

CITY OF POTLATCH

FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

CITY OF POTLATCH

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Potlatch
Potlatch, Idaho

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Potlatch, Idaho, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Potlatch, Idaho, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of pension funding and budgetary comparison information on pages 30 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2019, on our consideration of the City of Potlatch, Idaho's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Potlatch, Idaho's internal control over financial reporting and compliance.

PRESNELL GAGE PLLC

June 14, 2019

CITY OF POTLATCH

STATEMENT OF NET POSITION
September 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 190,194	\$ 869,728	\$ 1,059,922
Receivables	65,678	58,812	124,490
Cash and cash equivalents - restricted		152,531	152,531
Capital assets			
Land	145,886	155,460	301,346
Buildings	2,124,800	10,400	2,135,200
Vehicles	48,874		48,874
Machinery and equipment	128,289	144,498	272,787
Infrastructure		10,605,667	10,605,667
Construction in progress	94,984		94,984
Accumulated depreciation	(660,371)	(2,751,532)	(3,411,903)
Advances to/from other funds	83,733	(83,733)	0
Total assets	<u>2,222,067</u>	<u>9,161,831</u>	<u>11,383,898</u>
DEFERRED OUTFLOWS OF RESOURCES			
Defined benefit pension	<u>9,027</u>	<u>12,973</u>	<u>22,000</u>
LIABILITIES			
Accounts payable and other			
current liabilities	20,890	53,225	74,115
Unearned revenue	10,000		10,000
Compensated absences	3,709	5,116	8,825
Accrued contractor payable		8,175	8,175
Long-term liabilities - due within one year		152,531	152,531
Long-term liabilities - due in more than one year		3,436,847	3,436,847
Net pension liability	36,372	51,629	88,001
Total liabilities	<u>70,971</u>	<u>3,707,523</u>	<u>3,778,494</u>
DEFERRED INFLOWS OF RESOURCES			
Defined benefit pension	<u>6,926</u>	<u>10,074</u>	<u>17,000</u>
NET POSITION			
Net investment in capital assets	1,882,462	4,566,940	6,449,402
Restricted for debt service		152,531	152,531
Unrestricted	270,735	737,736	1,008,471
Total net position	<u>\$ 2,153,197</u>	<u>\$ 5,457,207</u>	<u>\$ 7,610,404</u>

See accompanying notes

CITY OF POTLATCH

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

See accompanying notes
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Functions/Programs	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	Total
Primary government							
Governmental activities							
General government	\$ 264,256	\$ 17,892	\$ 94,308	\$ 82,097	\$ (69,959)		\$ (69,959)
Highways and streets	83,827		29,161		(54,666)		(54,666)
Culture and recreation	128,908	80,159	87,498		38,749		38,749
PERSI retirement actuarial change	2,071				(2,071)		(2,071)
Total governmental activities	<u>479,062</u>	<u>98,051</u>	<u>210,967</u>	<u>82,097</u>	<u>(87,947)</u>		<u>(87,947)</u>
Business-type activities:							
Water	249,801	237,573	156		\$ (12,072)		(12,072)
Sewer	401,217	289,675	195		(111,347)		(111,347)
Sanitation	119,832	130,253			10,421		10,421
Total business-type activities	<u>770,850</u>	<u>657,501</u>	<u>351</u>		<u>(112,998)</u>		<u>(112,998)</u>
Total primary government	<u>\$ 1,249,912</u>	<u>\$ 755,552</u>	<u>\$ 211,318</u>	<u>\$ 82,097</u>	<u>(87,947)</u>	<u>(112,998)</u>	<u>(200,945)</u>
General revenues:							
Property taxes					179,773		179,773
State sales tax and revenue sharing					50,920		50,920
Liquor tax					17,549		17,549
Franchise fees					10,053		10,053
Unrestricted investment earnings					809	13,312	14,121
Other					20,705		20,705
Total general revenues					<u>279,809</u>	<u>13,312</u>	<u>293,121</u>
Change in net position					191,862	(99,686)	92,176
Net position - beginning					1,961,335	5,556,893	7,518,228
Net position - ending					<u>\$ 2,153,197</u>	<u>\$ 5,457,207</u>	<u>\$ 7,610,404</u>

CITY OF POTLATCH

BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2018

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 188,787	\$ 471	\$ 189,258
Receivables	50,614	15,064	65,678
Interfund balances	<u>96,307</u>	<u>(12,574)</u>	<u>83,733</u>
Total assets	<u>\$ 335,708</u>	<u>\$ 2,961</u>	<u>\$ 338,669</u>
LIABILITIES			
Accounts payable	\$ 17,278		\$ 17,278
Accrued salaries and benefits		\$ 2,676	2,676
Total liabilities	<u>17,278</u>	<u>2,676</u>	<u>19,954</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	4,132		4,132
Unearned revenue	<u>10,000</u>		<u>10,000</u>
Total deferred inflows of resources	<u>14,132</u>	<u>0</u>	<u>14,132</u>
FUND BALANCES			
Assigned for:			
Special revenue fund		285	
Unassigned	<u>304,298</u>		<u>304,298</u>
Total fund balances	<u>304,298</u>	<u>285</u>	<u>304,583</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 335,708</u>	<u>\$ 2,961</u>	<u>\$ 338,669</u>

Reconciliation of the Statement of Net Position to the Balance Sheet - Governmental Funds

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

Fund balance, governmental funds	\$ 304,583
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	2,542,833
Accumulated depreciation	(660,371)
Deferred outflows and deferred inflows for pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Deferred outflows	9,027
Deferred inflows	(6,926)
Property taxes receivable to be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.	4,132
Employee benefits, including credit leave and sick leave, which have not been paid out are not accrued in the funds.	(3,709)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Net pension liability	<u>(36,372)</u>
Net position of governmental activities	<u>\$ 2,153,197</u>

See accompanying notes

CITY OF POTLATCH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 182,858		\$ 182,858
State sales tax and revenue sharing	50,920		50,920
Liquor tax	17,549		17,549
Highway user	29,161		29,161
Franchise fees	10,053		10,053
Licenses and permits	6,927		6,927
Charges for services	90,950		90,950
Investment earnings	809		809
Grants and contributions	168,845	\$ 94,308	263,153
Other	21,629		21,629
Total revenues	<u>579,701</u>	<u>94,308</u>	<u>674,009</u>
EXPENDITURES			
Current:			
General government	161,993	94,411	256,404
Culture and recreation	100,528		100,528
Transportation	64,161		64,161
Capital outlay	256,497		256,497
Total expenditures	<u>583,179</u>	<u>94,411</u>	<u>677,590</u>
Net change in fund balances	(3,478)	(103)	(3,581)
FUND BALANCES, October 1	<u>307,776</u>	<u>388</u>	<u>308,164</u>
FUND BALANCES, September 30	<u>\$ 304,298</u>	<u>\$ 285</u>	<u>\$ 304,583</u>

See accompanying notes

CITY OF POTLATCH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

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

Net change in fund balances - total governmental funds	\$ (3,581)
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 position and allocated over their estimated useful lives as annual depreciation:	
Current year capital outlay	256,497
Current year depreciation	(55,348)
Net pension liability and the related deferred outflows and deferred inflows are not considered available for the governmental funds in the current year.	
Current year net pension liability, deferred outflows, and deferred inflows	(2,071)
Some amounts receivable will not be collected for several months after the fiscal year-end, and they are not considered available revenues in the governmental funds. Instead, they are counted as deferred tax revenues. They are, however, recorded in the statement of activities:	
Current year taxes receivable	4,132
Prior year taxes receivable	(7,217)
Employee benefits, including credit and sick leave, which have not been paid out are not counted as expense in the funds.	<u>(550)</u>
Change in net position of governmental activities	<u><u>\$ 191,862</u></u>

See accompanying notes

CITY OF POTLATCH

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2018

	<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>
ASSETS							
Current Assets:							
Cash and cash equivalents	\$ 135,462	\$ 157,464	\$ 734,266	\$ 673,075			\$ 869,728
Receivables	22,779	22,994	23,969	25,887	\$ 12,064	\$ 9,355	58,812
Interfund balances	98,308	64,379	(347,565)	(275,318)	165,524	155,534	(83,733)
Total current assets	256,549	244,837	410,670	423,644	177,588	164,889	844,807
Cash and cash equivalents - restricted			152,531	149,213			152,531
Fixed assets (net, where applicable, of accumulated depreciation)	1,615,354	1,674,289	6,549,139	6,749,055			8,164,493
Total assets	1,871,903	1,919,126	7,112,340	7,321,912	177,588	164,889	9,161,831
DEFERRED OUTFLOWS OF RESOURCES							
Defined benefit pension	6,516	5,637	6,457	5,579			12,973
LIABILITIES							
Current Liabilities:							
Accounts payable and other current liabilities	4,842	4,360	43,855	44,739	9,644	7,366	58,341
Accrued contract expense	8,175	8,175					8,175
Revenue bonds- current	40,775	39,160	111,756	110,053			152,531
Total current liabilities	53,792	51,695	155,611	154,792	9,644	7,366	219,047
Non-current Liabilities:							
Net pension liability	25,885	24,713	25,744	24,573			51,629
Revenue bonds payable	935,199	975,975	2,501,648	2,613,405			3,436,847
Total liabilities	1,014,876	1,052,383	2,683,003	2,792,770	9,644	7,366	3,707,523
DEFERRED INFLOWS OF RESOURCES							
Defined benefit pension	5,077	3,905	4,997	3,826			10,074
NET POSITION							
Net investment in capital assets	631,205	650,979	3,935,735	4,025,597			4,566,940
Restricted for:							
Debt service			152,531	149,213			152,531
Unrestricted	227,261	217,496	342,531	356,085	167,944	157,523	737,736
Total net position	\$ 858,466	\$ 868,475	\$ 4,430,797	\$ 4,530,895	\$ 167,944	\$ 157,523	\$ 5,457,207

See accompanying notes
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CITY OF POTLATCH

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Water	Water	Sewer	Sewer	Sanitation	Sanitation	Total
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year	Current Year
OPERATING REVENUES							
Charges for services	\$ 237,573	\$ 230,779	\$ 289,675	\$ 281,889	\$ 130,253	\$ 120,603	\$ 657,501
Other	156		195				351
Total revenues	<u>237,729</u>	<u>230,779</u>	<u>289,870</u>	<u>281,889</u>	<u>130,253</u>	<u>120,603</u>	<u>657,852</u>
OPERATING EXPENSES							
Water - distribution	143,027	113,744					143,027
Sewer - collection & treatment			139,693	104,442			139,693
Sanitation					119,832	111,116	119,832
Depreciation	63,435	65,199	204,416	206,181			267,851
Total operating expenses	<u>206,462</u>	<u>178,943</u>	<u>344,109</u>	<u>310,623</u>	<u>119,832</u>	<u>111,116</u>	<u>670,403</u>
OPERATING INCOME (LOSS)	<u>31,267</u>	<u>51,836</u>	<u>(54,239)</u>	<u>(28,734)</u>	<u>10,421</u>	<u>9,487</u>	<u>(12,551)</u>
NONOPERATING REVENUES (EXPENSES)							
Investment earnings	2,063	2,325	11,249	4,612			13,312
Interest expense	(41,874)	(43,426)	(55,644)	(57,291)			(97,518)
PERSI retirement actuarial change	(1,465)	(2,921)	(1,464)	(2,916)			(2,929)
Total nonoperating revenues (expenses)	<u>(41,276)</u>	<u>(44,022)</u>	<u>(45,859)</u>	<u>(55,595)</u>	<u>0</u>	<u>0</u>	<u>(87,135)</u>
CHANGE IN NET POSITION	<u>(10,009)</u>	<u>7,814</u>	<u>(100,098)</u>	<u>(84,329)</u>	<u>10,421</u>	<u>9,487</u>	<u>(99,686)</u>
TOTAL NET POSITION - BEGINNING	<u>868,475</u>	<u>860,661</u>	<u>4,530,895</u>	<u>4,615,224</u>	<u>157,523</u>	<u>148,036</u>	<u>5,556,893</u>
TOTAL NET POSITION - ENDING	<u>\$ 858,466</u>	<u>\$ 868,475</u>	<u>\$ 4,430,797</u>	<u>\$ 4,530,895</u>	<u>\$ 167,944</u>	<u>\$ 157,523</u>	<u>\$ 5,457,207</u>

See accompanying notes
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CITY OF POTLATCH

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended September 30, 2018

	<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>
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 237,944	\$ 228,156	\$ 291,788	\$ 279,891	\$ 127,544	\$ 120,603	\$ 657,276
Payments to suppliers	(94,339)	(72,954)	(91,023)	(61,156)	(117,554)	(112,398)	(302,916)
Payments to employees	(48,206)	(43,871)	(48,301)	(43,793)			(96,507)
Payments for interfund services used	(33,929)	(14,089)	72,247	231,809	(9,990)	(8,205)	28,328
Net cash provided by operating activities	<u>61,470</u>	<u>97,242</u>	<u>224,711</u>	<u>406,751</u>	<u>0</u>	<u>0</u>	<u>286,181</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of capital assets	(4,500)		(4,500)				(9,000)
Principal paid on capital debt	(39,161)	(37,608)	(110,054)	(108,404)			(149,215)
Interest paid on capital debt	(41,874)	(43,426)	(56,897)	(58,544)			(98,771)
Net cash used by capital and related financing activities	<u>(85,535)</u>	<u>(81,034)</u>	<u>(171,451)</u>	<u>(166,948)</u>			<u>(256,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	2,063	2,325	11,249	4,612			13,312
Net cash provided by investing activities	<u>2,063</u>	<u>2,325</u>	<u>11,249</u>	<u>4,612</u>			<u>13,312</u>
Net change in cash	(22,002)	18,533	64,509	244,415			42,507
CASH AND CASH EQUIVALENTS, October 1	<u>157,464</u>	<u>138,931</u>	<u>822,288</u>	<u>577,873</u>	<u>0</u>	<u>0</u>	<u>979,752</u>
CASH AND CASH EQUIVALENTS, September 30	<u>\$ 135,462</u>	<u>\$ 157,464</u>	<u>\$ 886,797</u>	<u>\$ 822,288</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,022,259</u>
Reconciliation of operating income (loss) to net cash provided by operating activities							
Operating income (loss)	\$ 31,267	\$ 51,836	\$ (54,239)	\$ (28,734)	\$ 10,421	\$ 9,487	\$ (12,551)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation	63,435	65,199	204,416	206,181			267,851
Changes in other balance sheet accounts:							
Receivables	215	(2,623)	1,918	(1,998)	(2,709)		(576)
Accounts payable	482	(3,081)	(884)	(1,710)	2,278	(1,282)	1,876
Other current assets and liabilities	(33,929)	(14,089)	73,500	233,012	(9,990)	(8,205)	29,581
Net cash provided by operating activities	<u>\$ 61,470</u>	<u>\$ 97,242</u>	<u>\$ 224,711</u>	<u>\$ 406,751</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 286,181</u>
SUPPLEMENTAL DISCLOSURES							
Total cash paid for interest	<u>\$ 41,874</u>	<u>\$ 43,426</u>	<u>\$ 56,897</u>	<u>\$ 58,544</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 98,771</u>

12 See accompanying notes

CITY OF POTLATCH

STATEMENT OF NET POSITION - FIDUCIARY FUNDS
September 30, 2018

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

See accompanying notes

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

District assessed market value and tax levy rates:

	Total Market <u>Valuation</u>	<u>Levy</u>
2018	\$ 25,317,154	0.5872%
2017	24,234,443	0.6103%
2016	23,326,206	0.6098%
2015	23,252,778	0.5935%
2014	23,524,528	0.5692%

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

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 culture and recreation.

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

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

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Pensions. For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from the Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

2. BUDGETARY AND LEGAL COMPLIANCE

A. Budgetary Information

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

2. BUDGETARY AND LEGAL COMPLIANCE (CONTINUED)

A. Budgetary Information (Continued)

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

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Equivalents

The carrying amount of the City's deposits at year-end was \$1,213,389. The carrying amount of cash deposits at year-end was \$157,156 and the bank balance was \$177,672. Of the bank balance, \$176,736 was covered by federal depository insurance. The City also had \$1,056,233 held by the Idaho State Treasurer's Local Government Investment Pool, this amount 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

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

B. Capital Assets

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

Governmental activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 70,745	\$ 75,141		\$ 145,886
Construction in progress	32,174	140,616	\$ (77,806)	94,984
Total capital assets not being depreciated	<u>102,919</u>	<u>215,757</u>	<u>(77,806)</u>	<u>240,870</u>
Capital assets being depreciated:				
Buildings and improvements	2,026,904	97,896		2,124,800
Vehicles	28,224	20,650		48,874
Equipment	128,289			128,289
Total capital assets being depreciated	<u>2,183,417</u>	<u>118,546</u>	<u>0</u>	<u>2,301,963</u>
Less accumulated depreciation for:				
Buildings and improvements	(457,818)	(49,944)		(507,762)
Vehicles	(28,224)	(2,065)		(30,289)
Equipment	(118,981)	(3,339)		(122,320)
Total accumulated depreciation	<u>(605,023)</u>	<u>(55,348)</u>	<u>0</u>	<u>(660,371)</u>
Total capital assets being depreciated, net	<u>1,578,394</u>	<u>63,198</u>	<u>0</u>	<u>1,641,592</u>
Governmental activities capital assets, net	<u><u>\$ 1,681,313</u></u>	<u><u>\$ 278,955</u></u>	<u><u>\$ (77,806)</u></u>	<u><u>\$ 1,882,462</u></u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

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

B. Capital Assets (Continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 155,460			\$ 155,460
Total capital assets not being depreciated	155,460	\$ 0	\$ 0	155,460
Capital assets being depreciated:				
Buildings	10,400			10,400
Water systems	2,470,995			2,470,995
Vehicles		9,000		9,000
Equipment	135,498			135,498
Sewer systems	8,134,672			8,134,672
Total capital assets being depreciated	10,751,565	9,000	0	10,760,565
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water systems	(801,386)	(61,360)		(862,746)
Vehicles		(900)		(900)
Equipment	(128,996)	(2,535)		(131,531)
Sewer systems	(1,542,899)	(203,056)		(1,745,955)
Total accumulated depreciation	(2,483,681)	(267,851)	0	(2,751,532)
Total capital assets being depreciated, net	8,267,884	(258,851)	0	8,009,033
Business-type activities capital assets, net	\$ 8,423,344	\$ (258,851)	\$ 0	\$ 8,164,493

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

Governmental activities:	
General government	\$ 14,769
Culture and recreation	20,913
Streets	19,666
Total depreciation expense - governmental activities	\$ 55,348
Business-type activities:	
Water	\$ 63,435
Sewer	204,416
Total depreciation expense - business-type activities	\$ 267,851

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

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

C. Long-Term Debt

The City issued bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The City issued \$1,400,000 of revenue bonds in prior years for a water system improvement project. The City issued \$3,127,358 of USDA revenue bonds in prior years for a sewer system improvement project. The City also issued \$1,100,000 of DEQ sewer revenue bonds in prior years to pay off a prior interim loan relating to the sewer system improvement project. 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%	\$ 975,974
Sewer System Improvement Bonds	3.250%	1,698,218
Sewer System Improvement Bonds	0.000%	72,500
Sewer System Interim Financing	0.000%	842,686

Long-term debt activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
USDA water revenue bonds	\$ 1,015,135		\$ (39,161)	\$ 975,974
DEQ sewer revenue bonds - 2013	77,500		(5,000)	72,500
USDA sewer revenue bonds	1,750,604		(52,386)	1,698,218
DEQ sewer revenue bonds - 2014	895,354		(52,668)	842,686
	<u>\$ 3,738,593</u>	<u>\$ 0</u>	<u>\$ (149,215)</u>	<u>\$ 3,589,378</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

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

C. Long-Term Debt (Continued)

Year Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 152,529	\$ 95,451
2020	155,971	92,011
2021	159,537	88,445
2022	163,235	84,747
2023-2027	876,584	363,326
2028-2032	991,752	248,158
2033-2037	783,130	113,471
2038-2040	306,640	20,113
Total	<u>\$ 3,589,378</u>	<u>\$ 1,105,722</u>

4. OTHER INFORMATION

A. Risk Management

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

The general insurance limits are as follow:

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

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

4. 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, 2018, the required contribution rate as a percentage of covered payroll for members was 6.79 percent for general members and 8.36 percent for police/firefighters. The employer rate as a percentage of covered payroll was 11.32 percent for general members and 11.66 percent for police/firefighters.

The City's required and paid contribution was \$21,406, \$18,410, and \$16,566 for the years ended September 30, 2018, 2017, and 2016, respectively.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2018, the City reported a liability of \$88,001 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2018, the City's proportion was .0059764 percent

For the year ended September 30, 2018, the City recognized a net loss on pension expense of \$5,000. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$ 6,000	
Differences between expected and actual experience	\$ 10,000	\$ 7,000
Changes in assumptions or other inputs	\$ 6,000	
Net difference between projected and actual earnings on pension plan investments		\$ 10,000

Deferred outflows of resources in the amount of \$6,000 related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2019.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION (CONTINUED)

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

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. (Continued) The average of the expected remaining service lives of all employees that are provided with pensions through the system (active and inactive employees) determined at July 1, 2017, the beginning of the measurement period ended June 30, 2018, is 4.8 and 4.9 for the measurement period June 30, 2017.

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

2019	\$	4,000
2020		0
2021		(4,000)
2022		(2,000)

Actuarial Assumptions. Valuations are based upon actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. PERSI amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period permitted under Section 59-1322, *Idaho Code*, is 25 years.

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases including inflation	3.75%
Investment rate of return	7.05%, net of pension plan investment expense
Cost of Living Adjustments (COLA)	1.00%

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

- Set back 3 years for teachers
- No offset for male fire and police
- Forward 1 year for female fire and police
- Set back 1 year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2013 through June 30, 2017, which reviewed all economic and demographic assumptions other than mortality. The total pension liability as of June 30, 2018, is based on the results of an actuarial valuation date of July 1, 2018.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION (CONTINUED)

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

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

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION (CONTINUED)

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

Actuarial Assumptions. (Continued)

CAPITAL MARKET ASSUMPTIONS

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION (CONTINUED)

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

Discount Rate. The discount rate used to measure the total pension liability was 7.05 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plan’s net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.05 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.05 percent) or 1-percentage-point higher (8.05 percent) than the current rate:

	1 % Decrease (6.05%)	Current Discount Rate (7.05%)	1% Increase (8.05%)
City’s proportionate share of the net pension liability (asset)	\$ 221,000	\$ 88,001	\$ (22,000)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERSI financial report. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

C. Contingencies and Commitments

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

D. Fund Balance Classifications

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF POTLATCH

SCHEDULE OF PENSION FUNDING
For the Year Ended September 30, 2018

Fiscal Year	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll	Share of PERSI Net Pension Liability		Net Pension Liability as % of Covered Payroll
						%	Amount	
2009	\$ 10,655	\$ 10,655	\$ 0	\$ 102,600	10.38%	(1)	(1)	
2010	11,757	11,757	0	113,200	10.39%	(1)	(1)	
2011	10,746	10,746	0	103,400	10.39%	(1)	(1)	
2012	12,353	12,353	0	118,900	10.39%	(1)	(1)	
2013	13,507	13,507	0	130,000	10.39%	(1)	(1)	
2014	13,595	13,595	0	120,100	11.32%	(1)	\$ 34,900	29%
2015	13,533	13,533	0	119,500	11.32%	0.0043461%	57,201	48%
2016	16,566	16,566	0	146,300	11.32%	0.0043011%	87,000	59%
2017	18,410	18,410	0	162,600	11.32%	0.0053178%	84,000	52%
2018	21,406	21,406	0	189,100	11.32%	0.0059764%	88,000	47%

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

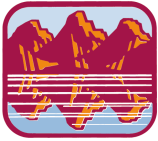
CITY OF POTLATCH

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$ 165,830	\$ 165,830	\$ 182,858	\$ 17,028
State sales tax and revenue sharing	48,291	48,291	50,920	2,629
Liquor tax	17,260	17,260	17,549	289
Highway user	28,789	28,789	29,161	372
Franchise fees	9,800	9,800	10,053	253
Licenses and permits	3,100	3,100	6,927	3,827
Charges for services	57,328	57,328	90,950	33,622
Investment earnings	120	120	809	689
Grants and contributions	539,646	539,646	168,845	(370,801)
Other	21,550	21,550	21,629	79
Total revenues	<u>891,714</u>	<u>891,714</u>	<u>579,701</u>	<u>(312,013)</u>
EXPENDITURES				
Current				
General government	721,846	721,846	161,993	559,853
Culture and recreation	102,032	102,032	100,528	1,504
Transportation	107,612	107,612	64,161	43,451
Capital outlay			256,497	(256,497)
Total expenditures	<u>931,490</u>	<u>931,490</u>	<u>583,179</u>	<u>348,311</u>
Net change in fund balances	(39,776)	(39,776)	(3,478)	36,298
FUND BALANCES, October 1	<u>39,776</u>	<u>39,776</u>	<u>307,776</u>	<u>268,000</u>
FUND BALANCES, September 30	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 304,298</u>	<u>\$ 304,298</u>

See accompanying notes

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT – GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of Potlatch
Potlatch, Idaho

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses (#2018-001) that we consider to be a significant deficiency.

Compliance and Other Matters

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

City of Potlatch, Idaho's Response to Findings

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

Purpose of this Report

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

PRESNELL GAGE PLLC

June 14, 2019

CITY OF POTLATCH

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended September 30, 2018

SIGNIFICANT DEFICIENCY

Finding #2018-001

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

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

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

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

Recommendation – We concur with the City’s response.