

# EAST SIDE HIGHWAY DISTRICT

FINANCIAL STATEMENT  
SEPTEMBER 30, 2018

**East Side Highway District  
September 30, 2018**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners of  
East Side Highway District  
Coeur d'Alene, ID 83814

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

We have audited the accompanying financial statements of the governmental activities and each major fund of East Side Highway District as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of East Side Highway District, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that certain required supplementary information, such as management's discussion and analysis and other required supplementary information as listed in the table of contents 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2019 on our consideration of the East Side Highway District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 East Side Highway District's internal control over financial reporting and compliance.

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

Magnuson, McHugh & Company, P.A.

March 14, 2019

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

## East Side Highway District

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2018

The East Side Highway District (the "District"), was formed in 1971 by an act of the State Legislature which consolidated eight highway districts and one County Road Department. The act created four highway districts within Kootenai County, each district with the ability to levy for funds and each is governed by three elected Commissioners. The East Side Highway District maintains 182 roads; totaling 242.60 miles which is divided into three sub-districts stretching from Coeur d'Alene east to the Shoshone County line, and south to the Benewah County line. We also maintain 23 bridges and 3 Rails to Trails crossings.

As management of the East Side Highway District we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2018.

#### FINANCIAL HIGHLIGHTS

The Statement of Net Position (Page 9 of the Financial Report)

At the end of the fiscal year, total net position was \$12,371,890. A summary of the District's assets, liabilities and net position follows:

Assets	\$13,960,304
Deferred Outflows of Resources	109,675
Liabilities	(1,602,716)
Deferred Inflows of Resources	<u>(95,373)</u>
Net position	<u>\$12,371,890</u>

Net position invested in capital assets, net of related debt was \$8,494,534 at September 30, 2018.

The District reached an agreement with the Idaho Transportation Department this year for Coeur d'Alene Lake Drive. That agreement included ITD's payment to the District for \$2.7 million dollars towards the future maintenance of the road. Fiscal year general revenues totaled \$5,661,795 on the Statement of Activities. Program revenue, which includes capital grants and donated assets, totaled \$220,231. The categories below combined represent 49.25% of all general revenues received.

Property taxes	\$1,289,277
Highway user fees	1,425,661
Federal forest funds	<u>73,501</u>
	<u>\$2,788,439</u>

Total fiscal year program expenses were \$3,909,258 on the Statement of Activities. The categories below combined represent 42% of all program expenses:

Labor	\$1,298,892
Operations	<u>341,192</u>
	<u>\$1,640,084</u>

# East Side Highway District

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2018

### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of two kinds of statements that present different views of the District's financial activities.

- The statement of net position and statement of activities provide information on a district-wide basis. The statements present an aggregate view of the District's finances. District-wide statements contain useful long-term information, as well as information for the just-completed fiscal year.
- The remaining statements are fund financial statements that focus on current financial resources. Since the District is a special district with only governmental funds, there are not significant differences between the fund financial statements and the statement of net position and statement of activities, other than the long-term information regarding debt and the capitalization and depreciation of fixed assets, which is not presented in the fund financial statements.

The notes to the financial statements provide further explanation of some of the information in the statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position. The notes provide additional information that is essential to fully understand the data provided in the government-wide financial statements. The notes to financial statements can be found beginning on page 15.

Required supplementary information further explains and supports the financial statements by including a comparison of the District's budget data for the year.

### District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, are one way to measure the District's overall financial position. District-wide statements can be found on pages 9 and 10.

- Increases or decreases in the District's net position is one indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall financial condition of the District, additional non-financial factors, such as changes in the District's property tax base and the condition of its equipment, buildings and other facilities, should be considered.

In the district-wide financial statements, the District's activities are all classified as governmental activities, as the District has only governmental type funds; the general fund.

## East Side Highway District

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2018

#### FINANCIAL ANALYSIS

##### Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12,371,890 as of September 30, 2018. The following Table 1 presents a summary of the District's net position for the years ended September 30, 2018 and 2017.

TABLE 1

#### STATEMENTS OF NET POSITION September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets	\$ 4,734,044	\$ 2,256,000
Capital assets, net of accumulated depreciation	9,226,260	9,266,690
Total assets	<u>13,960,304</u>	<u>11,522,690</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Proportionate share of collective deferred outflows of resources	109,675	114,428
Total deferred outflows of resources	<u>109,675</u>	<u>114,428</u>
<b>LIABILITIES</b>		
Other liabilities	468,188	227,517
Long-term liabilities outstanding	681,195	440,548
Net pension liability	453,333	483,416
Total liabilities	<u>1,602,716</u>	<u>1,151,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue-traffic mitigation fees	10,500	14,000
Proportionate share of collective deferred inflows of resources	84,873	72,515
Total deferred inflows of resources	<u>95,373</u>	<u>86,515</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	8,494,534	8,750,957
Restricted - highway user	91,063	91,792
Unrestricted	3,786,293	1,556,373
Total net position	<u>\$ 12,371,890</u>	<u>\$ 10,399,122</u>

The largest portion of the District's net position reflects its investment in capital assets (e.g. road and improvements, land, buildings and improvements, licensed and unlicensed equipment, and shop/tools equipment).

## East Side Highway District

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2018

#### FINANCIAL ANALYSIS (CONTINUED)

##### Changes in Net Position

The District's total revenues for the fiscal year ended September 30, 2018, were \$5,882,026. The total expenditures were \$3,909,258 resulting in a \$1,972,768 increase in net position. Table 2 shows the changes in net position for the fiscal years ended September 30, 2018 and 2017.

**TABLE 2**

#### CHANGES IN NET POSITION For the Years Ended September 30, 2018 and 2017

	2018	2017
<b>Program Revenues</b>		
Capital grants and donated assets	\$ 220,231	\$ 1,486,589
 <b>General Revenues</b>		
Taxes and assessments	1,289,277	1,235,261
Highway users	1,425,661	1,408,574
Federal forest funds	73,501	8,532
Sales tax	62,222	56,572
Interest	45,869	12,479
CDA Lake Drive abandonment	2,707,000	-
Traffic mitigation fees	3,500	21,000
Gain on disposal of assets	25,684	14,344
Penalty and interest	12,951	14,532
Other general revenue	16,130	16,251
Total general revenues	5,661,795	2,787,545
Total revenues	5,882,026	4,274,134
 <b>Expenses</b>		
Administrative	412,681	304,082
Labor	1,298,892	1,151,026
Operations	341,192	442,689
Maintenance	614,840	439,649
Construction	645,889	-
Depreciation expense	581,348	486,427
Interest expense	27,388	16,914
Change in net pension liability	102,412	61,235
Unallocated actual PERSI contributions	(115,384)	(108,960)
Total expenses	3,909,258	2,793,062
Change in net position	\$ 1,972,768	\$ 1,481,072

As shown in Table 2, the District relied on the capital grants for 3.74% and local property taxes and highway user funds for 45.93% of its governmental activities.

## East Side Highway District

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2018

#### FINANCIAL ANALYSIS (CONTINUED)

##### Governmental Funds Statements

Since the District has only governmental type funds, the fund financial statements provide similar information about the District's operations and financial position for the year ended September 30, 2018 as do the District-wide statements. Funds are accounting devices the District uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements.

**Governmental fund** – All of the District's basic services are included in governmental funds, which generally focus on: (1) how cash and other financial assets, which can readily be converted to cash, flow in and out, and (2) the balances left at year-end that are available for funding future basic services and projects. Governmental fund statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

In 2018 fiscal year the property tax revenues increased by \$54,016. Highway user funds were \$1,425,661 for the year ended September 30, 2018, reflecting an increase of \$17,088 from the previous year.

Total expenditures were \$4,052,481 which was an increase from the prior year by approximately \$970,580. This is a result of expenses from FEMA projects in the fiscal year that were not reimbursed during that same time frame. We spent \$110,823 on FEMA projects in FY18.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

The District has invested approximately \$15.5 million in a broad range of capital assets, including land, roads and improvements, buildings, licensed and unlicensed equipment, and shop tools. Total accumulated depreciation on these assets amounts was \$6,310,020 at September 30, 2018.

Asset acquisitions for the District were as follows: We purchased \$13,500 in licensed equipment during the course of the fiscal year. Unlicensed purchases totaled \$436,026; and Construction In Progress was \$76,752 for the current fiscal year, which includes the reconstruction and paving of various roads.

Capital assets totaling \$52,750 were traded, junked or sold during the course of this fiscal year. See Note 6 Capital Assets in the financial statements for detail changes in capital assets.

##### Long-term Debt

**Lease Purchases:** By the end of September 2018 the amount of long-term debt retired during the fiscal year was \$216,633 (see Note 7, Page 26 Changes in Long-Term Debt) through lease purchase agreements for Units 116,127/148, 140, 153, 230, 252, 321. No leases were paid off this year, however the following lease purchase agreements will retire by November 2020: Unit 140-Nov 2020- \$22K per year; Unit 153-Oct 2020 - \$33K per year; Unit 252 -Feb 2020-\$43K per year.

The compensated absences balance at September 30, 2018 was \$163,912 - which increased due to policy change.

See Note 7 on page 26 in the notes to the financial statements for detail changes in long-term debt.

#### ROAD MILEAGE

Total road mileage, under the East Side Highway District's jurisdiction was 242.6 (including the newly acquired Coeur d'Alene Lake Drive) as of September 30, 2018.

## East Side Highway District

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2018

#### FINANCIAL HIGHLIGHTS OF THE YEAR

##### Road Maintenance Projects valued \$20,000 or more:

##### Chip Seal Projects: Value (included labor, equipment, material)

- Canyon Rd. #207 \$212,618
- N. Doyle Rd #211 \$ 37,979
- Dudley Rd #206 \$ 48,797
- Wolf Lodge Creek Rd #124 \$168,237
- Watson Rd #214 \$ 29,129

##### Regrinds / Sealcoat / Quick Seal Project:

- Fernan Lake Rd #108 \$43,824

##### Other Maintenance Projects valued \$20,000 or more:

- Alder Creek Rd #126 \$66,770
- Yellowstone Trail Rd #119 \$32,366
- Latour Creek Rd #205 \$59,111
- Black Lake Rd #231 \$20,697
- Elk Rd #311 \$43,016
- Asbury Rd #312 \$27,850
- East Point Rd #314 \$77,573
- Sunset Dr #325-B \$20,655

Developer Improved Roads: None this fiscal year.

##### Traffic Mitigation Fees:

- The District has been collecting traffic mitigation fees this fiscal year through the subdivision process. The funds are designated specifically to bring the road up to highway district standards and are therefore dedicated funds. The funds are held in Account 369 at the State Treasury Office (see DBF Statements). To date \$310,887 has been collected and \$152,137 expensed.

##### District Projects and Approved Grants:

- See the list under **Note 12 Commitments and Contingencies**

#### FACTORS BEARING ON THE DISTRICT'S FUTURE:

- Master Transportation Plan: The district is finalizing the Master Transportation Plan, developed by JUB Engineering. The Plan provides the District a living document that provides a foundation of transportation inventory and improvements that we can readily implement.
- Last summer the District assumed maintenance of Coeur d'Alene Lake Drive through an agreement with the Idaho Transportation Department. ITD paid the District \$2.7 million towards the future maintenance costs associated with the road.
- FEMA: At the close of the Fiscal Year the District had only Blue Lake Road and Anderson Lake Road (PW98) remaining in FEMA projects. We anticipate closure to this in FY2019.

#### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, please contact East Side Highway District at 208-765-4714, located at 6095 E Mullan Trail Rd., Coeur d'Alene, ID 83814.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

# East Side Highway District

## STATEMENT OF NET POSITION September 30, 2018

### ASSETS

Cash and investments	\$ 4,184,424
Receivables:	
Taxes	55,012
Governmental	366,828
Grants	109,926
Other	17,854
Land	338,348
Construction in process	1,624,440
Capital assets, net of accumulated depreciation	7,263,472
Total assets	<u>13,960,304</u>

### DEFERRED OUTFLOWS OF RESOURCES

Proportionate share of collective deferred outflows of resources	109,675
Total deferred outflows of resources	<u>109,675</u>

### LIABILITIES

Accounts payable	245,044
Accrued interest payable	8,701
Long-term debt:	
Capital leases due within one year	214,443
Compensated absences, due in more than one year	163,912
Long-term debt, due in more than one year	517,283
Net pension liability	453,333
Total liabilities	<u>1,602,716</u>

### DEFERRED INFLOWS OF RESOURCES

Unavailable revenue-traffic mitigation fees	10,500
Proportionate share of collective deferred inflows of resources	84,873
Total deferred inflows of resources	<u>95,373</u>

### NET POSITION

Net investment in capital assets	8,494,534
Restricted - highway user	91,063
Unrestricted	3,786,293
Total net position	<u>\$ 12,371,890</u>

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

## East Side Highway District

### STATEMENT OF ACTIVITIES For the Year Ended September 30, 2018

#### EXPENSES

Highway construction and maintenance:	
Administrative	\$ 412,681
Labor	1,298,892
Operations	341,192
Maintenance	614,840
Construction	645,889
Depreciation expense	581,348
Interest expense	27,388
Change in net pension liability	102,412
Unallocated actual PERSI contributions	<u>(115,384)</u>
Total program expenses	<u>3,909,258</u>

#### PROGRAM REVENUES

Capital grants and donations of roads	<u>220,231</u>
Total program revenues	<u>220,231</u>
Net program (expense)	<u>(3,689,027)</u>

#### GENERAL REVENUES

Taxes and assessments	1,289,277
Highway user	1,425,661
Federal forest funds	73,501
Sales tax	62,222
Other	16,130
CDA Lake Drive abandonment	2,707,000
Interest	45,869
Traffic mitigation fees	3,500
Gain on disposal of assets	25,684
Penalty and interest	<u>12,951</u>
Total general revenues	<u>5,661,795</u>
Change in net position	1,972,768
Net position - beginning	<u>10,399,122</u>
Net position - ending	<u><u>\$ 12,371,890</u></u>

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

## East Side Highway District

### GOVERNMENTAL FUNDS - BALANCE SHEET

September 30, 2018

#### ASSETS

Cash and investments	\$ 4,184,424
Receivables:	
Taxes	55,012
Governmental	366,828
Grants	109,926
Other	17,854
Total assets	<u>\$ 4,734,044</u>

#### LIABILITIES

Accounts payable	\$ 245,044
Total liabilities	<u>245,044</u>

#### DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	46,940
Unavailable revenue - traffic mitigation fees	10,500
Total deferred inflows of resources	<u>57,440</u>

#### FUND BALANCE

Restricted - highway user	91,063
Committed for road improvements	198,562
Unassigned	4,141,935
Total fund balance	<u>4,431,560</u>

Total liabilities, deferred inflows of resources and fund balance	<u>\$ 4,734,044</u>
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The accompanying "Notes to the Financial Statements" are an integral part of this statement.

**East Side Highway District**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
September 30, 2018**

Total fund balances - Governmental funds, September 30, 2018		\$ 4,431,560
Cost of capital assets, September 30, 2018	\$ 15,536,280	
Less: Accumulated depreciation, September 30, 2018		
Roads and right of ways	(2,413,418)	
Buildings	(395,594)	
Licensed equipment	(1,415,852)	
Unlicensed equipment	(2,080,146)	
Shop tools/equipment	<u>(5,010)</u>	9,226,260
Elimination of unavailable inflows of resources - property taxes		46,940
Long-term liabilities at September 30, 2018		
Compensated absences	(163,912)	
Capital leases	(731,726)	
Accrued interest payable	<u>(8,701)</u>	(904,339)
Pension liabilities and deferred outflows of resources and deferred inflows of resources related to pensions:		
District's proportionate share of the net pension liability		(453,333)
Proportionate share of collective deferred outflows of resources		109,675
Proportionate share of collective deferred inflows of resources		<u>(84,873)</u>
Net position, September 30, 2018		<u><u>\$ 12,371,890</u></u>

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

# East Side Highway District

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES For the Year Ended September 30, 2018

### REVENUE

Taxes and assessments	\$ 1,298,978
Transfer to Cities - property taxes	66,492
Highway user	1,425,661
Federal forest funds	73,501
Sales tax	62,222
Other	16,130
CDA Lake Drive abandonment	2,707,000
Interest	45,869
Federal and State grants	220,231
Traffic mitigation fees	3,500
Penalty and interest	12,951
Total revenues	<u>5,932,535</u>

### EXPENDITURES

Administrative	412,681
Labor	1,194,723
Operations	341,192
Maintenance	614,840
Construction	722,641
Capital outlay	464,166
Transfer to Cities	66,492
Principal payments	216,633
Interest	19,113
Total expenditures	<u>4,052,481</u>

### OTHER FINANCING SOURCES

Proceeds from disposal of assets	25,684
Proceeds from capital leases	432,626
Total other financing sources	<u>458,310</u>

Net change in fund balances	2,338,364
Fund balances - beginning	2,093,196
Fund balances - ending	<u>\$ 4,431,560</u>

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

## East Side Highway District

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2018

Total net changes in fund balances for the year ended September 30, 2018	\$ 2,338,364
Add: Capital outlay, which is considered expenditures	540,918
Less: Depreciation expense for the year ended September 30, 2018	(581,348)
Add: Capital lease and other debt payments considered as an expenditure	216,633
Less: Change in accrued interest expense	(8,275)
Less: Change in compensated absence accrual	(104,169)
Less: Proceeds from capital leases	(432,626)
Add: Gain on disposal of assets	25,684
Less: Proceeds from disposal of assets	(25,684)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	(9,701)
Add: Change in net pension liability	<u>12,972</u>
Change in net position for the year ended September 30, 2018	<u><u>\$ 1,972,768</u></u>

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

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

East Side Highway District (the "District") was formed in 1971 by an act of the State Legislature, consolidating nine highway districts and the Kootenai County Road Department into four county highway districts, completely separate from one another and independent of the county commissioners.

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

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

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

#### B. Basis of Presentation – government-wide financial statements

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

#### C. Basis of Presentation – fund financial statements

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

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

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

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

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

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

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

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

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

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

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

#### E. Cash and Cash Equivalents

In the general fund, cash received by the District is pooled for investment purposes and is presented as "Cash and Cash Equivalents" on the financial statements.

During the fiscal year ended September 30, 2018, investments were limited to the Idaho State Investment Pool and the Diversified Bond Fund. The Idaho State Investment Pool and Diversified Bond Fund are investment pools that allow districts within the State of Idaho to pool their funds for investment purposes. Investments in the Idaho State Investment Pool and Diversified Bond fund are valued at cost, which materially equals market value.

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

#### F. Capital Assets

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

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

Land and construction in process are not depreciated. The other listed capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Roads and right of ways	30 years
Buildings	40 years
Vehicles/trailers	10 – 20 years
Office equipment	5 years
Equipment	7 years
Improvements	10 – 15 years

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

##### G. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." All District employees accumulate time off with pay for vacation and illness each pay period. While sick hours are accrued at a uniform rate among all employees, vacation accrual is based on length of service. Vacation hours are payable to employees when used at the employee's current rate of pay. Any unused vacation hours will be paid for on September 30<sup>th</sup> of the year following that in which it was earned, and at the rate in which it was earned. Therefore, the employee's vacation bank cannot exceed their accrual rate by more than two years.

Sick leave accrual and end of employment payout: Sick leave can be accrued up to the maximum of 816 hours. Once the sick leave balance reaches between 720 - 816 hours the employee has two options for the 96 hours that could be accrued during the year. Under both options all unused sick leave will be compensated at either 33.33% or 41% of the balance at the current hourly rate. Once an employee signs the form choosing their option it cannot be changed.

Payout Option 1: The amount of hours over 720 will be paid annually at 33.33% and 33% of their sick leave balance when leaving the District's employment.

Payout Option 2: The amount of hours over 720 will be banked for the employee at a rate of 41% annually. When leaving the District's employment the employee will receive 41% of their sick leave, plus the amount banked over the years. In lieu of taking the payout at this point, the employee also has the option of remaining on the District's medical plan and letting the district pay for their monthly premiums until the funds are exhausted or they turn the age of 65.

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

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

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

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

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

#### 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 District 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 statement of net position, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The District has 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 traffic mitigation fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The District has one type of item, which arises under full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, deferred inflows of resources, is reported only on the government-wide statement of net position. The government-wide statement of net position reports deferred inflows of resources from two sources: traffic mitigation fees, and the proportionate share of collective deferred inflows of resources accounting for the net pension obligation, in accordance with GASB 68, Accounting and Financial Reporting for Pensions.

#### J. Fund Balance

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

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

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

The District reports the following classifications:

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

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

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

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

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

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

#### **K. Fund Balance Flow Assumptions**

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

#### **L. Net Position Flow Assumptions**

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

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

#### **M. Extraordinary and Special items**

Extraordinary items are transactions that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transactions occurred during the fiscal year ended September 30, 2018.

#### **N. Estimates**

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

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

##### O. Property Taxes

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

##### P. 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.

##### Q. Leases

Leases which meet certain criteria established by the Financial Accounting Standards Board are classified as capital leases and the assets and related liabilities recorded at amounts equal to the lesser of the present value of minimum lease payments or the fair value of the leased property at the beginning of the lease term.

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

##### Budgetary Data

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

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

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

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

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

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

### NOTE 3: CASH AND INVESTMENTS

#### General:

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

#### Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the District's deposits and investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2018, the District's deposits and investments were not exposed to custodial credit risk as follows:

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

Amount insured by FDIC or other agencies collateralized with securities held by the agency in the District's name	\$ 133,325
Funds Held in the District's name by the State Diversified Bond Fund	2,919,794
Funds Held in the District's name by the Idaho State Investment Pool	<u>1,189,349</u>
	<u>\$4,242,468</u>

Cash and cash equivalents at September 30, 2018 are classified in the accompanying financial statements as follows:

#### Statement of net position:

Cash and investments	\$4,184,424
Total	<u>\$4,184,424</u>

Cash and investments at September 30, 2018 consist of the following:

#### Cash:

Deposit with financial institutions	\$ 75,281
-------------------------------------	-----------

#### Investments:

Idaho State Investment Pools	1,189,349
State Diversified Bond Fund	<u>2,919,794</u>
Total cash and investments	<u>\$4,184,424</u>

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

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

Fair value:

The District's investments in 2a-7-like pools are valued based upon the value of pool shares. The District invests in two 2a-7-like pool, the Idaho State Investment Pool and State Diversified Bond Fund. 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 Idaho State Investment Pool and State Diversified Bond Fund 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.

Following GASB 72, ¶69 and ¶B62 the balance that the District has in the Idaho State Investment Pool is carried at cost which approximates fair market value.

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

Credit risk:

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

### NOTE 4: GOVERNMENTAL RECEIVABLES

Governmental receivables consisted of the following as of September 30, 2018:

Highway user	\$366,351
Miscellaneous	<u>477</u>
Total	<u>\$366,828</u>

### NOTE 5: OTHER RECEIVABLES

Traffic mitigation fee receivables - The District entered into Road Development Agreements with individuals (developers) for the purpose of requiring road improvements pursuant to a subdivision development. The individuals (developers) desire to record a subdivision plat of real property dedicating public right-of-way and providing for certain road improvements. The developer agrees to construct road improvements as required pursuant to applicable Highway District Standards, provided, however that in lieu of such construction, agree to pay \$3,500 for each lot owned, to the District for road improvements and full satisfaction of any obligation to actually construct the improvements, or when any portion of said lots are sold, or otherwise conveyed. If the lots are not sold within five (5) years of the date of the recording of the plat, the developer agrees to immediately pay any balance due for the unsold lots in cash to the District for the improvements. The amount due relating to these traffic mitigation fees as of September 30, 2018, amounted to \$10,500. These receivables and related deferred revenue will be recognized as income when the fees are received or the lots are sold.

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

#### NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 was as follows:

	Beginning	Adjustments		Ending
	Balance	Additions	Deletions	Balance
Capital assets, not being depreciated:				
Land	\$ 338,348	\$ -	\$ -	\$ 338,348
Construction in progress	1,547,688	76,752	-	1,624,440
Total, capital assets not being depreciated	<u>1,886,036</u>	<u>76,752</u>	<u>-</u>	<u>1,962,788</u>
Capital assets, being depreciated:				
Roads and right of ways	7,374,046	-	-	7,374,046
Buildings	683,895	14,640	-	698,535
Licensed equipment	2,392,749	13,500	(24,750)	2,381,499
Unlicensed equipment	2,706,376	436,026	(28,000)	3,114,402
Shop tools/equipment	5,010	-	-	5,010
Total capital assets being depreciated	<u>13,162,076</u>	<u>464,166</u>	<u>(52,750)</u>	<u>13,573,492</u>
Less accumulated depreciation for:				
Roads and right of ways	2,106,792	306,626	-	2,413,418
Buildings	378,191	17,403	-	395,594
Licensed equipment	1,322,088	118,514	(24,750)	1,415,852
Unlicensed equipment	1,969,341	138,805	(28,000)	2,080,146
Shop tools/equipment	5,010	-	-	5,010
Total accumulated depreciation	<u>5,781,422</u>	<u>581,348</u>	<u>(52,750)</u>	<u>6,310,020</u>
Capital assets, being depreciated, net	<u>7,380,654</u>	<u>(117,182)</u>	<u>-</u>	<u>7,263,472</u>
Governmental activities capital assets, net	<u>\$ 9,266,690</u>	<u>\$ (40,430)</u>	<u>\$ -</u>	<u>\$ 9,226,260</u>

Depreciation expense of \$581,348 for the year ended September 30, 2018 was charged to the highway construction and maintenance governmental function.

The District is currently involved in the Burma Road Project, which is projected to extend over the next four to five years. There is currently \$1,624,440 included in construction in progress as of September 30, 2018. The road will be capitalized when completed.

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

#### NOTE 7: CHANGES IN LONG-TERM DEBT AND CURRENT MATURITIES

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

	Beginning Balance	Issued	Retired	Ending Balance	Amount due in one year
Compensated absences	\$ 59,743	\$ 104,169	\$ -	\$ 163,912	\$ -
Leases payable, with interest of 3.70%	-	186,480	(40,056)	146,424	34,639
Leases payable, with interest of 3.95%	-	246,146	(37,562)	208,584	36,689
Leases payable, with interest of 3.20%	63,165	-	(19,808)	43,357	20,451
Leases payable, with interest of 3.20%	90,909	-	(28,508)	62,401	29,434
Leases payable, with interest of 2.76%	361,659	-	(90,699)	270,960	93,230
Total general long-term debt	<u>\$ 575,476</u>	<u>\$ 536,795</u>	<u>\$ (216,633)</u>	<u>\$ 895,638</u>	<u>\$ 214,443</u>

Following is a summary of compensated absences and capital lease principle maturities and interest requirements:

<u>Year Ending Sept. 30</u>	<u>Compensated Absences</u>	<u>Capital Leases</u>	<u>Total</u>
Unknown	\$ 163,912	\$ -	\$ 163,912
2019	-	228,007	228,007
2020	-	232,201	232,201
2021	-	262,483	262,483
2022	-	40,056	40,056
Total	163,912	762,747	926,659
Less interest	-	31,021	31,021
Outstanding principal	<u>\$ 163,912</u>	<u>\$ 731,726</u>	<u>\$ 895,638</u>

The District leases road maintenance equipment in leases which are due within five years. The cost of the equipment under the capital leases is \$1,201,029. The current year depreciation expense on these assets was \$103,567, with total accumulated depreciation of \$206,038.

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

#### NOTE 8: DEFINED BENEFIT PENSION PLANS

##### *Plan Description*

The East Side Highway District 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](http://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 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. Amounts in parenthesis represent police/firefighters.

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) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% (72%) of the employer rate. As of June 30, 2018 it was 6.79% (8.36%). The employer contribution rate is set by the Retirement Board and was 11.32% (11.66%) of covered compensation. The East Side Highway District contributions were \$115,384 for the year ended September 30, 2018.

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

**NOTE 8: DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

At September 30, 2018, the East Side Highway District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The East Side Highway District's proportion of the net pension liability was based on the East Side Highway District'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, 2018, the East Side Highway District's proportion was 0.0307341 percent.

For the year ended September 30, 2018, the East Side Highway District recognized pension expense of \$102,412. At September 30, 2018 the East Side Highway District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 50,368
Changes of assumptions	29,498	-
Net difference between projected and actual earnings on pension plan investments	49,763	34,238
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	267
East Side Hwy District's contributions subsequent to the measurement date	30,414	-
<b>Total</b>	<b>\$ 109,675</b>	<b>\$ 84,873</b>

\$30,414 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, 2018.

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, 2017 the beginning of the measurement period ended June 30, 2018 is 4.9 and 5.5 years for the measurement period June 30, 2018.

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 June 30:**

2019	\$ 36,850
2020	\$ 4,342
2021	\$ (37,147)
2022	\$ (9,389)
2023	\$ -

(Continued)

# East Side Highway District

## NOTES TO THE FINANCIAL STATEMENT September 30, 2018

### NOTE 8: DEFINED BENEFIT PENSION PLANS (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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases including inflation	3.75%
Investment rate of return	7.05%, net of investment expenses
Cost-of-living adjustments	1.00%

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

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

An experience study was performed in 2012 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, 2018 is based on the results of an actuarial valuation date of July 1, 2018.

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.

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

#### NOTE 8: DEFINED BENEFIT PENSION PLANS (CONTINUED)

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, 2018.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Nominal Rate of Return (Arithmetic)</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Core Fixed Income	30.00%	3.05%	0.80%
Broad US Equities	55.00%	8.30%	6.05%
Developed Foreign Equities	15.00%	8.45%	6.20%
Assumed Inflation - Mean		2.25%	2.25%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.75%	4.50%
Portfolio Standard Deviation		12.54%	12.54%
Portfolio Long-Term (Geometric) Expected Rate of Return		6.13%	3.77%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.73%	3.37%
Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.19%
Portfolio Standard Deviation			14.16%
<b>Valuation Assumptions Chosen by PERSI Board</b>			
Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.05%
Assumed Inflation			3.00%
<b>Long-Term Expected Geometric Rate of Return, Net of Investment Expenses</b>			<u><u>7.05%</u></u>

#### *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.

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

**NOTE 8: DEFINED BENEFIT PENSION PLANS (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 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:

	<b>1% Decrease (6.05%)</b>	<b>Current Discount Rate (7.05%)</b>	<b>1% Increase (8.05%)</b>
Employer's net pension liability (asset)	\$ 1,134,796	\$ 453,333	\$ (110,946)

*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](http://www.persi.idaho.gov).

*Payables to the pension plan*

At September 30, 2018, the East Side Highway District reported no payables to the defined benefit pension plan for legally required employer contributions. The East Side Highway District also reported no legally required employee contributions withheld from employee wages but not yet remitted to PERSI.

**NOTE 9: RISK MANAGEMENT**

The East Side High District Commissioners have entered into contract with an outside provider to administer a Cafeteria Plan for employees to help offset the rising health care premiums.

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

The District minimizes losses that could arise from the first two risks by purchasing commercial insurance through the Idaho Counties Risk Management Program (ICRMP), a public risk pool in which ICRMP acts as an underwriter and collector or premiums paid by the pool's participants.

An outside insurance company protects professional liability with a \$2,000,000 liability and a \$3,000,000 umbrella. Errors and omissions liability has a \$2,000,000 liability with \$2,000,000 in the aggregate annually per insured. Additionally, crime, boiler and machinery insurance is maintained. Automobile liability has a \$2,000,000 single limit of liability.

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

#### NOTE 9: RISK MANAGEMENT (CONCLUDED)

The District minimizes losses from the third risk by participating in the State of Idaho's Workers' Compensation System. The Workman's Compensation Insurance Policy is a retrospectively rate policy. The current premiums are expended as paid and no provision is made for any adjustments that may arise as a result of an audit of the policy. The District pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

Settlements have not exceeded insurance coverage for each of the past three years.

#### NOTE 10: FUND BALANCE RESTRICTIONS AND DESIGNATIONS

The District maintains \$198,562 in committed funds from traffic mitigation fees designated for various road improvements. The District also maintains \$91,063 in restricted highway user funds.

#### NOTE 11: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District's general fund expenditures over budgeted amount was \$850,055 for the year ended September 30, 2018.

#### NOTE 12: COMMITMENTS AND CONTINGENCIES

**KEY 09462 Burma Road:** The construction portion of this project was completed in the summer of 2015. The slope failures were corrected by the contractor in the summer of 2016. This extra work cost the district more in match funding. We are expecting to secure one more right of way to complete the right of way acquisition and hope to conclude this project in its entirety in FY19.

**KEY 20194 Canyon Road Guardrail:** This is an LHSIP grant for \$127,000 and will be administrated through LHTAC. The project will be chip sealed to improve pavement friction and vehicle control on the roadway along with a short section of guardrail in a curve. The safety countermeasure is anticipated to reduce all types of crashes along with a reduction of road departures with the additional guardrail. Projected costs are: project development (JUB Engineers) \$35,000; construction engineering \$21,000; and actual construction in 2019 for \$71,000.

**KEY 20094 French Gulch & Fernan Hill Roads:** This Federal -Aid STP-Rural grant awarded to the district will address severe deficiencies in a 3.5 mile road section of French Gulch/Fernan Hill Road. It is currently narrow and in poor surface condition. The project includes overlay, new pavement markings, and additional safety features including signing and guardrail where warranted.

**KEY 20474 Canyon Road Striping & Chipseal:** We have applied for a \$369,000 LHSIP grant for a chip seal and striping project on Canyon Road. The construction to be done in 2020. The grant will be administrated through LHTAC. Projected costs are: project development \$225,000; construction engineering \$338,000; and actual construction in 2022 for \$1,125,000. The district has a required match of 7.34% of the entire project.

(Continued)

## East Side Highway District

### NOTES TO THE FINANCIAL STATEMENT September 30, 2018

#### NOTE 12: COMMITMENTS AND CONTINGENCIES (CONCLUDED)

**Key 19617 2017 Safety Improvement Grant - Signing & Delineation Group Sign Project:** This project is a district wide application. The total anticipated project costs is \$48,000. It is a Federally funded grant which means the district will have a (7.34% match requirement). We anticipate a 2-3 year time span to complete the work in this grant.

**Master Transportation Plan:** The District entered into a contract with JUB Engineering to work on developing a decision making tool for the infrastructure planning of our district. The transportation plan is beneficial and necessary because it will provide the following: regional transportation planning integration, public involvement process, determination of existing conditions, developing a list of hotspots and areas of potential significant change, GIS mapping, and the plan itself will be a living document that provides a foundation of transportation inventory and improvements that we can readily implement.

**FEMA:** Kootenai County and the State of Idaho declared a State of Emergency in March of 2017 to address the late winter/spring flooding. District-wide emergency repair work was submitted to FEMA in May 2017 and reimbursed in November 2017 in the amount of \$6,118.85. Repair work for Rose Creek Road, Killarney Lake Road, Black Rock Road, and Willow Creek Road in the amount of \$78,165.69 was submitted to FEMA and \$58,624.27 was reimbursed in FY18. PW 95 for work done on Black Lake Road was reimbursed on September 24, 2018 for \$14,819.81. PW 98 is for Newell Road, Blue Lake & Anderson Lake culverts and repairs. The Newell Road (construction portion) reimbursement was received January 14, 2019 for \$59,361.50. We have submitted \$34,746.90 in engineering costs for Newell Road, but with the government shutdown, the processing is likely delayed. Blue Lake & Anderson Lake repairs will be done in FY19. The bid was awarded to Stone Ridge Construction for \$247,954.50.

#### **Future Grant Applications and Anticipated Projects:**

- We are the sponsor for the Boy Scouts of America Tunnel project on SH 97. The project will go out to bid in February 2019. We are simply the pass-through account on this grant.
- STC-1699 Canyon Road Bridge Local Federal Aid Project estimated at 5.3 million (not yet approved by the State of Idaho). We were denied this award in July 2017, and plan to re-apply for the funding when it becomes available.
- The District has applied for a major rehabilitation project for Yellowstone Trail Road through the Federal Lands Access Program. Due to its size the project will be segmented. A rough estimate is around 17 million. One segment for \$1.7 million has been approved with anticipated construction in 2019.
- Coeur d'Alene Lake Drive: The District and State of Idaho are working on an agreement that would put Coeur d'Alene Lake Drive under the jurisdiction of East Side Highway District. The conditions of approval include \$2.7 million to defray the cost of operation and maintenance of the road.
- Medimont Bridge Maintenance Project: We applied for a Local Strategic Initiatives Program grant through LHTAC in the amount of \$180,000. This grant would fund the much needed repairs to this bridge. If approved, we anticipate about \$12,000 in match funds for this grant.

(Concluded)

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

**East Side Highway District**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Year Ended September 30, 2018**

	<b>Original Budget Amounts</b>	<b>Final Budget Amount</b>	<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
<b>REVENUES</b>				
Taxes and assessments	\$ 1,286,942	\$ 1,304,803	\$ 1,298,978	\$ (5,825)
Transfer to Cities - property taxes	67,000	67,000	66,492	(508)
Highway user	1,400,000	1,426,000	1,425,661	(339)
Federal forest funds	8,500	73,502	73,501	(1)
Sales tax	53,000	63,000	62,222	(778)
Other	9,550	21,386	16,130	(5,256)
CDA Lake Drive abandonment	-	2,707,000	2,707,000	-
Interest	6,000	20,000	45,869	25,869
Federal and State grants	251,000	126,650	220,231	93,581
Traffic mitigation fees	3,500	3,500	3,500	-
Penalty and interest	15,000	15,000	12,951	(2,049)
Total revenues	<u>3,100,492</u>	<u>5,827,841</u>	<u>5,932,535</u>	<u>104,694</u>
<b>EXPENDITURES</b>				
Administrative	297,715	424,235	412,681	11,554
Labor	1,245,917	1,247,457	1,194,723	52,734
Operations	360,369	398,369	341,192	57,177
Maintenance	643,815	658,030	614,840	43,190
Construction	230,000	40,000	722,641	(682,641)
Capital expense	215,000	215,000	464,166	(249,166)
Transfer to Cities	67,000	67,000	66,492	508
Debt service:				
Principal payments	138,910	138,910	216,633	(77,723)
Interest	13,425	13,425	19,113	(5,688)
Total expenditures	<u>3,212,151</u>	<u>3,202,426</u>	<u>4,052,481</u>	<u>(850,055)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from disposal of assets	15,000	8,184	25,684	(17,500)
Proceeds from capital leases	-	-	432,626	(432,626)
Total other financing sources (uses)	<u>15,000</u>	<u>8,184</u>	<u>458,310</u>	<u>(450,126)</u>
Net change in fund balances	(96,659)	2,633,599	2,338,364	(295,235)
Fund balances - beginning	1,100,000	1,138,175	2,093,196	-
Fund balances - ending	<u>\$ 1,003,341</u>	<u>\$ 3,771,774</u>	<u>\$ 4,431,560</u>	<u>\$ (295,235)</u>

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

**East Side Highway District**

**GASB 68 Required Supplementary Information  
For the Year Ended September 30, 2018**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's portion of the net pension liability	0.0307341%	0.0307550%	0.0298796%	0.0314047%
Employer's proportionate share of the net pension liability	\$ 453,333	\$ 483,416	\$ 605,705	\$ 413,549
Employer's covered-employee payroll	\$ 1,019,292	\$ 962,541	\$ 889,112	\$ 876,246
Employer's proportional share of the net pension liability as a percentage of its covered employee payroll	44.48%	50.22%	68.12%	47.20%
Plan fiduciary net position as a percentage of the total pension liability	91.69%	90.68%	87.26%	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 District will present information for those years for which information is available.

Data reported is measured as of June 30, 2018 (measurement date).

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 115,384	\$ 108,960	\$ 100,647	\$ 99,191
Contributions in relation to the statutorily required contribution	115,384	108,960	100,647	99,191
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll of its covered employee payroll	\$ 1,019,292	\$ 962,541	\$ 889,112	\$ 876,246
Contributions as a percentage of covered-employee payroll	11.32%	11.32%	11.32%	11.32%

\* 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 District will present information for those years for which information is available.

Data reported is measured as of September 30, 2018.

REPORT REQUIRED BY GAO

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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners of  
East Side Highway District  
Coeur d'Alene, ID 83814

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of East Side Highway District as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise East Side Highway District's basic financial statements, and have issued our report thereon dated March 14, 2019.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

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

**Purpose of This Report**

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

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

Magnuson, McHugh & Company, P.A.

March 14, 2019