

CITY OF POTLATCH

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

# 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, 2012, 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.

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, 2012, 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 August 05, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Potlatch's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of American. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

  
August 05, 2013

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

### **For the Year Ended September 30, 2012**

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, 2012 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 2012 fiscal year, the City's net assets increased by \$387,404 from \$6,257,686 in 2011 to \$6,645,090 in 2012. 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 wastewater project.
- The business-type activities' service revenue stayed consistent in the Sewer and Sanitation Funds while the revenue in the Water Fund increased by approximately \$19,000. The business-type activities' operating expenses increased by \$8,290 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 \$450,962.
- The City's General Fund (the primary operating fund), reflected on a current financial resource basis, reported a fund balance increase of \$32,137 from \$56,382 to \$88,519.

- 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 the remaining \$908 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.

## **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.

### 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 \$6,645,090 in 2012.

### City of Potlatch Statement of Net Assets

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 222,637	\$ 193,387	\$ 680,957	\$ 618,648	\$ 903,594	\$ 812,035
Capital assets, net of						
accumulated depreciation	<u>971,380</u>	<u>998,915</u>	<u>9,200,734</u>	<u>8,059,239</u>	<u>10,172,114</u>	<u>9,058,154</u>
Total assets	<u>1,194,017</u>	<u>1,192,302</u>	<u>9,881,691</u>	<u>8,677,887</u>	<u>11,075,708</u>	<u>9,870,189</u>
 Total liabilities	 <u>130,592</u>	 <u>130,535</u>	 <u>4,300,026</u>	 <u>3,481,968</u>	 <u>4,430,618</u>	 <u>3,612,503</u>
 Net assets						
Invested in capital assets, net of related debt	971,380	998,915	4,974,319	4,652,695	5,945,699	5,651,610
Restricted for debt service			78,580	59,548	78,580	
Unrestricted	<u>92,045</u>	<u>62,852</u>	<u>528,766</u>	<u>483,676</u>	<u>620,811</u>	<u>546,528</u>
Total net assets	<u>\$ 1,063,425</u>	<u>\$ 1,061,767</u>	<u>\$ 5,581,665</u>	<u>\$ 5,195,919</u>	<u>\$ 6,645,090</u>	<u>\$ 6,198,138</u>

## City of Potlatch Changes in Net Assets

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2012	2011	2012	2011	2012	2011
<b>Program Revenues</b>						
Charges for services	\$ 62,564	\$ 73,481	\$ 534,413	\$ 493,213	\$ 596,977	\$ 566,694
Operating grants & contributions	31,845	750	12,625		44,470	750
Capital grants & contributions	15,223	89,537	450,962	139,835	466,185	229,372
<b>General Revenues</b>						
Property taxes	142,353	135,710			142,353	135,710
Sales tax & revenue sharing	36,081	32,183			36,081	32,183
Liquor tax	20,083	19,188			20,083	19,188
Highway user fees		25,654				25,654
Franchise fees	9,189	11,573			9,189	11,573
Investment earnings	165	197	1,090	1,306	1,255	1,503
Other	987	5,330			987	5,330
Total Revenues	<u>318,490</u>	<u>393,603</u>	<u>999,090</u>	<u>634,354</u>	<u>1,317,580</u>	<u>1,027,957</u>
<b>Expenses</b>						
General government	136,393	143,325			136,393	143,325
Highways & streets	83,381	86,013			83,381	86,013
Culture & recreation	97,058	70,223			97,058	70,223
Water - distribution			206,864	207,050	206,864	207,050
Sewer - collection & treatment			323,643	313,730	323,643	313,730
Sanitation			82,837	84,274	82,837	84,274
Total expenses	<u>316,832</u>	<u>299,561</u>	<u>613,344</u>	<u>605,054</u>	<u>930,176</u>	<u>904,615</u>
Change in net assets	1,658	94,042	385,746	29,300	387,404	123,342
Net assets - beginning	<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>
Net assets - ending	<u>\$ 1,063,425</u>	<u>\$ 1,061,767</u>	<u>\$ 5,581,665</u>	<u>\$ 5,195,919</u>	<u>\$ 6,645,090</u>	<u>\$ 6,257,686</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.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Revenues:
  - A \$58,494 positive variance in governmental revenues
- Expenses:
  - A \$26,357 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, 2012 amounts to \$5,945,699.

<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	\$ 998,915	\$8,059,239	\$9,058,154
Additions	5,197	1,367,095	1,372,292
Depreciation	<u>(32,732)</u>	<u>(225,600)</u>	<u>(258,332)</u>
	<u>\$ 971,380</u>	<u>\$9,200,734</u>	<u>\$10,172,114</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. During the current year the City received \$498,089 on an interim note payable to the Idaho Department of Environmental Quality for the continuation of the sewer system improvement project.

## **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, 2012**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 94,280	\$ 518,177	\$ 612,457
Receivables	157,856	54,701	212,557
Cash and cash equivalents - restricted		78,580	78,580
Capital assets:			
Land	26,500	150,000	176,500
Buildings	1,207,803	10,400	1,218,203
Vehicles	28,224		28,224
Machinery and equipment	125,111	117,748	242,859
Infrastructure		8,809,452	8,809,452
Construction in progress		1,239,294	1,239,294
Accumulated depreciation	(416,258)	(1,126,160)	(1,542,418)
Advances to/from other funds	(29,499)	29,499	
Total assets	<u>1,194,017</u>	<u>9,881,691</u>	<u>11,075,708</u>
<b>LIABILITIES</b>			
Accounts payable and other			
current liabilities	6,963	57,080	64,043
Unearned revenue	121,296		121,296
Compensated absences	2,333	4,368	6,701
Accrued contractor payable		450,612	450,612
Due to other government		12,163	12,163
Long-term liabilities - due within one year		81,636	81,636
Long-term liabilities - due in more than one year		3,694,167	3,694,167
Total liabilities	<u>130,592</u>	<u>4,300,026</u>	<u>4,430,618</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	971,380	4,974,319	5,945,699
Restricted for debt service		78,580	78,580
Unrestricted	92,045	528,766	620,811
Total net assets	<u>\$ 1,063,425</u>	<u>\$ 5,581,665</u>	<u>\$ 6,645,090</u>

SEE ACCOMPANYING NOTES

**City of Potlatch**  
**Statement of Activities**  
**For the Year Ended September 30, 2012**

	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
<b>Functions/Programs</b>						
<b>Primary government:</b>						
Governmental activities						
General government	\$ 136,393		\$ 908	\$ (125,349)		\$ (125,349)
Highways and streets	83,381	\$ 26,505		(56,876)		(56,876)
Culture and recreation	97,058	5,340	14,315	(24,975)		(24,975)
Total governmental activities	\$ 316,832	\$ 31,845	\$ 15,223	(207,200)		(207,200)
Business-type activities:						
Water	\$ 206,864	\$ 193,267			\$ (13,597)	(13,597)
Sewer	323,643	243,170	\$ 450,962		383,114	383,114
Sanitation	82,837	97,976			15,139	15,139
Total business-type activities	613,344	534,413	450,962		384,656	384,656
Total primary government	\$ 930,176	\$ 44,470	\$ 466,185	(207,200)	384,656	177,456
General revenues:						
Property taxes				142,353		142,353
State sales tax & revenue sharing				36,081		36,081
Liquor tax				20,083		20,083
Franchise fees				9,189		9,189
Unrestricted investment earnings				165	1,090	1,255
Other				987		987
Total general revenues				208,858	1,090	209,948
Change in net assets				1,658	385,746	387,404
Net assets - beginning				1,061,767	5,195,919	6,257,686
Net assets - ending				\$ 1,063,425	\$ 5,581,665	\$ 6,645,090

SEE ACCOMPANYING NOTES

City of Potlatch  
Balance Sheet - Governmental Funds  
September 30, 2012

	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 94,280
Receivables	157,856
Total assets	\$ 252,136
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 6,805
Deferred Revenue	127,155
Interfund balances	29,499
Total liabilities	163,617
 Fund balances:	
Assigned for:	
Culture and recreation	38,185
Streets	12,443
Unassigned	37,891
Total fund balances	88,519
 Total liabilities and fund balances	 \$ 252,136

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

Fund balance, governmental funds	\$ 88,519
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	1,387,638
Accumulated depreciation	(416,258)
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	
	5,859
Employee benefits including credit leave and sick leave, which have not been paid out are not accrued in the funds	
	(2,333)
Net assets of governmental activities	\$ 1,063,425

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, 2012

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Taxes:			
Property	\$ 128,988	\$ 144,964	\$ 15,976
Sales	32,182	36,081	3,899
Liquor	18,000	20,083	2,083
Highway user	26,417	26,505	88
Franchise	7,300	9,189	1,889
Licenses and permits	3,250	5,895	2,645
Charges for services	31,070	55,266	24,196
Investment earnings	1,500	165	(1,335)
Other	13,900	22,953	9,053
Total revenues	<u>262,607</u>	<u>321,101</u>	<u>58,494</u>
<b>EXPENDITURES</b>			
Current:			
General government	122,062	120,810	1,252
Culture and recreation	64,152	87,879	(23,727)
Transportation	76,393	75,078	1,315
Capital Outlay		5,197	(5,197)
Total expenditures	<u>262,607</u>	<u>288,964</u>	<u>(26,357)</u>
Net change in fund balances		32,137	32,137
FUND BALANCES, October 1		56,382	56,382
<b>FUND BALANCES, September 30</b>	<u>\$ 0</u>	<u>\$ 88,519</u>	<u>\$ 88,519</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, 2012

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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	\$	32,137
<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		5,197
Current year depreciation		(32,732)
<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		5,859
Prior year taxes receivable		(8,470)
<p>Employee benefits including credit and sick leave, which have not been paid out are not counted as expense in the funds.</p>		
Change in net assets of governmental activities		(333)
	\$	<u>1,658</u>

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Statement of Net Assets  
September 30, 2012

	<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>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 276,202	\$ 276,840	\$ 241,975	\$ 166,357			\$ 518,177
Receivables	20,786	21,088	23,578	34,219	\$ 10,337	\$ 10,180	54,701
Interfund balances	(112,465)	(133,762)	50,104	107,290	91,860	76,888	29,499
Total current assets	<u>184,523</u>	<u>164,166</u>	<u>315,657</u>	<u>307,866</u>	<u>102,197</u>	<u>87,068</u>	<u>602,377</u>
Cash and cash equivalents - restricted			78,580	59,548			78,580
Fixed assets (net, where applicable, of accumulated depreciation)	1,932,581	1,996,393	7,268,153	6,062,846			9,200,734
Total assets	<u>2,117,104</u>	<u>2,160,559</u>	<u>7,662,390</u>	<u>6,430,260</u>	<u>102,197</u>	<u>87,068</u>	<u>9,881,691</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other current liabilities	4,741	4,496	50,336	52,384	6,371	6,381	61,448
Accrued contract expense	8,175	8,175	454,600	60,302			462,775
Revenue bonds- current	31,994	30,726	49,642	46,790			81,636
Total current liabilities	<u>44,910</u>	<u>43,397</u>	<u>554,578</u>	<u>159,476</u>	<u>6,371</u>	<u>6,381</u>	<u>605,859</u>
Non-current liabilities:							
Revenue bonds payable	1,156,862	1,188,856	2,537,305	2,083,858			3,694,167
Total liabilities	<u>1,201,772</u>	<u>1,232,253</u>	<u>3,091,883</u>	<u>2,243,334</u>	<u>6,371</u>	<u>6,381</u>	<u>4,300,026</u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt Restricted for:	735,550	768,636	4,226,606	3,871,896			4,962,156
Debt service			78,580	59,548			78,580
Unrestricted	179,782	159,670	265,321	255,482	95,826	80,687	540,929
Total net assets	<u>\$ 915,332</u>	<u>\$ 928,306</u>	<u>\$ 4,570,507</u>	<u>\$ 4,186,926</u>	<u>\$ 95,826</u>	<u>\$ 80,687</u>	<u>\$ 5,581,665</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, 2012

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
<b>OPERATING REVENUES</b>							
Charges for services	\$ 193,267	\$ 166,255	\$ 243,170	\$ 231,961	\$ 97,976	\$ 94,997	\$ 534,413
Other			12,625				12,625
Total revenues	<u>193,267</u>	<u>166,255</u>	<u>255,795</u>	<u>231,961</u>	<u>97,976</u>	<u>94,997</u>	<u>547,038</u>
<b>OPERATING EXPENSES</b>							
Water - distribution	92,744	91,136					92,744
Sewer - collection & treatment			96,797	85,567			96,797
Sanitation					82,837	84,274	82,837
Depreciation	63,812	63,812	161,788	161,788			225,600
Total operating expenses	<u>156,556</u>	<u>154,948</u>	<u>258,585</u>	<u>247,355</u>	<u>82,837</u>	<u>84,274</u>	<u>497,978</u>
<b>OPERATING INCOME</b>	<u>36,711</u>	<u>11,307</u>	<u>(2,790)</u>	<u>(15,394)</u>	<u>15,139</u>	<u>10,723</u>	<u>49,060</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Capital grants			450,962	139,835			450,962
Investment earnings	623	844	467	462			1,090
Interest expense	(50,308)	(52,102)	(65,058)	(66,375)			(115,366)
Total nonoperating revenues (expenses)	<u>(49,685)</u>	<u>(51,258)</u>	<u>386,371</u>	<u>73,922</u>			<u>336,686</u>
<b>CHANGE IN NET ASSETS</b>	<u>(12,974)</u>	<u>(39,951)</u>	<u>383,581</u>	<u>58,528</u>	<u>15,139</u>	<u>10,723</u>	<u>385,746</u>
Total net assets - beginning	<u>928,306</u>	<u>968,257</u>	<u>4,186,926</u>	<u>4,128,398</u>	<u>80,687</u>	<u>69,964</u>	<u>5,195,919</u>
Total net assets - ending	<u>\$ 915,332</u>	<u>\$ 928,306</u>	<u>\$ 4,570,507</u>	<u>\$ 4,186,926</u>	<u>\$ 95,826</u>	<u>\$ 80,687</u>	<u>\$ 5,581,665</u>

SEE ACCOMPANYING NOTES

City of Potlatch  
PROPRIETARY FUNDS

Combined Statement of Cash Flows  
For the Year Ended September 30, 2012

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers and users	\$ 193,569	\$ 166,957	\$ 256,051	\$ 236,324	\$ 97,819	\$ 97,144	\$ 547,439
Payments to suppliers	(58,993)	(53,796)	(62,903)	(38,353)	(82,847)	(82,706)	(204,743)
Payments to employees	(33,506)	(35,280)	(33,510)	(34,863)			(67,016)
Payments for interfund services used	(21,297)	14,849	57,186	59,328	(14,972)	(14,438)	20,917
Net cash provided (used) by operating activities	<u>79,773</u>	<u>94,730</u>	<u>216,824</u>	<u>222,436</u>			<u>296,597</u>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital grants			461,347	628,502			461,347
Acquisition and construction of capital assets		(15,500)	(474,708)	(664,048)			(474,708)
Principal paid on capital debt	(30,726)	(47,610)	(41,790)	(43,352)			(72,516)
Interest paid on capital debt	(50,308)	(52,102)	(67,490)	(65,928)			(117,798)
Net cash (used) provided by capital & related financing activities	<u>(81,034)</u>	<u>(115,212)</u>	<u>(122,641)</u>	<u>(144,826)</u>			<u>(203,675)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest received	623	844	467	462			1,090
Net cash provided by investing activities	<u>623</u>	<u>844</u>	<u>467</u>	<u>462</u>			<u>1,090</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(638)</b>	<b>(19,638)</b>	<b>94,650</b>	<b>76,072</b>			<b>94,012</b>
<b>CASH AND CASH EQUIVALENTS, October 1</b>	<b>276,840</b>	<b>296,478</b>	<b>225,905</b>	<b>147,833</b>			<b>502,745</b>
<b>CASH AND CASH EQUIVALENTS, September 30</b>	<u>\$ 276,202</u>	<u>\$ 276,840</u>	<u>\$ 320,555</u>	<u>\$ 225,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 596,757</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>							
Operating income	\$ 36,711	\$ 11,307	\$ (2,790)	\$ (15,394)	\$ 15,139	\$ 10,723	\$ 49,060
Adjustment to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation		63,812	161,788	161,788			225,600
Changes in other balance sheet accounts:							
Receivables	302	2,702	256	4,363	(157)	2,147	401
Accounts payable	(72)	(490)	67	(292)	(10)	1,568	(15)
Other current assets and liabilities	(20,980)	17,399	57,503	71,971	(14,972)	(14,438)	21,551
Net cash provided (used) by operating activities	<u>\$ 79,773</u>	<u>\$ 94,730</u>	<u>\$ 216,824</u>	<u>\$ 222,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,597</u>
<b>SUPPLEMENTAL DISCLOSURES</b>							
Cash paid for interest	\$ 50,308	\$ 53,458	\$ 65,928	\$ 47,866	\$ -	\$ -	\$ 116,236

SEE ACCOMPANYING NOTES

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2012

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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, 2012

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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, 2012

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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, 2012

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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, 2012

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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>
2012	\$ 23,931,652	0.5393%
2011	23,664,565	0.5267%
2010	23,669,514	0.5040%
2009	23,436,807	0.4939%
2008	24,258,446	0.4625%

##### 3. Net Assets/Fund Balances

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, 2012

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

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

##### 3. Net Assets/Fund Balances (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, 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, 2012

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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, 2012

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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, 2012

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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, 2012

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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 \$691,037, and the bank balance was \$988,149. Of the bank balance, \$500,077 was held by US Bank and was covered by federal depository insurance and \$488,072 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, 2012

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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, 2012 was as follows:

**Governmental activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 26,500			\$ 26,500
Total capital assets not being depreciated	<u>26,500</u>	<u>-</u>	<u>-</u>	<u>26,500</u>
Capital assets being depreciated:				
Buildings & Improvements	1,207,803			1,207,803
Vehicles	28,224			28,224
Equipment	119,914	5,197		125,111
Total capital assets being depreciated	<u>1,355,941</u>	<u>5,197</u>		<u>1,361,138</u>
Less accumulated depreciation for:				
Buildings	(258,021)		(27,019)	(285,040)
Vehicles	(28,224)			(28,224)
Equipment	(97,281)		(5,713)	(102,994)
Total accumulated depreciation	<u>(383,526)</u>		<u>(32,732)</u>	<u>(416,258)</u>
Total capital assets being depreciated, net	<u>972,415</u>	<u>5,197</u>	<u>(32,732)</u>	<u>944,880</u>
Governmental activities capital assets, net	<u>\$ 998,915</u>	<u>\$ 5,197</u>	<u>\$ (32,732)</u>	<u>\$ 971,380</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2012

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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:				
Land		\$ 150,000		\$ 150,000
Construction in progress	\$ 22,199	1,217,095		1,239,294
Total capital assets not being depreciated	<u>22,199</u>	<u>1,367,095</u>	<u>-</u>	<u>1,389,294</u>
Capital assets being depreciated:				
Buildings	10,400			10,400
Water Systems	2,414,046			2,414,046
Equipment	117,748			117,748
Sewer Systems	6,395,406			6,395,406
Total capital assets being depreciated	<u>8,937,600</u>	<u>-</u>		<u>8,937,600</u>
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water Systems	(430,939)		(61,598)	(492,537)
Equipment	(91,176)		(4,428)	(95,604)
Sewer Systems	(368,045)		(159,574)	(527,619)
Total accumulated depreciation	<u>(900,560)</u>		<u>(225,600)</u>	<u>(1,126,160)</u>
Total capital assets being depreciated, net	<u>8,037,040</u>	<u>-</u>	<u>(225,600)</u>	<u>7,811,440</u>
Business-type activities capital assets, net	<u>\$ 8,059,239</u>	<u>\$ 1,367,095</u>	<u>\$ (225,600)</u>	<u>\$ 9,200,734</u>



# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2012

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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	9,163
Streets	8,303
Total depreciation expense - governmental activities	<u>\$ 32,732</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 for a water system improvement project. The City also issued \$2,074,000 of revenue bonds in prior years and obtained a \$100,000 note payable to the Idaho Department of Environmental Quality for the sewer system improvement project. In the current year the City received \$498,089 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 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%	\$1,188,856
Sewer System Improvement Bonds	3.250%	\$1,988,858
Sewer System Improvement Note	0.000%	\$ 100,000
Sewer System Interim Financing	0.000%	\$ 498,089

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2012

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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, 2012 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
Water revenue bonds	\$ 1,219,582		\$ (30,726)	\$ 1,188,856
Sewer DEQ loan	100,000			100,000
Sewer revenue bonds	2,030,648		(41,790)	1,988,858
	<u>\$ 3,350,230</u>	<u>\$ -</u>	<u>\$ (72,516)</u>	<u>\$ 3,277,714</u>
Long-term Interim Financing	<u>\$ -</u>	<u>\$ 498,089</u>	<u>\$ -</u>	<u>\$ 498,089</u>

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 81,636	\$ 113,678
2014	84,406	110,908
2015	87,279	108,035
2016	90,256	105,058
2017	93,343	101,971
2018-2022	517,138	459,432
2023-2027	613,232	363,338
2028-2032	728,399	248,171
2033-2037	675,280	113,487
2038-2040	306,745	20,120
Total	<u>\$ 3,277,714</u>	<u>\$ 1,744,198</u>

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2012

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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, 2012

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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, 2012, 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 \$12,353, \$10,746, and \$11,757 for the years ended September 30, 2012, 2011, and 2010, 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, 2012

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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 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, 2012, which collectively comprise the City of Potlatch's basic financial statements and have issued our report thereon dated August 05, 2013. We conducted our audit 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.

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

Management of the 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 of Potlatch's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Potlatch'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 and 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 questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Findings No. 1 and 2). 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 of Potlatch'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*.

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

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



August 05, 2013



## Independent Auditor's Report – Single Audit Act

Members of the City Council  
City of Potlatch  
Potlatch, Idaho

### Compliance

We have audited the City of Potlatch's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Potlatch's major federal programs for the year ended September 30, 2012. The City of Potlatch's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Potlatch's management. Our responsibility is to express an opinion on the City of Potlatch's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Potlatch's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination the City of Potlatch's compliance with those requirements.

In our opinion, the City of Potlatch, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.



## Internal Control Over Compliance

Management the City of Potlatch, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Potlatch's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Potlatch's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, 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*

August 05, 2013

**City of Potlatch**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - ACCRUAL BASIS  
For the Year Ended September 30, 2012

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	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY		
Passed-through State of Idaho		
State of Idaho Capitalization Grants for Clean	66.458	\$ 940,726
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Passed-through the State of Idaho		
State of Idaho Community Development Block	14.228	<u>450,113</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u><u>\$ 1,390,839</u></u>

**BASIS OF PRESENTATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The schedule of expenditures of federal awards includes grant activity of the City of Potlatch and is presented in the *accrual basis* of accounting. The information in this schedule is presented in accordance with the requirements of 'OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

City of Potlatch

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2012

Section I -- Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

\* Material weakness(es) identified  yes  no

\* Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

\* Material weakness(es) identified  yes  no

\* Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.228	State of Idaho Block Grant
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

# CITY OF POTLATCH

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2012

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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.