Schedule of Expenditures by Object of Expenditure -
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended September 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Administrative:			
Salaries	\$ 138,804	\$ 149,106	\$ (10,302)
Benefits	81,410	57,742	23,668
Supplies	2,000	4,952	(2,952)
Repairs and Maintenance	3,060	3,071	(11)
Professional Fees	128,301	240,046	(111,745)
Other Services and Charges	185,797	129,207	56,590
Capital Outlay	-	5,513	(5,513)
Total Administrative	<u>539,372</u>	<u>589,637</u>	<u>(50,265)</u>
Public Safety:			
Law Enforcement	7,500	14,408	(6,908)
Professional Fees	15,500	12,000	3,500
Capital Outlay	-	704	(704)
Total Public Safety	<u>23,000</u>	<u>27,112</u>	<u>(4,112)</u>
Building Inspection:			
Salaries	80,250	80,679	(429)
Benefits	30,684	26,498	4,186
Supplies	750	4,367	(3,617)
Repairs and Maintenance	10,750	54,872	(44,122)
Professional Fees	73,250	108,561	(35,311)
Other Services and Charges	13,224	10,505	2,719
Capital Outlay	9,103	18,965	(9,862)
Total Building Inspection	<u>\$ 218,011</u>	<u>\$ 304,447</u>	<u>\$ (86,436)</u>

City of Middleton, Idaho
Supplemental Schedule of Expenditures by Object of Expenditure -
Budget (GAAP Basis) and Actual - General Fund (continued)
For the Year Ended September 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Police:			
Salaries	\$ 404,450	\$ 490,196	\$ (85,746)
Benefits	150,152	180,836	(30,684)
Supplies	1,700	3,994	(2,294)
Repairs and Maintenance	8,000	25,461	(17,461)
Professional Fees	500	-	500
Other Services and Charges	37,103	35,666	1,437
Capital Outlay	123,695	118,554	5,141
Total Police	<u>725,600</u>	<u>854,707</u>	<u>(129,107)</u>
Parks:			
Salaries	120,648	97,032	23,616
Benefits	37,952	33,487	4,465
Supplies	1,494	1,119	375
Repairs and Maintenance	28,158	18,624	9,534
Professional Fees	8,550	8,067	483
Other Services and Charges	826,850	37,317	789,533
Capital Outlay	80,225	11,501	68,724
Total Parks	<u>1,103,877</u>	<u>207,147</u>	<u>896,730</u>
Library:			
Salaries	128,793	134,079	(5,286)
Benefits	48,882	60,975	(12,093)
Supplies	8,050	13,581	(5,531)
Repairs and Maintenance	5,551	11,518	(5,967)
Professional Fees	560	4,866	(4,306)
Other Services and Charges	80,413	72,610	7,803
Capital Outlay	215,500	109,209	106,291
Total Library	<u>487,749</u>	<u>406,838</u>	<u>80,911</u>
 Total Expenditures	 <u>\$ 3,097,609</u>	 <u>\$ 2,389,888</u>	 <u>\$ 707,721</u>

FEDERAL REPORTS



Millington Zwygart

CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Mayor
and City Council
City of Middleton, Idaho

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 discretely presented component unit, each major fund, and the remaining fund information of the City of Middleton, Idaho, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Middleton, Idaho's basic financial statements and have issued our report thereon dated March 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Middleton, Idaho's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Middleton, Idaho's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Middleton, Idaho'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Middleton, Idaho'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Millington Zwyzart CPAs, PLLC

March 9, 2018