

CITY OF POTLATCH

FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

CITY OF POTLATCH

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Potlatch
Potlatch, Idaho

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, Idaho as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, Idaho as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

The net position of the City of Potlatch as of October 1, 2015, has been adjusted down by \$76,102 to reflect the City's share of the net pension liability of the Public Employees Retirement System of Idaho (PERSI). The Governmental Accounting Standards Board required entities to record this liability and reduce their net position as of October 1, 2015.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated March 23, 2016, on our consideration of the City of Potlatch, Idaho's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Potlatch, Idaho's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Presnell Gage, PLLC". The signature is written in a cursive, flowing style.

March 23, 2016

CITY OF POTLATCH

STATEMENT OF NET POSITION
September 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 524,472	\$ 399,588	\$ 924,060
Receivables	68,122	54,421	122,543
Cash and cash equivalents - restricted		146,208	146,208
Capital assets:			
Land	95,745	155,460	251,205
Buildings	1,374,340	10,400	1,384,740
Vehicles	28,224		28,224
Machinery and equipment	128,289	135,498	263,787
Infrastructure		10,605,667	10,605,667
Construction in progress	67,236		67,236
Accumulated depreciation	(509,509)	(1,940,921)	(2,450,430)
Advances to/from other funds	(278,916)	278,916	
Total assets	<u>1,498,003</u>	<u>9,845,237</u>	<u>11,343,240</u>
DEFERRED OUTFLOWS OF RESOURCES			
Defined benefit pension	<u>11,212</u>	<u>15,988</u>	<u>27,200</u>
LIABILITIES			
Accounts payable and other current liabilities	13,643	56,267	69,910
Compensated absences	2,736	4,204	6,940
Accrued contractor payable		8,175	8,175
Long-term liabilities - due within one year		142,925	142,925
Long-term liabilities - due in more than one year		3,884,605	3,884,605
Net pension liability	23,580	33,621	57,201
Total liabilities	<u>39,959</u>	<u>4,129,797</u>	<u>4,169,756</u>
DEFERRED INFLOWS OF RESOURCES			
Defined benefit pension	<u>15,253</u>	<u>21,748</u>	<u>37,001</u>
NET POSITION			
Net investment in capital assets	1,184,325	4,930,399	6,114,724
Restricted for debt service		146,208	146,208
Unrestricted	269,678	633,073	902,751
Total net position	<u>\$ 1,454,003</u>	<u>\$ 5,709,680</u>	<u>\$ 7,163,683</u>

See accompanying notes

CITY OF POTLATCH

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government:						
Governmental activities						
General government	\$ 134,714	\$ 1,400	\$ 89,935	\$ (28,510)	\$	\$ (28,510)
Highways and streets	88,174	28,026	4,998	(55,150)		(55,150)
Culture and recreation	121,967	2,300	22,000	(21,372)		(21,372)
PERSI retirement actuarial change	(3,750)			3,750		3,750
Total governmental activities	341,105	31,726	116,933	(101,282)		(101,282)
Business-type activities:						
Water	222,523				\$ (10,310)	(10,310)
Sewer	347,245				(80,461)	(80,461)
Sanitation	95,669				17,166	17,166
Total business-type activities	665,437				(73,605)	(73,605)
Total primary government	\$ 1,006,542	\$ 31,726	\$ 116,933	(101,282)	(73,605)	(174,887)
General revenues:						
Property taxes				151,801		151,801
State sales tax & revenue sharing				43,304		43,304
Liquor tax				17,450		17,450
Franchise fees				8,855		8,855
Unrestricted investment earnings				(316)	1,326	1,010
Other				(16,635)		(16,635)
Total general revenues				204,459	1,326	205,785
Change in net position				103,177	(72,279)	30,898
Net position - beginning				1,382,197	5,826,690	7,208,887
Prior period adjustment				(31,371)	(44,731)	(76,102)
Net position - ending				\$ 1,454,003	\$ 5,709,680	\$ 7,163,683

See accompanying notes

CITY OF POTLATCH

BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2015

	General
ASSETS	
Cash and cash equivalents	\$ 523,536
Receivables	68,122
Interfund balances	(278,916)
Total assets	\$ 312,742
LIABILITIES	
Accounts payable	\$ 10,954
Accrued salaries and benefits	1,753
Total liabilities	12,707
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	7,899
Total deferred inflows of resources	7,899
FUND BALANCES	
Assigned for:	
Streets	8,245
Unassigned	283,891
Total fund balances	292,136
Total liabilities, deferred inflows of resources, and fund balances	\$ 312,742
Reconciliation of the Statement of Net Position to the Balance Sheet - Governmental Funds	
Amounts reported for governmental activities in the statement of net assets are different because:	
Fund balance, governmental funds	\$ 292,136
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	1,693,834
Accumulated depreciation	(509,509)
Deferred outflows and deferred inflows for pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Deferred outflows	11,212
Deferred inflows	(15,253)
Property taxes receivable to be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.	7,899
Employee benefits, including credit leave and sick leave, which have not been paid out are not accrued in the funds.	(2,736)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Net pension liability	(23,580)
Net position of governmental activities	\$ 1,454,003

See accompanying notes

CITY OF POTLATCH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GOVERNMENTAL FUNDS - GENERAL
 For the Year Ended September 30, 2015

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 147,438	\$ 147,438	\$ 152,166	\$ 4,728
State sales tax & revenue sharing	43,375	43,375	43,304	(71)
Liquor tax	18,952	18,952	17,450	(1,502)
Highway user	27,017	27,017	28,026	1,009
Franchise fees	6,800	6,800	8,855	2,055
Licenses and permits	2,600	2,600	4,539	1,939
Charges for services	41,930	41,930	81,588	39,658
Investment earnings	120	120	(316)	(436)
Grants and contributions	389,000	389,000	118,433	(270,567)
Other	5,300	5,300	17,483	12,183
Total revenues	<u>682,532</u>	<u>682,532</u>	<u>471,528</u>	<u>(211,004)</u>
EXPENDITURES				
Current:				
General government	118,910	118,910	122,541	(3,631)
Culture and recreation	82,214	82,214	104,944	(22,730)
Transportation	95,688	95,688	78,960	16,728
Capital outlay	385,220	385,220	145,894	239,326
Contingency	27,819	27,819		27,819
Total expenditures	<u>709,851</u>	<u>709,851</u>	<u>452,339</u>	<u>257,512</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(27,319)</u>	<u>(27,319)</u>	<u>19,189</u>	<u>46,508</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets			95,118	95,118
Total other financing sources (uses)			<u>95,118</u>	<u>95,118</u>
Net change in fund balances	(27,319)	(27,319)	114,307	141,626
FUND BALANCES, October 1	<u>27,819</u>	<u>27,819</u>	<u>177,829</u>	<u>150,010</u>
FUND BALANCES, September 30	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 292,136</u>	<u>\$ 291,636</u>

See accompanying notes

CITY OF POTLATCH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 114,307
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation:	
Current year capital outlay	145,894
Current year depreciation	(38,016)
Net pension liability and the related deferred outflows and deferred inflows are not considered available for the governmental funds in the current year.	
Current year net pension liability, deferred outflows and deferred inflows	3,750
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	
	(121,999)
Some amounts receivable will not be collected for several months after the fiscal year end, and they are not considered available revenues in the governmental funds. Instead, they are counted as deferred tax revenues. They are, however, recorded in the statement of activities:	
Current year taxes receivable	7,899
Prior year taxes receivable	(8,264)
Employee benefits, including credit and sick leave, which have not been paid out are not counted as expense in the funds.	
	<u>(394)</u>
Change in net assets of governmental activities	<u>\$ 103,177</u>

See accompanying notes

CITY OF POTLATCH

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2015

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
ASSETS							
Current Assets:							
Cash and cash equivalents	\$ 112,513	\$ 120,948	\$ 275,907	\$ 606,562	\$ 11,168		\$ 399,588
Receivables	21,347	20,799	22,696	23,703	10,378	\$ 10,782	\$ 54,421
Interfund balances	55,337	36,626	95,991	(224,272)	127,588	121,026	278,916
Total current assets	<u>189,197</u>	<u>178,373</u>	<u>394,594</u>	<u>405,993</u>	<u>149,134</u>	<u>131,808</u>	<u>732,925</u>
Cash and cash equivalents - restricted			146,208	116,643			146,208
Fixed assets (net, where applicable, of accumulated depreciation)	1,804,687	1,865,034	7,161,417	7,367,598			8,966,104
Total assets	<u>1,993,884</u>	<u>2,043,407</u>	<u>7,702,219</u>	<u>7,890,234</u>	<u>149,134</u>	<u>131,808</u>	<u>9,845,237</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>8,025</u>		<u>7,963</u>				<u>15,988</u>
Defined benefit pension							
LIABILITIES							
Current liabilities:							
Accounts payable and other current liabilities	4,476	6,529	47,483	48,225	8,512	8,352	60,471
Accrued contract expense	8,175	8,175					8,175
Revenue bonds- current	36,118	34,688	106,807	105,261			142,925
Total current liabilities	<u>48,769</u>	<u>49,392</u>	<u>154,290</u>	<u>153,486</u>	<u>8,512</u>	<u>8,352</u>	<u>211,571</u>
Non-current liabilities:							
Net pension liability	16,876		16,745				33,621
Revenue bonds payable	1,052,743	1,088,861	2,831,862	2,938,668			3,884,605
Total liabilities	<u>1,118,388</u>	<u>1,138,253</u>	<u>3,002,897</u>	<u>3,092,154</u>	<u>8,512</u>	<u>8,352</u>	<u>4,129,797</u>
DEFERRED INFLOWS OF RESOURCES							
Defined benefit pension	<u>10,917</u>		<u>10,831</u>				<u>21,748</u>
NET POSITION							
Net investment in capital assets	<u>707,651</u>	<u>733,310</u>	<u>4,222,748</u>	<u>4,323,669</u>			<u>4,930,399</u>
Restricted for:							
Debt service			146,208	116,643			146,208
Unrestricted	<u>164,953</u>	<u>171,844</u>	<u>327,498</u>	<u>357,768</u>	<u>140,622</u>	<u>123,456</u>	<u>633,073</u>
Total net position	<u>\$ 872,604</u>	<u>\$ 905,154</u>	<u>\$ 4,696,454</u>	<u>\$ 4,798,080</u>	<u>\$ 140,622</u>	<u>\$ 123,456</u>	<u>\$ 5,709,680</u>

See accompanying notes

CITY OF POTLATCH

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Water	Water	Sewer	Sewer	Sanitation	Sanitation	Total
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year	Current Year
OPERATING REVENUES							
Charges for services	\$ 212,213	\$ 196,903	\$ 266,784	\$ 276,588	\$ 112,835	\$ 117,748	\$ 591,832
Total revenues	<u>212,213</u>	<u>196,903</u>	<u>266,784</u>	<u>276,588</u>	<u>112,835</u>	<u>117,748</u>	<u>591,832</u>
OPERATING EXPENSES							
Water - distribution	113,514	122,004	83,178	90,892			113,514
Sewer - collection & treatment							83,178
Sanitation					95,669	107,602	95,669
Depreciation	65,348	66,147	206,181	206,181			271,529
Total operating expenses	<u>178,862</u>	<u>188,151</u>	<u>289,359</u>	<u>297,073</u>	<u>95,669</u>	<u>107,602</u>	<u>563,890</u>
OPERATING INCOME (LOSS)	<u>33,351</u>	<u>8,752</u>	<u>(22,575)</u>	<u>(20,485)</u>	<u>17,166</u>	<u>10,146</u>	<u>27,942</u>
NONOPERATING REVENUES (EXPENSES)							
Capital grants		49,960					0
Investment earnings	213	358	1,113	395			1,326
Interest expense	(46,346)	(47,721)	(60,551)	(62,085)			(106,897)
PERSI retirement actuarial change	2,685		2,665				5,350
Total nonoperating revenues (expenses)	<u>(43,448)</u>	<u>2,597</u>	<u>(56,773)</u>	<u>(61,690)</u>			<u>(100,221)</u>
CHANGE IN NET POSITION	<u>(10,097)</u>	<u>11,349</u>	<u>(79,348)</u>	<u>(82,175)</u>	<u>17,166</u>	<u>10,146</u>	<u>(72,279)</u>
TOTAL NET POSITION - BEGINNING	905,154	893,805	4,798,080	4,880,255	123,456	113,310	5,826,690
PRIOR PERIOD ADJUSTMENT	<u>(22,453)</u>		<u>(22,278)</u>				<u>(44,731)</u>
TOTAL NET POSITION - ENDING	<u>\$ 872,604</u>	<u>\$ 905,154</u>	<u>\$ 4,696,454</u>	<u>\$ 4,798,080</u>	<u>\$ 140,622</u>	<u>\$ 123,456</u>	<u>\$ 5,709,680</u>

SEE ACCOMPANYING NOTES

CITY OF POTLATCH

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 211,665	\$ 195,639	\$ 267,791	\$ 275,263	\$ 113,239	\$ 116,030	\$ 592,695
Payments to suppliers	(79,760)	(84,250)	(47,258)	(56,602)	(95,509)	(104,484)	(222,527)
Payments to employees	(35,807)	(34,708)	(35,526)	(34,313)			(71,333)
Payments for interfund services used	(18,711)	(163,555)	(320,263)	214,416	(6,562)	(11,546)	(345,536)
Net cash provided (used) by operating activities	<u>77,387</u>	<u>(86,874)</u>	<u>(135,256)</u>	<u>398,764</u>	<u>11,168</u>	<u>0</u>	<u>(46,701)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from capital grants		49,960					
Acquisition and construction of capital assets	(5,001)	(56,948)					(5,001)
Principal paid on capital debt	(34,688)	(33,313)	(105,260)	(51,096)			(139,948)
Interest paid on capital debt	(46,346)	(47,721)	(61,687)	(63,185)			(108,033)
Net cash used by capital and related financing activities	<u>(86,035)</u>	<u>(88,022)</u>	<u>(166,947)</u>	<u>(114,281)</u>			<u>(252,982)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	213	358	1,113	395			1,326
Net cash provided by investing activities	<u>213</u>	<u>358</u>	<u>1,113</u>	<u>395</u>			<u>1,326</u>
Net change in cash	(8,435)	(174,538)	(301,090)	284,878	11,168		(298,357)
CASH AND CASH EQUIVALENTS, October 1	<u>120,948</u>	<u>295,486</u>	<u>723,205</u>	<u>438,327</u>			<u>844,153</u>
CASH AND CASH EQUIVALENTS, September 30	<u>\$ 112,513</u>	<u>\$ 120,948</u>	<u>\$ 422,115</u>	<u>\$ 723,205</u>	<u>\$ 11,168</u>	<u>\$ 0</u>	<u>\$ 545,796</u>
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating income (loss)	\$ 33,351	\$ 8,752	\$ (22,575)	\$ (20,485)	\$ 17,166	\$ 10,146	\$ 27,942
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	65,348	66,147	206,181	206,181			271,529
Changes in other balance sheet accounts:							
Receivables	(548)	(1,264)	1,007	(1,325)	404	(1,718)	863
Accounts payable	(2,272)	2,520	368	(2,481)	160	3,118	(1,744)
Other current assets and liabilities	(18,492)	(163,029)	(320,237)	216,874	(6,562)	(11,546)	(345,291)
Net cash provided (used) by operating activities	<u>\$ 77,387</u>	<u>\$ (86,874)</u>	<u>\$ (135,256)</u>	<u>\$ 398,764</u>	<u>\$ 11,168</u>	<u>\$ 0</u>	<u>\$ (46,701)</u>
SUPPLEMENTAL DISCLOSURES							
Total cash paid for interest	<u>\$ 46,346</u>	<u>\$ 47,721</u>	<u>\$ 61,687</u>	<u>\$ 63,185</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 108,033</u>

See accompanying notes

CITY OF POTLATCH

STATEMENT OF NET POSITION - FIDUCIARY FUNDS September 30, 2015

	<u>River Ridge Development</u>
ASSETS	
Cash and cash equivalents	<u>\$ 936</u>
Total assets	<u><u>\$ 936</u></u>
LIABILITIES	
Due to others	<u>\$ 936</u>
Total liabilities	<u><u>\$ 936</u></u>

See accompanying notes

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Potlatch, Idaho operates under a Mayor/Council form of government and provides the following services as authorized by its charter and by Title 50 of the Idaho Code: public safety, public works, streets, culture, recreation, and community development.

Generally accepted accounting principles require the City of Potlatch's financial statements to include component units. Component units are entities for which the City is considered to be financially accountable as defined in governmental accounting standards. The City of Potlatch has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type entities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

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 government 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.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

The *water fund* accounts for the provision of water services to the residents of the City.

The *sewer fund* accounts for the provision of sewer services to the residents of the City.

The *sanitation fund* accounts for the provision of sanitation and related services to the residents of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services.

The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance Equity

Deposits and Investments. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in: obligations of the State of Idaho and its agencies, U.S. Treasury and U.S. agencies, municipal bonds, repurchase agreements, tax and revenue anticipation bonds, notes, and the State Treasurer's Investment Pool.

Receivables and Payables. Transactions between funds that are outstanding at the end of the year are reported as "interfund balances" on the Balance Sheet.

All trade receivables are shown net of an allowance for uncollectibles. There is no allowance for uncollectible property tax receivable accounts due to management's determination that these amounts are immaterial.

Property taxes are levied in September on the current assessed value of all real and personal property located in the City. Property taxes are due on December 20 of the levy year and June 20 of the following year and are considered delinquent the day following the due date. The taxes are collected by Latah County, Idaho, and remitted to the City in the month following collection by the County. A lien is filed on the property three years from the date of delinquency.

District assessed market value and tax levy rates:

	Total Market	
	<u>Valuation</u>	<u>Levy</u>
2015	\$ 23,252,778	0.5935%
2014	23,524,528	0.5692%
2013	22,744,220	0.5630%
2012	23,931,652	0.5393%
2011	23,664,565	0.5267%

Net Position/Fund Balances. Program expenses are allocated to restricted program revenue first and then to the next highest level of net position/fund balance restrictions when both restricted and unrestricted resources are available.

The Governmental Accounting Standards Board (GASB) defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be properly reported within one of the fund balance categories below:

Nonspendable. Includes amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance Equity

Restricted. Includes amounts that can be spent only for the specific purpose stipulated by external resource providers, constitutional provisions, or enabling legislation.

Committed. Includes amounts that can only be used for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned. Includes amounts that are intended to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed.

Unassigned. Residual classification of fund balance that includes all spendable amounts that have not been restricted, committed, or assigned.

At times, certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Balance Sheet because their use is limited by applicable bond covenants. The City does have assigned assets relating to the accumulated revenues from cultures and recreation.

Capital Assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add value or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Buildings and structures	40
Infrastructure and industrial systems	40
Machinery and equipment	7 to 10

Compensated Absences. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the payroll service fund for governmental funds. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance Equity (Continued)

Pensions. For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employees Retirement System of Idaho (PERSI) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by PERSI. The liability is measured as of July 01, 2015, and current year payments are reported as deferred outflows. PERSI records investments at fair value and benefit payments are recorded when due.

Long-Term Obligations. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Comparative Data/Reclassifications. Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

Use of Estimates. Management of the City uses estimates and assumptions in preparing financial statements in accordance with United States generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that management uses.

2. BUDGETARY AND LEGAL COMPLIANCE

A. Budgetary Information

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

The Mayor submits a proposed operating budget to the City Council for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2015

2. BUDGETARY AND LEGAL COMPLIANCE (CONTINUED)

A. Budgetary Information (Continued)

The City Council legally enacts the budget through passage of an ordinance, which is filed with the Secretary of State. The budget covers all governmental and proprietary fund types. The City adopts budgets on the modified accrual basis of accounting for all governmental fund types. The City adopts budgets on the accrual basis of accounting for proprietary fund types. At any time during the fiscal year, the City Council may amend the appropriation ordinance by following the same procedures used during the budget adoption process. During the current fiscal year, the City incurred expenditures less than the amount budgeted in the General Fund.

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Equivalents

The carrying amount of the City's deposits at year-end was \$136,022 and the bank balance was \$156,505. Of the bank balance, \$156,505 was covered by federal depository insurance. The City also had \$934,246 held by the Idaho State Treasurer's Local Government Investment Pool and approximates market value.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will reduce the value of the City's investments. The City does not have a policy regarding interest rate risk.

Custodial Risk. Custodial risk is the risk that, in the event of the failure of the investment custodian, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the custodian. The City owns a percentage of each investment held by the Idaho State Treasurer's Local Government Investment Pool and the Pool diversifies investments to minimize credit risk to any individual government. The City's investment in the Idaho State Treasurer's Local Government Investment Pool has not been issued an external credit quality rating.

Concentration of Credit Risk. The City has no policy on the amount they may invest in any one issuer.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

B. Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 166,745	\$ 51,000	\$ (120,000)	\$ 97,745
Construction in progress	8,000	59,236		67,236
Total capital assets not being depreciated	<u>174,745</u>	<u>110,236</u>	<u>(120,000)</u>	<u>164,981</u>
Capital assets being depreciated:				
Buildings & improvements	1,344,109	30,231		1,374,340
Vehicles	28,224			28,224
Equipment	122,861	5,428		128,289
Total capital assets being depreciated	<u>1,495,194</u>	<u>35,659</u>	<u>0</u>	<u>1,530,853</u>
Less accumulated depreciation for:				
Buildings	(343,505)	(31,183)		(374,688)
Vehicles	(28,224)			(28,224)
Equipment	(99,764)	(6,833)		(106,597)
Total accumulated depreciation	<u>(471,493)</u>	<u>(38,016)</u>	<u>0</u>	<u>(509,509)</u>
Total capital assets being depreciated, net	<u>1,023,701</u>	<u>(2,357)</u>	<u>0</u>	<u>1,021,344</u>
Governmental activities capital assets, net	<u>\$ 1,198,446</u>	<u>\$ 107,879</u>	<u>\$ (120,000)</u>	<u>\$ 1,186,325</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

B. Capital Assets (Continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 155,460			\$ 155,460
Total capital assets not being depreciated	<u>155,460</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>155,460</u>
Capital assets being depreciated:				
Buildings	10,400			10,400
Water systems	2,470,994	\$ 1		2,470,995
Equipment	130,498	5,000		135,498
Sewer systems	8,134,672			8,134,672
Total capital assets being depreciated	<u>10,746,564</u>	<u>5,001</u>	<u>0</u>	<u>10,751,565</u>
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water systems	(617,157)	(61,509)		(678,666)
Equipment	(108,104)	(6,964)		(115,068)
Sewer systems	(933,731)	(203,056)		(1,136,787)
Total accumulated depreciation	<u>(1,669,392)</u>	<u>(271,529)</u>	<u>0</u>	<u>(1,940,921)</u>
Total capital assets being depreciated, net	<u>9,077,172</u>	<u>(266,528)</u>	<u>0</u>	<u>8,810,644</u>
Business-type activities capital assets, net	<u>\$ 9,232,632</u>	<u>\$ (266,528)</u>	<u>\$ 0</u>	<u>\$ 8,966,104</u>

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

Governmental activities:

General government	\$ 15,267
Culture and recreation	13,535
Streets	9,214
Total depreciation expense - governmental activities	<u>\$ 38,016</u>

Business-type activities:

Water	\$ 65,348
Sewer	206,181
Total depreciation expense - business-type activities	<u>\$ 271,529</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

C. Long-Term Debt

The City issued bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The City issued \$1,400,000 of revenue bonds in prior years for a water system improvement project. The City issued \$2,074,000 of USDA revenue bonds in prior years for a sewer system improvement project. The City also issued \$100,000 of DEQ sewer revenue bonds in prior years to pay off a prior interim loan relating to the sewer system improvement project. In prior years the City received \$555,269 on an interim note payable to the Idaho Department of Environmental Quality for the continuation of the sewer system improvement project. After project completion, the note will be refinanced using DEQ revenue bonds, which will be repaid in biannual installments over 20 years at 0.00% interest. A portion of the principal will be forgiven. The long-term debt outstanding at year end is as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Water System Improvement Bonds	4.125%	\$ 1,088,861
Sewer System Improvement Bonds	3.250%	1,850,479
Sewer System Improvement Bonds	0.000%	87,500
Sewer System Interim Financing	0.000%	1,000,690

Long-term debt activity for the year ended September 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
USDA water revenue bonds	\$ 1,123,548		\$ (34,687)	\$ 1,088,861
DEQ sewer revenue bonds - 2013	92,500		(5,000)	87,500
USDA sewer revenue bonds	1,898,072		(47,593)	1,850,479
DEQ sewer revenue bonds - 2014	1,053,358		(52,668)	1,000,690
	<u>\$ 4,167,478</u>	<u>\$ 0</u>	<u>\$ (139,948)</u>	<u>\$ 4,027,530</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

C. Long-Term Debt (Continued)

Year Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 142,925	\$ 105,057
2017	146,012	101,970
2018	149,213	98,769
2019	152,531	95,451
2020	155,971	92,011
2021-2025	836,049	403,861
2026-2030	943,165	296,745
2031-2035	1,005,676	168,329
2036-2040	495,988	49,325
Total	<u>\$ 4,027,530</u>	<u>\$ 1,411,518</u>

4. OTHER INFORMATION

A. Risk Management

The City of Potlatch purchases liability and property insurance through the Idaho Counties Risk Management Program (ICRMP). ICRMP is an all-lines aggregate insurance program providing liability, property and casualty insurance coverage to Idaho's counties and other political subdivisions on a voluntary participation basis. ICRMP assumes or reinsures all risk covered for claims. Participants are charged an annual insurance premium. The City is responsible for the first \$500 of any loss claim.

The general insurance limits are as follow:

Property damage	Total insured value
General liability	\$2,000,000 per occurrence
Automobile liability	\$2,000,000 per occurrence
Law enforcement liability	\$2,000,000 per occurrence
Errors and omissions	\$2,000,000 per occurrence
Uninsured/underinsured motorists	\$2,000,000 per occurrence
Crime insurance and bond	\$500,000 per occurrence

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

4. OTHER INFORMATION (CONTINUED)

B. Public Employee Retirement System of Idaho (PERSI)

The Public Employee Retirement System of Idaho – The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in *Idaho Code*. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the Plan are available on the PERSI website or in print upon request.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0 percent (2.3 percent for police/firefighter) of the average monthly salary for the highest consecutive 42 months.

The contribution requirements of the City of Potlatch, Idaho and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2015, the required contribution rate as a percentage of covered payroll for members was 6.79 percent for general members and 8.36 percent for police/firefighters. The employer rate as a percentage of covered payroll was 11.32 percent for general members and 11.66 percent for police/firefighters.

The City's required and paid contribution was \$13,533, \$13,595, and \$13,507 for the years ended September 30, 2015, 2014, and 2013, respectively.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2015, the City reported a liability of \$57,201 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, 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 employers. For 2015, the City's proportion was .000043461 percent.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

4. OTHER INFORMATION (CONTINUED)

B. Public Employee Retirement System of Idaho (PERSI) (Continued)

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued). Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued). For the year ended September 30, 2015, the City recognized a net gain on pension expense of \$9,100. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Employer contributions made subsequent to the measurement date of September 30, 2014	\$ 4,000	
Differences between expected and actual experience		\$ 6,900
Changes in assumptions or other inputs	\$ 23,200	
Net difference between projected and actual earnings on pension plan investments		\$ 30,101

The employer contribution will be recognized in pension expense in the following fiscal year. Other deferred outflows and inflows are being amortized over 5.6 years. The projected amount to be included in pension expense (benefit) is as follows:

2016	\$ (1,842)
2017	(5,842)
2018	(5,842)
2019	4,240
2020	(414)

Actuarial Assumptions. Valuations are based upon actuarial assumptions, 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. PERSI amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period permitted under Idaho Code is 25 years.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

4. OTHER INFORMATION (CONTINUED)

B. Public Employee Retirement System of Idaho (PERSI) (Continued)

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality Table - RP - 2000 combined table for healthy males and females with appropriate offsets.			
Inflation	3.25%		
Salary inflation	3.75%	Salary increases	4.5%-10.25%
Investment return	7.1%	Discount rate	7.1%

Sensitivity – a 1% change in the discount rate would affect the City's net pension liability as follows:			
	1% Decrease	7.1% rate used	1% Increase
City Net Pension Liability	\$139,000 liability	\$57,000 liability	\$11,000 asset

C. Contingencies and Commitments

Grant and contract expenditures are subject to the approval of various granting and contracting agencies. To be eligible for reimbursement of expenditures made under federally, state and locally funded programs, the City must comply with regulations established by the related agency and non-compliance could result in disallowed costs and a liability for reimbursement received.

D. Fund Balance Classifications

Restricted. Restricted net position/fund balances represent amounts whose use is restricted by creditors, grantors, laws and regulations of other governments, or through enabling legislation. Restrictions of debt proceeds and other resources of the sewer fund exist for the specific purpose of satisfying debt service requirements set forth by the City's individual bond related covenants.

Assigned Fund Balance. The fund balances classified as assigned are for use for specific purposes, but do not rise to the level of restricted or committed. The City has assigned balances that include the revenues received for the purpose of maintenance of city streets.

Unassigned Fund Balance. The unassigned fund balance is in the general fund and has not been restricted, committed, or assigned to specific purposes within the general fund.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2015

4. OTHER INFORMATION (CONTINUED)

E. Change in Accounting Principle

Net position as of September 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No.71. PERSI has not completed actuarial studies to determine the balances for years prior to September 30, 2014, so comparative information has not been disclosed for the year ended September 30, 2015.

Net position as previously reported at September 30, 2014	<u>\$ 7,208,887</u>
Change in accounting principle:	
Net pension liability (measurement date as of September 30, 2014)	(34,900)
Deferred outflows:	
City contributions made during fiscal year 2014	4,000
Deferred inflows:	
Investment yields different than projected	<u>(45,202)</u>
Total change in accounting principle	<u>(76,102)</u>
Net position as restated September 30, 2014	<u>\$ 7,132,785</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF POTLATCH

**SCHEDULE OF PENSION FUNDING
For the Year Ended September 30, 2015**

Fiscal Year	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll	Share of PERSI Net Pension Liability		Net Pension Liability as % of Covered Payroll
						%	Amount	
2006	\$ 11,361	\$ 11,361	\$ 109,300	\$ 109,300	10.40%	(1)	(1)	
2007	11,380	11,380	109,500	109,500	10.39%	(1)	(1)	
2008	12,248	12,248	117,900	117,900	10.39%	(1)	(1)	
2009	10,655	10,655	102,600	102,600	10.38%	(1)	(1)	
2010	11,757	11,757	113,200	113,200	10.39%	(1)	(1)	
2011	10,746	10,746	103,400	103,400	10.39%	(1)	(1)	
2012	12,353	12,353	118,900	118,900	10.39%	(1)	(1)	
2013	13,507	13,507	130,000	130,000	10.39%	(1)	(1)	
2014	13,595	13,595	120,100	120,100	11.32%	(1)	\$ 34,900	29%
2015	13,533	13,533	119,500	119,500	11.32%	0.004346%	57,201	48%

(1) PERSI has not provided calculations for years prior to implementation of GASB Statement No. 68.

SUPPLEMENTARY INFORMATION



Independent Auditor's Report – Government Auditing Standards

Members of the City Council
City of Potlatch
Potlatch, 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 the City of Potlatch, Idaho, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Potlatch, Idaho's basic financial statements and have issued our report thereon dated March 23, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses (#2015-001) that we consider to be a significant deficiency.

Compliance and Other Matters

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

City of Potlatch, Idaho's Response to Findings

The City of Potlatch, Idaho's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Potlatch, Idaho's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Presnell Gage, PLLC". The signature is written in a cursive, flowing style.

March 23, 2016

CITY OF POTLATCH

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2015

SIGNIFICANT DEFICIENCY

Finding #2015-1

Criteria – Internal control systems generally attempt to divide up accounting tasks among multiple individuals (segregation of duties) to improve the ability of the City to identify errors within the accounting system.

Condition – The City has concentrated many accounting duties to one individual such that the desired segregation of duties is not possible. There are a limited number of personnel available to provide for the desired “segregation of duties.”

Effect – Many accounting duties are performed by a single individual with limited oversight available within the City.

Response – The City’s management and City Council believe that the cost of hiring additional accounting staff outweighs the benefits that the segregation of duties would provide.

Recommendation – We concur with the City’s response.