City of Grace, Idaho

Year Ended September 30, 2024

Audited Financial Statements



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Quest CPAs PLLC

CITY OF GRACE, IDAHO
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Quest CPAs PLLC

Quality Expertise Service Timeliness

Independent Auditor's Report

Honorable Mayor and City Council
City of Grace, Idaho

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Grace, Idaho (the City) as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, and each major fund of the City as of September 30, 2024, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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

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Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules and schedule of employer's share of net pension asset and liability and schedule of employer contributions listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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, and 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 not included the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not 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, and historical context. Our opinion on the basic financial statements is not affected by not including this information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 22, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Quest CPAs PLLC

Meridian, Idaho
November 22, 2024

CITY OF GRACE, IDAHO
Statement of Net Position
September 30, 2024

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash & Investments	$1,581,730	$1,249,165	$2,830,895
Receivables:			
Taxes	19,431		19,431
Intergovernmental	30,504		30,504
Accounts	14	43,767	43,781
Total Current Assets	1,631,679	1,292,932	2,924,611
Noncurrent Assets			
Nondepreciable Capital Assets	46,727	283,312	330,039
Depreciable Net Capital Assets	1,194,510	6,080,859	7,275,369
Total Noncurrent Assets	1,241,237	6,364,171	7,605,408
Total Assets	2,872,916	7,657,103	10,530,019
Deferred Outflows of Resources			
Pension Items	21,102	28,940	50,042
Total Deferred Outflows of Resources	21,102	28,940	50,042
Total Assets and Deferred Outflows of Resources	$2,894,018	$7,686,043	$10,580,061
Liabilities			
Current Liabilities			
Accounts Payable & Accrued Expenses	$2,330		$2,330
Accrued Interest		3,371	3,371
Long-Term Liabilities, Current	39,594	105,517	145,111
Total Current Liabilities	41,924	108,888	150,812
Noncurrent Liabilities			
Long-Term Liabilities, Noncurrent	89,313	2,197,453	2,286,766
Total Noncurrent Liabilities	89,313	2,197,453	2,286,766
Total Liabilities	131,237	2,306,341	2,437,578
Deferred Inflows of Resources			
Pension Items	1,621	2,223	3,844
Total Deferred Inflows of Resources	1,621	2,223	3,844
Total Liabilities and Deferred Inflows of Resources	132,858	2,308,564	2,441,422
Net Position			
Net Investment in Capital Assets	1,241,237	4,203,398	5,444,635
Unrestricted	1,519,923	1,174,081	2,694,004
Total Net Position	2,761,160	5,377,479	8,138,639
Total Liabilities and Deferred Inflows of Resources and Net Position	$2,894,018	$7,686,043	$10,580,061

CITY OF GRACE, IDAHO

Statement of Activities

Year Ended September 30, 2024

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants And Contributions	Program Revenues: Capital Grants And Contributions	Net (Expense) Revenue
Governmental Activities					
Current Expenditures					
General Government	$235,057	$6,282			($228,775)
Public Safety	99,474	2,658			(96,816)
Streets	249,916	6,679			(243,237)
Parks	8,426	225			(8,201)
Capital Assets	150,736				(150,736)
Total Governmental Activities	743,609	15,844	$0	$0	(727,765)
Business-Type Activities					
Water & Related Services	441,918	281,776		6,551	(153,591)
Sewer & Related Services	287,836	252,257		127,643	92,064
Total Business-Type Activities	729,754	534,033	0	134,194	(61,527)
Total	$1,473,363	$549,877	$0	$134,194	(789,292)

Changes in Net Position	Governmental Activities	Business-Type Activities	Total
Net (Expense) Revenue	(727,765)	(61,527)	(789,292)
General Revenues			
Property Tax Revenue	312,200		312,200
Intergovernmental Revenue	197,353		197,353
Investment Return	85,242	46,849	132,091
Miscellaneous	3,710		3,710
Pension Revenue (Expense)	(20,048)	(27,493)	(47,541)
Transfers	11,000	(11,000)	0
Total	589,457	8,356	597,813
Change in Net Position	(138,308)	(53,171)	(191,479)
Net Position - Beg - As Prev Stated	2,899,468	5,814,937	8,714,405
Restatement - See Note H	0	(384,287)	(384,287)
Net Position - Beg - As Restated	2,899,468	5,430,650	8,330,118
Net Position - Ending	$2,761,160	$5,377,479	$8,138,639

See Accompanying Notes

CITY OF GRACE, IDAHO
Balance Sheet - Governmental Funds
September 30, 2024

	General Fund
Assets	
Cash & Investments	$1,581,730
Receivables:	
Taxes	19,431
Intergovernmental	30,504
Accounts	14
Total Assets	$1,631,679
Liabilities	
Accounts Payable & Accrued Expenses	$2,330
Total Liabilities	2,330
Deferred Inflows of Resources	
Unavailable Tax Revenues	19,431
Total Deferred Inflows of Resources	19,431
Fund Balances	
Unassigned	1,609,918
Total Fund Balances	1,609,918
Total Liabilities and Deferred Inflows of Resources and Fund Balances	$1,631,679

CITY OF GRACE, IDAHO
Balance Sheet - Governmental Funds
September 30, 2024

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities

Total Governmental Fund Balances	$1,609,918
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,241,237
Certain receivables are not available to pay for current period expenditures and therefore are deferred in the funds.	19,431
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(128,907)
Deferred outflows/inflows related to pensions are not due and payable in the current period and therefore are not reported in the funds.	19,481
Net Position of Governmental Activities	$2,761,160

CITY OF GRACE, IDAHO

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

Year Ended September 30, 2024

	General Fund
Revenues	
Property Tax Revenue	$312,367
Intergovernmental Revenue	197,353
Charges for Services	15,844
Investment Return	85,242
Grants & Miscellaneous	3,710
Total Revenues	614,516
Expenditures	
Current Expenditures	
General Government	236,313
Public Safety	100,005
Streets	251,251
Parks	8,472
Capital Outlay	193,495
Total Expenditures	789,536
Excess (Deficiency) of Revenues Over Expenditures	(175,020)
Other Financing Sources (Uses)	
Transfers In	11,000
Transfers Out	0
Total Other Financing Sources (Uses)	11,000
Net Change in Fund Balances	(164,020)
Fund Balances - Beginning	1,773,938
Fund Balances - Ending	$1,609,918

CITY OF GRACE, IDAHO

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

Year Ended September 30, 2024

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

Net Change in Fund Balances - Total Governmental Funds	($164,020)
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense or allocated over the appropriate term as amortization expense. This is the excess of capital outlays over (under) depreciation/amortization expense in the current period.	42,759
Revenues in the statement of activities that do not provide current financial resources are deferred in the funds.	(167)
In the statement of activities, compensated absences are accrued when earned, but the expenditure is reported when due in the governmental funds.	(13,118)
Changes in net pension asset/liability and related pension deferred outflows/inflows do not provide or require current financial resources and therefore are not reflected in the funds.	(3,762)
Change in Net Position of Governmental Activities	($138,308)

CITY OF GRACE, IDAHO
Statement of Net Position - Proprietary Funds
September 30, 2024

	Water Fund	Sewer Fund	Total Enterprise Funds
Assets			
Current Assets			
Cash & Investments	$922,808	$326,357	$1,249,165
Receivables:			
Accounts	23,286	20,481	43,767
Total Current Assets	946,094	346,838	1,292,932
Noncurrent Assets			
Nondepreciable Capital Assets	12,900	270,412	283,312
Depreciable Net Capital Assets	5,135,904	944,955	6,080,859
Total Noncurrent Assets	5,148,804	1,215,367	6,364,171
Total Assets	6,094,898	1,562,205	7,657,103
Deferred Outflows of Resources			
Pension Items	9,183	19,757	28,940
Total Deferred Outflows of Resources	9,183	19,757	28,940
Total Assets and Deferred Outflows of Resources	$6,104,081	$1,581,962	$7,686,043
Liabilities			
Current Liabilities			
Accounts Payable & Accrued Expenses			$0
Accrued Interest	$3,371		3,371
Long-Term Liabilities, Current	93,160	$12,357	105,517
Total Current Liabilities	96,531	12,357	108,888
Noncurrent Liabilities			
Long-Term Liabilities, Noncurrent	1,595,118	602,335	2,197,453
Total Noncurrent Liabilities	1,595,118	602,335	2,197,453
Total Liabilities	1,691,649	614,692	2,306,341
Deferred Inflows of Resources			
Pension Items	705	1,518	2,223
Total Deferred Inflows of Resources	705	1,518	2,223
Total Liabilities and Deferred Inflows of Resources	1,692,354	616,210	2,308,564
Net Position			
Net Investment in Capital Assets	3,506,751	696,647	4,203,398
Unrestricted	904,976	269,105	1,174,081
Total Net Position	4,411,727	965,752	5,377,479
Total Liabilities and Deferred Inflows of Resources and Net Position	$6,104,081	$1,581,962	$7,686,043

CITY OF GRACE, IDAHO

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds

Year Ended September 30, 2024

	Water Fund	Sewer Fund	Total Enterprise Funds
Operating Revenues			
Charges for Services	$281,776	$252,257	$534,033
Operating Expenses			
Personnel	73,664	71,181	144,845
Goods & Services	97,411	101,328	198,739
Total Operating Expenses	171,075	172,509	343,584
Operating Income (Loss) Before Depreciation	110,701	79,748	190,449
Depreciation Expense	258,341	115,327	373,668
Operating Income (Loss)	(147,640)	(35,579)	(183,219)
Nonoperating Revenues (Expenses)			
Investment Return	45,754	1,095	46,849
Interest Expense	(12,502)		(12,502)
Grant Revenue	6,551	127,643	134,194
Pension Revenue (Expense)	(8,724)	(18,769)	(27,493)
Total Nonoperating Revenue (Expenses)	31,079	109,969	141,048
Income (Loss) Before Contributions & Transfers	(116,561)	74,390	(42,171)
Transfers In			0
Transfers Out	(5,500)	(5,500)	(11,000)
Change in Net Position	(122,061)	68,890	(53,171)
Net Position - Beginning - As Prev Stated	4,533,788	1,281,149	5,814,937
Restatement - See Note H	0	(384,287)	(384,287)
Net Position - Beginning - As Restated	4,533,788	896,862	5,430,650
Net Position - Ending	$4,411,727	$965,752	$5,377,479

CITY OF GRACE, IDAHO
Statement of Cash Flows - Proprietary Funds
Year Ended September 30, 2024

	Water Fund	Sewer Fund	Total Enterprise Funds
Cash Flows From Operations			
Receipts from Customers	$275,696	$249,798	$525,494
Payments for Personnel	(77,495)	(83,491)	(160,986)
Payments for Goods & Services	(105,592)	(107,131)	(212,723)
Cash Provided (Used) By Operations	92,609	59,176	151,785
Cash Flows From Noncapital Financing			
Transfers (to) from Other Funds	(5,500)	(5,500)	(11,000)
Cash Provided (Used) By Noncapital Financing	(5,500)	(5,500)	(11,000)
Cash Flows From Capital & Related Financing			
Acquisition of Capital Assets	(30,629)	(333,245)	(363,874)
Grant Revenue	6,551	127,643	134,194
Issuance of Debt		134,433	134,433
Interest Paid on Debt	(9,131)		(9,131)
Principal Paid on Debt	(81,388)		(81,388)
Cash Provided (Used) By Capital & Related Financing	(114,597)	(71,169)	(185,766)
Cash Flows From Investments			
Investment Return	45,754	1,095	46,849
Cash Provided (Used) By Investments	45,754	1,095	46,849
Change in Cash & Investments	18,266	(16,398)	1,868
Cash & Investments - Beginning	904,542	342,755	1,247,297
Cash & Investments - Ending	$922,808	$326,357	$1,249,165
Reconciliation of Operating Income (Loss) to Cash Provided (Used) By Operations			
Operating Income (Loss)	($147,640)	($35,579)	($183,219)
Adjustments to Reconcile Operating Income (Loss) to Cash Provided (Used) by Operations:			
Depreciation	258,341	115,327	373,668
Pension Adjustments	(8,432)	(18,811)	(27,243)
Changes in Assets & Liabilities:			
Receivables	(6,080)	(2,459)	(8,539)
Accounts Payable & Accrued Expenses	(8,181)	(5,803)	(13,984)
Compensated Absences	4,601	6,501	11,102
Cash Provided (Used) By Operations	$92,609	$59,176	$151,785

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Grace, Idaho (the City) provides basic municipal services and operates under a mayor-council form of government. These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to cities. The governmental accounting standards board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

Basic Financial Statements - Government-Wide Statements – The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business-type. In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues as reported in the statement of activities. The statement of activities reduces gross expenses (including depreciation when recorded) by related program revenues and operating and capital grants. Program revenues must be directly associated with the function. Internal activity between funds (when two or more funds are involved) is eliminated in the government-wide statement of activities. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenues.

The City's sole activity is providing basic municipal services, and substantially all expenses are directly related to this activity. Accordingly, there is no allocation of indirect costs.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities. Fiduciary funds, when present, are not included in the government-wide statements.

Basic Financial Statements - Fund Financial Statements – The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds. Nonmajor funds by category are summarized into a single column. Generally accepted accounting principles set forth minimum criteria (percentage of assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the funds) for the determination of major funds.

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. Major governmental funds of the City include:

General Fund – The general fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in enterprise funds are reported as business-type activities in the government-wide financial statements. Major enterprise funds of the City include:

Water Fund – The water fund accounts for the revenues earned and expenses incurred in providing water services.

Sewer Fund – The sewer fund accounts for the revenues earned and expenses incurred in providing sewer and garbage services.

Basis of Accounting – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and proprietary and fiduciary fund financial statements (when present) are reported on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within thirty days after year end. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on long-term debt which, if any, are recognized when due and payable.

Cash and Investments – Nearly all the cash and investment balances of the City's funds are pooled for investment purposes. The individual funds' portions of the pooled cash and investments are reported in each fund as cash and investments. Interest earned on pooled cash and investments is allocated to the various funds based on each fund's respective investment balance. Investments are measured using the market approach and include fixed income securities and are stated at fair value using Level 2 inputs (inputs other than quoted prices included in Level 1 that are observable for an asset, liability, either directly or indirectly).

For purposes of the statement of cash flows, the City considers all investments (including any restricted investments) available for immediate withdrawal to be cash and cash equivalents (referred to as cash and investments).

Receivables – Receivables are reported net of any estimated uncollectible amounts.

Inventories – Material supplies on hand at year end are stated at the lower of cost or net realizable value using the first-in, first-out method.

Capital Assets and Depreciation – Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at acquisition value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation over the estimated useful lives of all depreciable assets is recorded using the straight line method.

Leases/SBITAs and Amortization – Material long-term leases and subscription-based information technology arrangements (SBITAs) are reported in accordance with the provisions of GASB 87 *Leases* and GASB 96 *SBITAs*. When incurred, amortization over the appropriate lease or SBITA term is recorded using the straight-line method.

Compensated Absences – The City provides certain compensated absences to its employees. The estimated amount of compensation for future amounts is recorded as a liability in the accompanying financial statements. Compensated absences will be paid by the fund in which the employee works.

Pensions – For purposes of measuring the net pension asset/liability and pension revenue (expense), information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (the 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. Pension obligations will be paid by the fund in which the employee works.

Deferred Outflows/Inflows of Resources – The City's financial statements may report deferred outflows/inflows of resources. Deferred outflows of resources represent a consumption of net assets that apply to a future period. Deferred inflows of resources represent an acquisition of net assets that apply to a future period. Deferred outflows/inflows of resources generally represent amounts that are not available in the current period.

Net Position – Net position is assets plus deferred outflows of resources less liabilities less deferred inflows of resources. The net investment in capital assets component of net position consists of the historical cost of capital assets less accumulated depreciation less any outstanding debt that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets. Restricted net position consists of assets that are restricted by creditors, grantors, contributors, legislation, and other parties. All other net position not reported as restricted or net investment in capital assets is reported as unrestricted.

Fund Balance Classifications – Restrictions of the fund balance indicate portions that are legally or contractually segregated for a specific future use. Nonspendable portions of the fund balance are those amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. Committed portions represent amounts that can only be used for specific purposes pursuant to formal action (i.e. board approval) of the reporting entity's governing body. Assigned portions represent amounts that are constrained by the government's intent to be used for a specific purpose. Remaining fund balances are reported as unassigned. When expenditures are incurred that qualify for either restricted or unrestricted resources, the City first utilizes restricted resources. When expenditures are incurred that qualify for either committed or assigned or unassigned resources, the City first utilizes committed resources then assigned resources before using unassigned resources.

Property Taxes – The City is responsible for levying property taxes, but the taxes are collected by the respective county. Taxes are levied by the second Monday in September for each calendar year. Taxes are due in two installments – December 20th and June 20th. A lien is filed on real property three years from the date of delinquency.

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

Interfund Activity – Interfund activity is reported either as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Custodial Credit Risk – The City maintains its cash at insured financial institutions. Periodically, balances may exceed federally insured limits. The City does not have a formal policy concerning custodial of credit risk.

Risk Management – The City is exposed to various risks related to its operations. Insurance is utilized to the extent practical to minimize these risks.

Subsequent Events – Subsequent events were evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued.

B. CASH AND INVESTMENTS

Cash and investments consist of the following at year end:

	Governmental Funds	Proprietary Funds	Total
Cash - Deposits	$481,735	$616,845	$1,098,580
Investments - Fixed Income Securities	1,099,995	632,320	1,732,315
Total	$1,581,730	$1,249,165	$2,830,895

Deposits – At year end, the carrying amounts of the City's deposits were $1,098,580 and the bank balances were $1,188,623. Of the bank balances, $596,087 was insured and the balance was uninsured and uncollateralized.

Considerations for interest rate risk and credit rate risk relating to investments are shown below.

Interest rate risk:

	Investment Maturity Schedule (In Years)		
Investment Type	Less Than 1	1 - 5	Total
US Gov't Securites	$249,393	$1,482,922	$1,732,315
Total	$249,393	$1,482,922	$1,732,315

Credit rate risk:

	Investment Rating Schedule	
Investment Type	Not Rated	Total
US Gov't Securites	$1,732,315	$1,732,315
Total	$1,732,315	$1,732,315

Investments – State statutes authorize government entities to invest in certain bonds, notes, accounts, investment pools, and other obligations of the state, U.S. Treasury, and U.S. corporations pursuant to Idaho Code 67-1210 and 67-1210A. These statutes are designed to help minimize the custodial risk that deposits may not be returned in the event of the failure of the issuer or other counterparty, interest rate risk resulting from fair value losses arising from rising interest rates, or credit risks that an issuer or other counterparty will not fulfill its obligations. The City's investment policy complies with state statutes.

C. CAPITAL ASSETS

A summary of capital assets for the year is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable Capital Assets				
Land	$46,727			$46,727
Total	46,727	$0	$0	46,727
Depreciable Capital Assets				
Buildings	589,932			589,932
Improvements	1,880,662			1,880,662
Equipment	568,980	193,495		762,475
Subtotal	3,039,574	193,495	0	3,233,069
Accumulated Depreciation				
Buildings	445,319	11,799		457,118
Improvements	1,015,849	62,689		1,078,538
Equipment	426,655	76,248		502,903
Subtotal	1,887,823	150,736	0	2,038,559
Total	1,151,751	42,759	0	1,194,510
Net Capital Assets	$1,198,478	$42,759	$0	$1,241,237

Depreciation expense of $150,736 was charged to the capital assets program.

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable Capital Assets				
Land	$15,900			$15,900
Construction in Progress	0	$267,412		267,412
Total	15,900	267,412	$0	283,312
Depreciable Capital Assets				
Buildings	224,738			224,738
Utility System	9,188,022	48,550		9,236,572
Equipment	971,709	47,912		1,019,621
Subtotal	10,384,469	96,462	0	10,480,931
Accumulated Depreciation				
Buildings	154,072	1,943		156,015
Utility System	3,313,135	299,713		3,612,848
Equipment	559,197	72,012		631,209
Subtotal	4,026,404	373,668	0	4,400,072
Total	6,358,065	(277,206)	0	6,080,859
Net Capital Assets	$6,373,965	($9,794)	$0	$6,364,171

Depreciation expense of $258,341 and $115,327 was charged to the water & related services and sewer & related services programs, respectively.

D. LONG-TERM LIABILITIES

Business-Type Activities:

Bonded Debt – At year end, the City's bonded debt was as follows:

	Outstanding
2013 - water revenue bond #DW1007 for capital improvements due in semi-annual installments with interest at 0.50% through 2043, secured by future user fees, paid through the water fund	$1,638,682
Total	$1,638,682

Maturities on the bonds are estimated as follows:

Year Ended	Principal	Interest
9/30/25	$82,428	$8,091
9/30/26	82,841	7,678
9/30/27	83,256	7,263
9/30/28	83,673	6,846
9/30/29	84,091	6,428
9/30/30-34	426,814	25,781
9/30/35-39	437,605	14,990
9/30/40-43	357,974	4,038
Total	$1,638,682	$81,115

Construction Loan – The City has a construction loan with DEQ #WW2107 for improvements to its wastewater treatment facility. Upon completion of the project, the loan will be termed out and secured by a bond. The loan has a maximum amount of $3,200,000 and terms are projected to require biannual payments over 30 years with interest at 1.75%. The City's balance on this construction loan at yearend was $518,720.

Changes in long-term liabilities are as follows:

Description	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Act.					
Comp. Absences	$26,476	$13,118		$39,594	$39,594
Net Pension Liability	99,647		$10,334	89,313	-
Subtotal	126,123	13,118	10,334	128,907	39,594
Business-Type Act.					
2013 WR Bond #DW1007	1,720,070		81,388	1,638,682	82,428
Const. Loan #WW2107*	384,287	134,433		518,720	0
Comp. Absences	11,987	11,102		23,089	23,089
Net Pension Liability	144,048		21,569	122,479	-
Subtotal	2,260,392	145,535	102,957	2,302,970	105,517
Total	$2,386,515	$158,653	$113,291	$2,431,877	$145,111

Interest and related costs during the year amounted to $12,502 and were charged to the water & related services program. *Beginning balances were restated to include beginning balance on construction loan #WW2107 – see note H.

E. PENSION PLAN

Plan description

The City contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers

substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

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

Pension benefits

The Base Plan provides retirement, disability, death and survivor benefits 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.

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. 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% of the employer rate for general employees and 74% for public safety. As of June 30, 2024 it was 6.71% for general employees and 9.83% for public safety. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.18% for general employees and 13.26% for public safety. The City's contributions were $31,732 for the year ended September 30, 2024.

Pension asset/liabilities, pension revenue (expense), and deferred outflows/inflows of resources related to pensions

At September 30, 2024, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2024, the City's proportion was 0.00566190%.

For the year ended September 30, 2024, the City recognized pension revenue (expense) of ($47,541). At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$33,719	
Changes in assumptions or other inputs	8,390	
Net difference between projected and actual earnings on pension plan investments		$3,844
Employer contributions subsequent to the measurement date	7,933	
Total	$50,042	$3,844

$7,933 reported as deferred outflows of resources related to pensions resulting from City contributions made subsequent to the measurement date will be recognized as an adjustment to the pension revenue (expense) in the year ending September 30, 2025.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2024 the beginning of the measurement period ended June 30, 2023 is 4.6 and 4.6 for the measurement period June 30, 2024.

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

Year Ended	
9/30/25	($10,453)
9/30/26	(39,489)
9/30/27	6,810
9/30/28	4,868
Total	($38,265)

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, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases including inflation	3.05%
Investment rate of return, net of investment expenses	6.35%
Cost-of-living (COLA) adjustments	1.00%

Contributing members, service retirement members, and beneficiaries

General Employees and All Beneficiaries - Males	Pub-2010 General Tables, increased 11%
General Employees and All Beneficiaries - Females	Pub-2010 General Tables, increased 21%
Teachers - Males	Pub-2010 Teacher Tables, increased 12%
Teachers - Females	Pub-2010 Teacher Tables, increased 21%
Fire & Police - Males	Pub-2010 Safety Tables, increased 21%
Fire & Police - Females	Pub-2010 Safety Tables, increased 26% 5% of Fire & Police active member deaths are assumed to be duty related. This assumption was adopted July 1, 2021.
Disabled Members - Males	Pub-2010 Disabled Tables, increased 38%
Disabled Members - Females	Pub-2010 Disabled Tables, increased 36%

An experience study was performed for the period July 1, 2015 through June 30, 2020 which reviewed all economic and demographic assumptions other than mortality. The total pension liability as of June 30, 2024 is based on the results of an actuarial valuation date of July 1, 2024.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	0%	0.00%
Large Cap	18%	4.50%
Small/Mid Cap	11%	4.70%
International Equity	15%	4.50%
Emerging Markets Equity	10%	4.90%
Domestic Fixed	20%	-0.25%
TIPS	10%	-0.30%
Real Estate	8%	3.75%
Private Equity	8%	6.00%

Discount rate

The discount rate used to measure the total pension liability was 6.35%. 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 asset. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for administrative expense.

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.35 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (5.35%)	Current Discount Rate (6.35%)	1% Increase (7.35%)
City's proportionate share of the net pension liability	$402,470	$211,792	$56,056

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.

Impact on the City's net position

Depending on the annual performance of the Base Plan and the various non-financial factors that affect the collective Base Plan net pension liability (as described above), the City may periodically experience a deficit in its net position. This can occur as a result of recording the City's allocable portion of the net

pension liability which is an estimated liability that changes substantially from year to year depending on the factors described above but does not currently require cash outflows. As the net pension liability of the Base Plan is closely monitored by PERSI's board (who makes changes to the contribution rates and other terms of the Base Plan when deemed necessary), such deficits are not deemed to be of substantial concern.

F. INTERFUND TRANSFERS

Interfund transfers during the year consist of the following:

Fund	Transfer In	Transfer Out	Purpose
General	$11,000		Support
Water		$5,500	Support
Sewer		5,500	Support
Total	$11,000	$11,000	

G. TAX ABATEMENTS

Idaho counties are authorized by state statute to transact certain property tax activity with property owners in their respective taxing districts. The counties collect the property taxes, then allocate and remit those collections among the taxing districts within the counties. The counties are authorized to cancel or reduce property taxes due to various reasons, including the circuit breaker program, agricultural and other exemptions, and section 63-602NN exemptions under Idaho code for real property improvements.

H. PRIOR PERIOD ADJUSTMENT

The City's sewer fund net position was restated by ($384,287) to reflect the beginning balance of the construction loan #WW2107 – see note D.

CITY OF GRACE, IDAHO

Budgetary Comparison Schedule -
General and Major Special Revenue Funds
Year Ended September 30, 2024

General Fund	Budgeted Amounts (GAAP Basis) Original	Budgeted Amounts (GAAP Basis) Final	Actual Amounts	Final Budget Variance Positive (Negative)	
Revenues					
Property Tax Revenue	$318,941	$318,941	$312,367	($6,574)	
Intergovernmental Revenue	205,985	205,985	197,353	(8,632)	
Charges for Services	11,380	11,380	15,844	4,464	
Investment Return	2,500	2,500	85,242	82,742	
Grants & Miscellaneous	11,500	11,500	3,710	(7,790)	
Total Revenues	550,306	550,306	614,516	64,210	
Expenditures					
Current Expenditures					
General Government	279,560	279,560	236,313	43,247	
Public Safety	260,750	260,750	100,005	160,745	
Streets	580,350	580,350	251,251	329,099	
Parks	18,500	18,500	8,472	10,028	
Capital Outlay	293,146	293,146	193,495	99,651	
Total Expenditures	1,432,306	1,432,306	789,536	642,770	*
Excess (Deficiency) of Revenues Over Expenditures	(882,000)	(882,000)	(175,020)	706,980	
Other Financing Sources (Uses)					
Transfers In	11,000	11,000	11,000	0	
Transfers Out	0	0	0	0	*
Total Other Financing Sources (Uses)	11,000	11,000	11,000	0	
Net Change in Fund Balances	(871,000)	(871,000)	(164,020)	706,980	
Fund Balances - Beginning	871,000	871,000	1,773,938	902,938	
Fund Balances - Ending	$0	$0	$1,609,918	$1,609,918	
	*Total expenditures (over) under appropriations are:			$642,770	

CITY OF GRACE, IDAHO

Schedule of Employer's Share of Net Pension Asset and Liability
and Schedule of Employer Contributions
PERSI - Base Plan

Schedule of Employer's Share of Net Pension Asset and Liability*

Fiscal Year Ended June 30	Employer's Portion of the Net Pension (Asset) Liability	Employer's Proportionate Share of the Net Pension (Asset) Liability	Covered Payroll	Employer's Proportional Share of the Net Pension (Asset) Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset) Liability
2015	0.00825100%	$108,647	$235,575	46.12%	91.38%
2016	0.00832300%	$168,724	$258,938	65.16%	87.26%
2017	0.00801200%	$125,941	$248,846	50.61%	90.68%
2018	0.00731600%	$107,908	$235,350	45.85%	91.69%
2019	0.00719500%	$82,123	$244,341	33.61%	93.79%
2020	0.00708700%	$164,565	$252,362	65.21%	88.22%
2021	0.00643600%	($5,083)	$239,764	-2.12%	100.36%
2022	0.00615900%	$242,584	$242,875	99.88%	83.09%
2023	0.00610662%	$243,695	$259,637	93.86%	83.83%
2024	0.00566190%	$211,792	$277,469	76.33%	85.54%

*As of the measurement date of the net pension (asset) liability.

Schedule of Employer Contributions

Fiscal Year Ended September 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	$26,988	$26,988	$0	$238,407	11.32%
2016	$24,742	$24,742	$0	$218,567	11.32%
2017	$27,019	$27,019	$0	$238,686	11.32%
2018	$28,410	$28,410	$0	$250,967	11.32%
2019	$27,529	$27,529	$0	$240,009	11.47%
2020	$27,804	$27,804	$0	$232,864	11.94%
2021	$25,411	$25,411	$0	$212,832	11.94%
2022	$28,520	$28,520	$0	$238,861	11.94%
2023	$26,671	$26,671	$0	$226,988	11.75%
2024	$31,732	$31,732	$0	$278,963	11.37%

Schedules above intended to show information for 10 years. Information for additional years will be presented as it becomes available.

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Quality Expertise Service Timeliness

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 Grace, 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, and each major fund of City of Grace, Idaho (the City) as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 22, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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

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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.

Quest CPAs PLLC

Meridian, Idaho
November 22, 2024