

CITY OF POTLATCH

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

# CITY OF POTLATCH

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## Independent Auditor's Report

Members of the City Council  
City of Potlatch, Idaho

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, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Potlatch, Idaho management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2010 financial statements, and in our report dated October 26, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2013 on our consideration of the City of Potlatch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us sufficient evidence to express an opinion or provide any assurance.

*Presnell Gage, PLLC*

January 17, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Year Ended September 30, 2011**

The discussion and analysis of the City of Potlatch's (hereafter the City) financial performance presents the highlights of financial activities and provides an overview of the City's financial activities for the fiscal year ended September 30, 2011 and is intended to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the City's financial activity
- Identify changes in the City's financial position (its ability to address the next and subsequent year challenges)
- Identify material deviations from the financial plan and the adopted budget
- Identify individual fund issues or concerns

### **Economic Conditions and Outlook**

The City is primarily an agricultural and rural residential area. The agricultural and timber industries comprise the main industrial base in the City, with retail and service industries as important secondary sources of employment and tax revenue. The City has seen the effects of the current economic downturn, especially in the agricultural and timber markets.

### **Financial Highlights**

- For the 2011 fiscal year, the City's net assets increased by \$123,342 from \$6,134,344 in 2010 to \$6,257,686 in 2011. This increase is primarily due to the purchase of capital improvements and the capital grants and contributions used to fund the improvements. These improvements include the continuation of the sewer system improvement project and the energy efficiency renovations to several of the City's buildings.
- The business-type activities' service revenue stayed consistent in the Water and Sanitation Funds while the revenue in the Sewer Fund increased by approximately \$15,000. The business-type activities' operating expenses increased by \$51,678 from prior year primarily due to the increase in depreciation relating to sewer system infrastructure brought on by Phase III of the sewer system improvement project being placed in service. As part of the sewer project, the City recorded capital grants and contributions in the amount of \$139,835.
- The City's General Fund (the primary operating fund), reflected on a current financial resource basis, reported a fund balance increase of \$59,773 from \$(3,391) to \$56,382.
- General revenues, primarily from property taxes, charges for services, highway user fees, franchisee fees, and state revenue sharing were used to support the following major activities:

- General Government
- Highways and Streets
- Culture and Recreation
  
- The City received \$55,898 of a \$100,000 grant from the Idaho Office of Energy Resources in order to make energy efficient improvements to several of the City's buildings. The City also received \$10,000 that was allocated from the Idaho Community Development Block Grant in order to help fund the improvement of handicap access points throughout the City.

## **Report Layout**

The City's financial statements consist of the following:

**Management's Discussion and Analysis:** This section of the report provides financial highlights, overview and economic factors affecting the City. It is intended to serve as an introduction to the City's basic financial statements.

**Basic Financial Statements:** The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **1. Government-Wide Financial Statements:**

The government-wide financial statements focus on an entity-wide presentation using the accrual basis of accounting and are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *Statement of Net Assets* focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the City owns, the liabilities it owes and the net difference. The focus of the *Statement of Net Assets* (the "Unrestricted Net Assets") is designed to be similar to a bottom line for the City and its governmental and business-type activities.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this

statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues. The *Statement of Activities* is focused on both the gross and net cost of various activities, which are provided by the government's property tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities and/or component units.

The Governmental Activities reflects the City's basic service, including general government, public safety, transportation, and culture and recreation.

The business-type activities reflect private sector type operations (water, sewer and sanitation), where the fee for service typically covers all costs associated with the operation including depreciation.

The statements present an aggregate view of the City's finances. Government-wide statements contain useful long-term information as well as information for the just-completed fiscal year. To assess the overall financial condition of the City, additional non-financial factors, such as changes in the condition of the City buildings, facilities and equipment should also be considered.

## **2. Fund Financial Statements:**

A fund is a fiscal and accounting entity that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds allow the City to track sources of funding and spending for specific programs and to demonstrate compliance with various regulatory requirements. The City reports three fund types: Governmental, Enterprise, and Fiduciary.

**Governmental funds.** Governmental fund financial statements are reported on the modified accrual basis of accounting and focus on near term outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements. The City has one governmental fund, the General Fund.

**Enterprise funds.** Enterprise (or proprietary) funds are reported on the full accrual basis and are used to report the functions presented as business-type activities in the government-wide financial statements. The City's proprietary funds are the Water, Sewer and Sanitation Funds.

**Fiduciary funds.** Fiduciary funds are reported on modified accrual basis of accounting. The City's only fiduciary fund is the River Ridge Development Fund.

### **3. Notes to the Financial Statements:**

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

#### **Accounting System and Budgetary Control**

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal control is a process affected by the City Council, administration and staff, designed to achieve objectives in the following categories: 1) the effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. The concept of implementing proper internal controls recognize that: 1) the cost of control should not exceed the benefit likely to be derived; and 2) the evaluation of costs and benefits requires estimates and judgments by management.

The financial statements meet requirements as set forth by the Government Accounting Standards Board (GASB). Generally accepted accounting principles promulgated by GASB, as appropriate for cities, have been followed in handling financial transactions and in preparation of reports.

Activities of the general fund and enterprise funds are included in the annual budget. Budgetary control is maintained by the issuance of monthly financial statements, which reflect current and year-to-date expenses in comparison to budgeted amounts. Anticipated expenses are reviewed to determine that sufficient funds are available prior to commitment.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

**Capital assets.** General capital assets include land, improvements to land, buildings, vehicles, machinery and equipment, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives greater than three years and exceed the government's capitalization threshold. Accumulated depreciation was recorded for the first time in 2004 based on the date of acquisition and the life span of the asset.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a city's financial position. In the case of the City, assets exceeded liabilities by \$6,257,686 in 2011.

### City of Potlatch Statement of Net Assets

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 193,387	\$ 163,856	\$ 618,648	\$ 1,117,832	\$ 812,035	\$ 1,281,688
Capital assets, net of						
accumulated depreciation	<u>998,915</u>	<u>964,870</u>	<u>8,059,239</u>	<u>8,068,829</u>	<u>9,058,154</u>	<u>9,033,699</u>
Total assets	<u>1,192,302</u>	<u>1,128,726</u>	<u>8,677,887</u>	<u>9,186,661</u>	<u>9,870,189</u>	<u>10,315,387</u>
Total liabilities	<u>130,535</u>	<u>161,001</u>	<u>3,481,968</u>	<u>4,020,042</u>	<u>3,612,503</u>	<u>4,181,043</u>
Net assets						
Invested in capital assets, net of related debt	998,915	964,870	4,652,695	4,107,785	5,651,610	5,072,655
Restricted for debt service			59,548		59,548	
Unrestricted	<u>62,852</u>	<u>2,855</u>	<u>483,676</u>	<u>1,058,834</u>	<u>546,528</u>	<u>1,061,689</u>
Total net assets	<u>\$ 1,061,767</u>	<u>\$ 967,725</u>	<u>\$ 5,195,919</u>	<u>\$ 5,166,619</u>	<u>\$ 6,257,686</u>	<u>\$ 6,134,344</u>

## City of Potlatch Changes in Net Assets

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges for services	\$ 73,481	\$ 76,773	\$ 493,213	\$ 478,162	\$ 566,694	\$ 554,935
Operating grants & contributions	750	0			750	0
Capital grants & contributions	89,537	60,292	139,835	2,360,627	229,372	2420919
General Revenues					0	0
Property taxes	135,710	131,547			135,710	131547
Sales tax & revenue sharing	32,183	30,445			32,183	30445
Liquor tax	19,188	19,438			19,188	19438
Highway user fees	25,654	25,277			25,654	25277
Franchise fees	11,573	9,468			11,573	9468
Investment earnings	197	215	1,306	799	1,503	1014
Other	5,330	0			5,330	0
Total Revenues	<u>393,603</u>	<u>353,455</u>	<u>634,354</u>	<u>2,839,588</u>	<u>1,027,957</u>	<u>3,193,043</u>
Expenses						
General government	143,325	155,160			143,325	155160
Highways & streets	86,013	88,389			86,013	88389
Culture & recreation	70,223	56,287			70,223	56287
Water - distribution			207,050	201,960	207,050	201960
Sewer - collection & treatment			313,730	271,916	313,730	271916
Sanitation			84,274	80,782	84,274	80782
Total expenses	<u>299,561</u>	<u>299,836</u>	<u>605,054</u>	<u>554,658</u>	<u>904,615</u>	<u>854,494</u>
Change in net assets	94,042	53,619	29,300	2,284,930	123,342	2,338,549
Net assets - beginning	<u>967,725</u>	<u>914,106</u>	<u>5,166,619</u>	<u>2,881,689</u>	<u>6,134,344</u>	<u>3,795,795</u>
Net assets - ending	<u>\$ 1,061,767</u>	<u>\$ 967,725</u>	<u>\$ 5,195,919</u>	<u>\$ 5,166,619</u>	<u>\$ 6,257,686</u>	<u>\$ 6,134,344</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The combined governmental and proprietary fund balance increase was primarily due to grant funding and construction related to the continuation of the sewer project. The construction in progress has been capitalized on the statement of net assets. When construction has been completed, the total capitalized construction will be depreciated over its respective useful life. During the year, \$1,600,209 of construction in progress was placed in service.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Highlights of differences between the budget and the actual amounts are summarized as follows:

- Revenues:
  - A \$137,127 positive variance in governmental revenues
- Expenses:
  - A \$77,354 negative variance in governmental expenses

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital assets.** The City's investment in capital assets (net of related debt) as of September 30, 2011 amounts to \$5,651,610.

<b>City of Potlatch's Capital Assets (Net of Depreciation)</b>			
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Beginning balance	\$ 964,870	\$8,068,829	\$9,033,699
Additions	66,034	216,010	282,044
Depreciation	<u>(31,989)</u>	<u>(225,600)</u>	<u>(257,589)</u>
	<u>\$ 998,915</u>	<u>\$8,059,239</u>	<u>\$9,058,154</u>

Additional information on the City's capital assets can be found in Note IIIB of this report.

**Debt Outstanding.** The City issued two bonds in 2005 that are held by the USDA which were used to finance construction costs on the Water Improvement project. During the 2010 fiscal year, the City issued a \$2,074,000 bond that is held by USDA to finance the construction costs on the Sewer Improvement project. The City also received a \$100,000 loan from the Idaho Department of Environmental Quality during the prior year to assist in funding the sewer system construction.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability. Any questions or requests for additional information should be directed to the City's Mayor, David Brown, at City Hall, 6th Street, Potlatch, ID 83855, by phone at **(208)875-0708**, or by email at [potlcity@potlatch.com](mailto:potlcity@potlatch.com).

**City of Potlatch**  
**Statement of Net Assets**  
**September 30, 2011**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 84,170	\$ 443,197	\$ 527,367
Receivables	159,633	65,487	225,120
Cash and cash equivalents - restricted		59,548	59,548
Capital assets:			
Land	26,500		26,500
Buildings	1,207,803	10,400	1,218,203
Vehicles	28,224		28,224
Machinery and equipment	119,914	117,748	237,662
Infrastructure		8,809,452	8,809,452
Construction in progress		22,199	22,199
Accumulated depreciation	(383,526)	(900,560)	(1,284,086)
Advances to/from other funds	(50,416)	50,416	
Total assets	<u>1,192,302</u>	<u>8,677,887</u>	<u>9,870,189</u>
<b>LIABILITIES</b>			
Accounts payable and other			
current liabilities	5,053	59,527	64,580
Unearned revenue	123,482		123,482
Compensated absences	2,000	3,734	5,734
Accrued contractor payable		56,314	56,314
Due to other government		12,163	12,163
Long-term liabilities - due within one year		77,516	77,516
Long-term liabilities - due in more than one year		3,272,714	3,272,714
Total liabilities	<u>130,535</u>	<u>3,481,968</u>	<u>3,612,503</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	998,915	4,652,695	5,651,610
Restricted for debt service		59,548	59,548
Unrestricted	62,852	483,676	546,528
Total net assets	<u>\$ 1,061,767</u>	<u>\$ 5,195,919</u>	<u>\$ 6,257,686</u>

SEE ACCOMPANYING NOTES

**City of Potlatch**  
**Statement of Activities**  
**For the Year Ended September 30, 2011**

<b>Functions/Programs</b>	Expenses	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
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 143,325	\$ 30,385		\$ 74,705	\$ (38,235)	\$ (38,235)
Highways and streets	86,013		\$ 25,654	1,832	(58,527)	(58,527)
Culture and recreation	70,223	43,096	750	13,000	(13,377)	(13,377)
Total governmental activities	<u>\$ 299,561</u>	<u>\$ 73,481</u>	<u>26,404</u>	<u>\$ 89,537</u>	<u>(110,139)</u>	<u>(110,139)</u>
Business-type activities:						
Water	\$ 207,050	\$ 166,255			\$ (40,795)	(40,795)
Sewer	313,730	231,961		\$ 139,835	58,066	58,066
Sanitation	84,274	94,997			10,723	10,723
Total business-type activities	<u>605,054</u>	<u>493,213</u>		<u>139,835</u>	<u>27,994</u>	<u>27,994</u>
Total primary government	<u>\$ 904,615</u>	<u>\$ 566,694</u>	<u>\$ 26,404</u>	<u>\$ 229,372</u>	<u>(110,139)</u>	<u>(82,145)</u>
General revenues:						
Property taxes				135,710		135,710
State sales tax & revenue sharing				32,183		32,183
Liquor tax				19,188		19,188
Franchise fees				11,573		11,573
Unrestricted investment earnings				197	1,306	1,503
Other				5,330		5,330
Total general revenues				<u>204,181</u>	<u>1,306</u>	<u>205,487</u>
Change in net assets				94,042	29,300	123,342
Net assets - beginning				967,725	5,166,619	6,134,344
Net assets - ending				<u>\$ 1,061,767</u>	<u>\$ 5,195,919</u>	<u>\$ 6,257,686</u>

SEE ACCOMPANYING NOTES  
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City of Potlatch  
Balance Sheet - Governmental Funds  
September 30, 2011

	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 84,170
Receivables	159,633
Total assets	\$ 243,803
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 5,053
Deferred Revenue	131,952
Interfund balances	50,416
Total liabilities	187,421
 Fund balances:	
Assigned for:	
Culture and recreation	51,879
Unassigned	4,503
Total fund balances	56,382
Total liabilities and fund balances	\$ 243,803

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

Fund balance, governmental funds	\$ 56,382
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	1,382,441
Accumulated depreciation	(383,526)
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 deferred in the funds	
	8,470
Employee benefits including credit leave and sick leave, which have not been paid out are not accrued in the funds	
	(2,000)
Net assets of governmental activities	\$ 1,061,767

SEE ACCOMPANYING NOTES

City of Potlatch

GENERAL

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended September 30, 2011

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	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Total revenues	<u>255,920</u>	<u>393,047</u>	<u>137,127</u>
<b>EXPENDITURES</b>			
Total expenditures	<u>255,920</u>	<u>333,274</u>	<u>(77,354)</u>
Net change in fund balances		59,773	59,773
FUND BALANCES, October 1	0	(3,391)	(3,391)
<b>FUND BALANCES, September 30</b>	<u>\$ -</u>	<u>\$ 56,382</u>	<u>\$ 56,382</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, 2011

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

Net change in fund balances - total governmental funds	\$	59,773
<p>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:</p>		
Current year capital outlay		66,034
Current year depreciation		(31,989)
<p>Some amounts receivable will not be collected for several months after the fiscal year ends, 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:</p>		
Current year taxes receivable		8,470
Prior year taxes receivable		(7,914)
Employee benefits including credit and sick leave, which have not been paid out are not counted as expense in the funds.		(332)
Change in net assets of governmental activities	<u>\$</u>	<u>94,042</u>

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Statement of Net Assets

September 30, 2011

	<b>Water Current Year</b>	Water Prior Year	<b>Sewer Current Year</b>	Sewer Prior Year	<b>Sanitation Current Year</b>	Sanitation Prior Year	<b>Total Current Year</b>
<b>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 276,840	\$ 296,478	\$ 166,357	\$ 147,833			\$ 443,197
Receivables	21,088	23,790	34,219	527,249	\$ 10,180	\$ 12,327	65,487
Interfund balances	<u>(133,762)</u>	<u>(118,913)</u>	<u>107,290</u>	166,618	<u>76,888</u>	<u>62,450</u>	<u>50,416</u>
Total current assets	<b>164,166</b>	201,355	<b>307,866</b>	841,700	<b>87,068</b>	74,777	<b>559,100</b>
Cash and cash equivalents - restricted			<b>59,548</b>				<b>59,548</b>
Fixed assets (net, where applicable, of accumulated depreciation)	<u>1,996,393</u>	<u>2,044,705</u>	<u>6,062,846</u>	<u>6,024,124</u>			<u>8,059,239</u>
Total assets	<u><b>2,160,559</b></u>	<u>2,246,060</u>	<u><b>6,430,260</b></u>	<u>6,865,824</u>	<u><b>87,068</b></u>	<u>74,777</u>	<u><b>8,677,887</b></u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other current liabilities	4,496	2,436	52,384	51,749	6,381	4,813	63,261
Accrued contract expense	8,175	8,175	60,302	511,677			68,477
Revenue bonds- current	<u>30,726</u>	<u>29,937</u>	<u>46,790</u>	<u>43,352</u>			<u>77,516</u>
Total current liabilities	<b>43,397</b>	40,548	<b>159,476</b>	606,778	<b>6,381</b>	4,813	<b>209,254</b>
Non-current liabilities:							
Revenue bonds payable	<u>1,188,856</u>	<u>1,237,255</u>	<u>2,083,858</u>	<u>2,130,648</u>			<u>3,272,714</u>
Total liabilities	<u><b>1,232,253</b></u>	<u>1,277,803</u>	<u><b>2,243,334</b></u>	<u>2,737,426</u>	<u><b>6,381</b></u>	<u>4,813</u>	<u><b>3,481,968</b></u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	<b>768,636</b>	769,338	<b>3,871,896</b>	3,338,447			<b>4,640,532</b>
Restricted for:							
Debt service			<b>59,548</b>				<b>59,548</b>
Unrestricted	<u>159,670</u>	<u>198,919</u>	<u>255,482</u>	<u>789,951</u>	<u>80,687</u>	<u>69,964</u>	<u>495,839</u>
Total net assets	<u><b>\$ 928,306</b></u>	<u>\$ 968,257</u>	<u><b>\$ 4,186,926</b></u>	<u>\$ 4,128,398</u>	<u><b>\$ 80,687</b></u>	<u>\$ 69,964</u>	<u><b>\$ 5,195,919</b></u>

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Schedule of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended September 30, 2011

	<b>Water</b>	Water	<b>Sewer</b>	Sewer	<b>Sanitation</b>	Sanitation	<b>Total</b>
	<b>Current Year</b>	Prior Year	<b>Current Year</b>	Prior Year	<b>Current Year</b>	Prior Year	<b>Current Year</b>
<b>OPERATING REVENUES</b>							
Charges for services	<b>\$ 166,255</b>	\$ 168,220	<b>\$ 231,961</b>	\$ 216,923	<b>\$ 94,997</b>	\$ 93,019	<b>\$ 493,213</b>
Total revenues	<b>166,255</b>	168,220	<b>231,961</b>	216,923	<b>94,997</b>	93,019	<b>493,213</b>
<b>OPERATING EXPENSES</b>							
Water - distribution	<b>91,136</b>	86,904					<b>91,136</b>
Sewer - collection & treatment			<b>85,567</b>	83,396			<b>85,567</b>
Sanitation					<b>84,274</b>	80,782	<b>84,274</b>
Depreciation	<b>63,812</b>	61,598	<b>161,788</b>	122,219			<b>225,600</b>
Total operating expenses	<b>154,948</b>	148,502	<b>247,355</b>	205,615	<b>84,274</b>	80,782	<b>486,577</b>
<b>OPERATING INCOME</b>	<b>11,307</b>	19,718	<b>(15,394)</b>	11,308	<b>10,723</b>	12,237	<b>6,636</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Capital grants			<b>139,835</b>	2,360,627			<b>139,835</b>
Investment earnings	<b>844</b>	382	<b>462</b>	417			<b>1,306</b>
Interest expense	<b>(52,102)</b>	(53,458)	<b>(66,375)</b>	(66,301)			<b>(118,477)</b>
Total nonoperating revenues (expenses)	<b>(51,258)</b>	(53,076)	<b>73,922</b>	2,294,743			<b>22,664</b>
<b>CHANGE IN NET ASSETS</b>	<b>(39,951)</b>	(33,358)	<b>58,528</b>	2,306,051	<b>10,723</b>	12,237	<b>29,300</b>
Total net assets - beginning	<b>968,257</b>	1,001,615	<b>4,128,398</b>	1,822,347	<b>69,964</b>	57,727	<b>5,166,619</b>
Total net assets - ending	<b>\$ 928,306</b>	\$ 968,257	<b>\$ 4,186,926</b>	\$ 4,128,398	<b>\$ 80,687</b>	\$ 69,964	<b>\$ 5,195,919</b>

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Statement of Cash Flows  
For the Year Ended September 30, 2011

	<u>Water Current Year</u>	<u>Water Prior Year</u>	<u>Sewer Current Year</u>	<u>Sewer Prior Year</u>	<u>Sanitation Current Year</u>	<u>Sanitation Prior Year</u>	<u>Total Current Year</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers and users	\$ 168,957	\$ 171,781	\$ 236,324	\$ 217,245	\$ 97,144	\$ 94,453	\$ 502,425
Payments to suppliers	(53,796)	(50,600)	(38,353)	(47,368)	(82,706)	(83,275)	(174,855)
Payments to employees	(35,280)	(36,141)	(34,863)	(34,822)			(70,143)
Payments for interfund services used	14,849	146,734	59,328	(165,454)	(14,438)	(11,178)	59,739
Net cash provided (used) by operating activities	<u>94,730</u>	<u>231,774</u>	<u>222,436</u>	<u>(30,399)</u>			<u>317,166</u>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital grants			628,502	2,763,873			628,502
Proceeds from capital debt				143,000			
Acquisition and construction of capital assets	(15,500)		(664,048)	(2,850,175)			(679,548)
Principal paid on capital debt	(47,610)	(28,751)	(43,352)				(90,962)
Interest paid on capital debt	(52,102)	(53,458)	(65,928)	(47,866)			(118,030)
Net cash (used) provided by capital & related financing activities	<u>(115,212)</u>	<u>(82,209)</u>	<u>(144,826)</u>	<u>8,832</u>			<u>(260,038)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest received	844	382	462	417			1,306
Net cash provided by investing activities	<u>844</u>	<u>382</u>	<u>462</u>	<u>417</u>			<u>1,306</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(19,638)</b>	<b>149,947</b>	<b>78,072</b>	<b>(21,150)</b>			<b>58,434</b>
CASH AND CASH EQUIVALENTS, October 1	<u>296,478</u>	<u>146,531</u>	<u>147,833</u>	<u>168,983</u>			<u>444,311</u>
CASH AND CASH EQUIVALENTS, September 30	<u>\$ 276,840</u>	<u>\$ 296,478</u>	<u>\$ 225,905</u>	<u>\$ 147,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 502,745</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>							
Operating income	\$ 11,307	\$ 19,718	\$ (15,394)	\$ 11,308	\$ 10,723	\$ 12,237	\$ 6,636
Adjustment to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation	63,812	61,598	161,788	122,219			225,600
Changes in other balance sheet accounts:							
Receivables	2,702	3,561	4,363	322	2,147	1,434	9,212
Accounts payable	(490)	(490)	(292)	553	1,568	(2,493)	786
Other current assets and liabilities	17,399	147,387	71,971	(164,801)	(14,438)	(11,178)	74,932
Net cash provided (used) by operating activities	<u>\$ 94,730</u>	<u>\$ 231,774</u>	<u>\$ 222,436</u>	<u>\$ (30,399)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,166</u>
<b>SUPPLEMENTAL DISCLOSURES</b>							
Cash paid for interest	<u>\$ 52,102</u>	<u>\$ 53,458</u>	<u>\$ 65,928</u>	<u>\$ 47,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,030</u>

SEE ACCOMPANYING NOTES

City of Potlatch

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
September 30, 2011

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	<u>River Ridge Development</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 19,000
Total assets	<u>\$ 19,000</u>
<b>LIABILITIES</b>	
Due to others	\$ 19,000
Total liabilities	<u>\$ 19,000</u>

SEE ACCOMPANYING NOTES

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. 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 by GASB 14. 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 Assets and the Statement of Changes in Net Assets) 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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.



# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* terms. 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.

#### D. Assets, Liabilities and Equity

##### 1. 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.

##### 2. 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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### D. Assets, Liabilities and Equity (Continued)

##### 2. Receivables and Payables (Continued)

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>
2011	\$ 23,664,565	0.5267%
2010	23,669,514	0.5040%
2009	23,436,807	0.4939%
2008	24,258,446	0.4625%
2007	19,325,776	0.5579%

##### 3. Restricted Resources

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

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB #54) defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB #54 requires the fund balance amounts to be properly reported within one of the fund balance categories below:

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### D. Assets, Liabilities and Equity (Continued)

##### 3. Restricted Resources (Continued)

###### **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.

###### **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 and Certificates of Participation, 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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### D. Assets, Liabilities and Equity (Continued)

##### 4. 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

##### 5. 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, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### D. Assets, Liabilities and Equity (Continued)

##### 6. 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 assets. 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.

##### 7. 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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### D. Assets, Liabilities and Equity (Continued)

##### 9. 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.

### II. 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.

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 in excess of budget in the General Fund.

## CITY OF POTLATCH

### NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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#### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

##### A. Cash and Equivalents

The carrying amount of the City's deposits at year-end was \$586,915, and the bank balance was \$561,126. Of the bank balance, \$39,275 was held by US Bank and was covered by federal depository insurance and \$521,851 was 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, 2011

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**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)**

**B. Capital Assets**

Capital asset activity for the year ended September 30, 2011 was as follows:

**Governmental activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 26,500			\$ 26,500
Construction in progress	43,193	\$ 62,821	\$ (106,014)	-
Total capital assets not being depreciated	69,693	62,821	(106,014)	26,500
Capital assets being depreciated:				
Buildings & Improvements	1,114,076	93,727		1,207,803
Vehicles	28,224			28,224
Equipment	119,414	15,500	(15,000)	119,914
Total capital assets being depreciated	1,261,714	109,227		1,355,941
Less accumulated depreciation for:				
Buildings	(231,002)		(27,019)	(258,021)
Vehicles	(28,224)			(28,224)
Equipment	(107,311)		10,030	(97,281)
Total accumulated depreciation	(366,537)		(16,989)	(383,526)
Total capital assets being depreciated, net	895,177	109,227	(16,989)	972,415
Governmental activities capital assets, net	\$ 964,870	\$ 172,048	\$ (123,003)	\$ 998,915



CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2011

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**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)**

**B. Capital Assets (Continued)**

**Business-type activities:**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 1,331,383	\$ 185,010	\$ (1,494,194)	\$ 22,199
Total capital assets not being depreciated	<u>1,331,383</u>	<u>185,010</u>	<u>(1,494,194)</u>	<u>22,199</u>
Capital assets being depreciated:				
Buildings	10,400			10,400
Water Systems	2,414,046			2,414,046
Equipment	86,748	31,000		117,748
Sewer Systems	4,901,212	1,494,194		6,395,406
Total capital assets being depreciated	<u>7,412,406</u>	<u>1,525,194</u>	<u></u>	<u>8,937,600</u>
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water Systems	(369,341)		(61,598)	(430,939)
Equipment	(86,748)		(4,428)	(91,176)
Sewer Systems	(208,471)		(159,574)	(368,045)
Total accumulated depreciation	<u>(674,960)</u>	<u></u>	<u>(225,600)</u>	<u>(900,560)</u>
Total capital assets being depreciated, net	<u>6,737,446</u>	<u>1,525,194</u>	<u>(225,600)</u>	<u>8,037,040</u>
Business-type activities capital assets, net	<u>\$ 8,068,829</u>	<u>\$ 1,710,204</u>	<u>\$ (1,719,794)</u>	<u>\$ 8,059,239</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2011

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III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

B. Capital Assets (Continued)

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

Governmental activities:

General government	\$ 15,266
Culture & recreation	8,420
Streets	8,303
Total depreciation expense - governmental activities	<u>\$ 31,989</u>

Business-type activities:

Water	\$ 63,812
Sewer	161,788
Total depreciation expense - business-type activities	<u>\$ 225,600</u>

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 to for a water system improvement project. During the current year, the City also issued \$2,074,000 of revenue bonds and obtained a \$100,000 note payable to the Idaho Department of Environmental Quality for the sewer system improvement project. 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%	\$1,219,582
Sewer System Improvement Bonds	3.250%	\$2,030,648
Sewer System Improvement Note	0.000%	\$ 100,000

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2011

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**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)**

**C. Long-Term Debt (Continued)**

Long-term debt activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
Water revenue bonds	\$ 1,267,192		\$ (47,610)	\$ 1,219,582
Sewer DEQ loan	100,000			100,000
Sewer revenue bonds	2,074,000		(43,352)	2,030,648
	\$ 3,441,192	\$ -	\$ (90,962)	\$ 3,350,230

Year Ending September 30	Principal	Interest
2012	\$ 77,516	\$ 117,798
2013	81,636	113,678
2014	84,406	110,908
2015	87,279	108,035
2016	90,256	105,058
2017-2021	499,916	476,654
2022-2026	592,599	383,971
2027-2031	703,665	272,905
2032-2036	730,027	139,774
2037-2040	402,930	33,216
Total	\$ 3,350,230	\$ 1,861,997

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### IV. 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

#### 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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### IV. OTHER INFORMATION (Continued)

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

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, 2011, the required contribution rate as a percentage of covered payroll for members was 6.23 percent for general members and 7.65 percent for police/firefighters. The employer rate as a percentage of covered payroll was 10.39 percent for general members and 10.73 percent for police/firefighters.

The City's contribution required and paid was \$11,757, \$10,655, and \$12,248 for the years ended September 30, 2011, 2010, and 2009, respectively.

#### 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 assets/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.

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2011

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### IV. OTHER INFORMATION (Continued)

#### D. Fund Balance Classifications (Continued)

***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 providing culture and recreation services.

***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.



## **Independent Auditor's Report – Government Auditing Standards**

Members of the City Council  
City of Potlatch  
Potlatch, Idaho

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Potlatch as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 17, 2013. 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* used by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

Management of City of Potlatch is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (Finding No. 1, 2, and 3). 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.

### **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 the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questions costs (Finding No. 3).

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the City Council, management, federal awarding agencies, others within the Organization, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Presnell Gage, PLLC*

January 17, 2013



# CITY OF POTLATCH

## SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended September 30, 2011

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### **Finding No. 1**

Criteria – *Government Auditing Standards* require that we identify all non-attest services that we, as independent auditors, perform for an audit client and evaluate whether such services impair the independent auditor’s independence.

Condition – *Government Auditing Standards* require that we identify all non-attest services that we, as independent auditors, perform for a governmental audit client. The non-attest service performed by the independent auditors was the compilation of the year-end financial statements.

Effect – The independent auditor has compiled the financial statements subject to management review and approval. Safeguards outlined in *Government Auditing Standards* have been complied with.

Response – The City’s management and City Council members believe that contracting the independent auditor to compile the year-end financial statements is the most cost effective alternative. This service is allowed under *Government Auditing Standards*.

Recommendation – We concur with the City’s response.

### **Finding No. 2**

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

### **Finding No. 3**

Criteria – Internal controls over grant reimbursements are necessary to ensure that all grant reimbursements correspond to proper and approved expenditures.

Condition – The grant reimbursement process lacks proper controls to prevent the improper reimbursement of expenditures and has resulted in the dual-reimbursement of grant expenses.

Effect – Without proper internal controls in place, the City is exposing itself to a risk of non-compliance with grant provisions.

Response – The City's management and City Council will implement proper internal control procedures in the future related to grant reimbursements and will issue repayment of any dual-reimbursement to the grantor.

Recommendation – We concur with the City's response.