

CITY OF POTLATCH

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

CITY OF POTLATCH

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Independent Auditor's Report

Members of the City Council
City of Potlatch
Potlatch, Idaho

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, Idaho as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, Idaho as of September 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated March 31, 2015, on our consideration of the City of Potlatch, Idaho's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Potlatch, Idaho's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Presnell Gage, PLLC". The signature is written in a cursive style with a large initial 'P'.

March 31, 2015

City of Potlatch
Statement of Net Position
September 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 96,653	\$ 727,510	\$ 824,163
Receivables	35,145	55,284	90,429
Cash and cash equivalents - restricted		116,643	116,643
Capital assets:			
Land	166,745	155,460	322,205
Buildings	1,344,109	10,400	1,354,509
Vehicles	28,224		28,224
Machinery and equipment	122,861	130,498	253,359
Infrastructure		10,605,666	10,605,666
Construction in progress	8,000		8,000
Accumulated depreciation	(471,493)	(1,669,392)	(2,140,885)
Advances to/from other funds	66,620	(66,620)	
Total assets	1,396,864	10,065,449	11,462,313
LIABILITIES			
Accounts payable and other			
current liabilities	12,325	59,340	71,665
Compensated absences	2,342	3,766	6,108
Accrued contractor payable		8,175	8,175
Long-term liabilities - due within one year		139,949	139,949
Long-term liabilities - due in more than one year		4,027,529	4,027,529
Total liabilities	14,667	4,238,759	4,253,426
NET POSITION			
Net investment in capital assets	1,198,446	5,056,979	6,255,425
Restricted for debt service		116,643	116,643
Unrestricted	183,751	653,068	836,819
Total net position	\$ 1,382,197	\$ 5,826,690	\$ 7,208,887

SEE ACCOMPANYING NOTES

City of Potlatch
Statement of Activities
For the Year Ended September 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<u>Functions/Programs</u>							
Primary government:							
Governmental activities							
General government	\$ 152,292	\$ 15,829	\$ 19,171	\$ 213,195	\$ 95,903	\$	\$ 95,903
Highways and streets	82,724		26,705		(56,019)		(56,019)
Culture and recreation	91,454	70,648	3,178	13,530	(4,098)		(4,098)
Total governmental activities	\$ 326,470	\$ 86,477	\$ 49,054	\$ 226,725	35,786		35,786
Business-type activities:							
Water	\$ 235,872	\$ 196,903		\$ 49,960		\$ 10,991	10,991
Sewer	359,158	276,588				(82,570)	(82,570)
Sanitation	107,602	117,748				10,146	10,146
Total business-type activities	702,632	591,239		49,960		(61,433)	(61,433)
Total primary government	\$ 1,029,102	\$ 677,716	\$ 49,054	\$ 276,685	35,786	(61,433)	(25,647)
General revenues:							
Property taxes					149,645		149,645
State sales tax & revenue sharing					41,018		41,018
Liquor tax					18,585		18,585
Franchise fees					9,436		9,436
Unrestricted investment earnings					170	753	923
Other					12,881		12,881
Total general revenues					231,735	753	232,488
Change in net position					267,521	(60,680)	206,841
Net position - beginning					1,114,676	5,887,370	7,002,046
Net position - ending					\$ 1,382,197	\$ 5,826,690	\$ 7,208,887

SEE ACCOMPANYING NOTES

City of Potlatch
Balance Sheet - Governmental Funds
September 30, 2014

	General
ASSETS	
Cash and cash equivalents	\$ 95,717
Receivables	35,145
Interfund balances	66,620
Total assets	\$ 197,482
LIABILITIES	
Accounts payable	\$ 5,255
Accrued salaries and benefits	6,134
Total liabilities	11,389
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	8,264
Total deferred inflows of resources	8,264
FUND BALANCES	
Assigned for:	
Streets	39,329
Unassigned	138,500
Total fund balances	177,829
Total liabilities, deferred inflows of resources, and fund balances	\$ 197,482

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

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

Fund balance, governmental funds	\$ 177,829
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	1,669,939
Accumulated depreciation	(471,493)
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.	8,264
Employee benefits, including credit leave and sick leave, which have not been paid out are not accrued in the funds.	(2,342)
Net position of governmental activities	\$ 1,382,197

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, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 143,819	\$ 143,819	\$ 149,097	\$ 5,278
State sales tax & revenue sharing	40,591	40,591	41,018	427
Liquor tax	20,168	20,168	18,585	(1,583)
Highway user	26,404	26,404	26,705	301
Franchise fees	6,800	6,800	9,436	2,636
Licenses and permits	2,950	2,950	6,011	3,061
Charges for services	40,300	40,300	76,116	35,816
Investment earnings	120	120	170	50
Grants and contributions	389,000	389,000	246,937	(142,063)
Other	5,800	5,800	19,368	13,568
Total revenues	<u>675,952</u>	<u>675,952</u>	<u>593,443</u>	<u>(82,509)</u>
EXPENDITURES				
Current:				
General government	139,370	139,370	138,102	1,268
Culture and recreation	73,650	73,650	78,932	(5,282)
Transportation	103,932	103,932	74,421	29,511
Capital outlay	385,000	385,000	238,566	146,434
Contingency	27,819	27,819		27,819
Total expenditures	<u>729,771</u>	<u>729,771</u>	<u>530,021</u>	<u>199,750</u>
Net change in fund balances	(53,819)	(53,819)	63,422	117,241
FUND BALANCES, October 1	<u>53,819</u>	<u>53,819</u>	<u>114,407</u>	<u>60,588</u>
FUND BALANCES, September 30	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 177,829</u>	<u>\$ 177,829</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, 2014

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

Net change in fund balances - total governmental funds	\$	63,422
<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		238,566
Current year depreciation		(34,663)
<p>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:</p>		
Current year taxes receivable		8,264
Prior year taxes receivable		(7,716)
Employee benefits, including credit and sick leave, which have not been paid out are not counted as expense in the funds.		(352)
Change in net assets of governmental activities	<u>\$</u>	<u>267,521</u>

City of Pottlatch

PROPRIETARY FUNDS

Combined Statement of Net Position
September 30, 2014

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
ASSETS							
Current Assets:							
Cash and cash equivalents	\$ 120,948	\$ 295,486	\$ 606,562	\$ 340,716			\$ 727,510
Receivables	20,799	19,535	23,703	63,310	\$ 10,782	\$ 9,064	55,284
Interfund balances	36,626	(126,929)	(224,272)	(9,856)	121,026	109,480	(66,620)
Total current assets	178,373	188,092	405,993	394,170	131,808	118,544	716,174
Cash and cash equivalents - restricted			116,643	97,611			116,643
Fixed assets (net, where applicable, of accumulated depreciation)	1,865,034	1,874,233	7,367,598	7,573,779			9,232,632
Total assets	2,043,407	2,062,325	7,890,234	8,065,560	131,808	118,544	10,065,449
LIABILITIES							
Current liabilities:							
Accounts payable and other current liabilities	6,529	3,483	48,225	49,348	8,352	5,234	63,106
Accrued contract expense	8,175	8,175		40,932			8,175
Revenue bonds- current	34,688	33,313	105,261	51,095			139,949
Total current liabilities	49,392	44,971	153,486	141,375	8,352	5,234	211,230
Non-current liabilities:							
Revenue bonds payable	1,088,861	1,123,549	2,938,668	3,043,930			4,027,529
Total liabilities	1,138,253	1,168,520	3,092,154	3,185,305	8,352	5,234	4,238,759
NET POSITION							
Net investment in capital assets	733,310	709,196	4,323,669	4,437,822			5,056,979
Restricted for:							
Debt service			116,643	97,611			116,643
Unrestricted	171,844	184,609	357,768	344,822	123,456	113,310	653,068
Total net position	\$ 905,154	\$ 893,805	\$ 4,798,080	\$ 4,880,255	\$ 123,456	\$ 113,310	\$ 5,826,690

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2014

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
OPERATING REVENUES							
Charges for services	\$ 196,903	\$ 193,740	\$ 276,588	\$ 260,746	\$ 117,748	\$ 99,414	\$ 591,239
Other		2,813		500			
Total revenues	<u>196,903</u>	<u>196,553</u>	<u>276,588</u>	<u>261,246</u>	<u>117,748</u>	<u>99,414</u>	<u>591,239</u>
OPERATING EXPENSES							
Water - distribution	122,004	104,822					122,004
Sewer - collection & treatment			90,892	93,726			90,892
Sanitation					107,602	81,930	107,602
Depreciation	66,147	64,723	206,181	206,181			272,328
Total operating expenses	<u>188,151</u>	<u>169,545</u>	<u>297,073</u>	<u>299,907</u>	<u>107,602</u>	<u>81,930</u>	<u>592,826</u>
OPERATING INCOME	<u>8,752</u>	<u>27,008</u>	<u>(20,485)</u>	<u>(38,661)</u>	<u>10,146</u>	<u>17,484</u>	<u>(1,587)</u>
NONOPERATING REVENUES (EXPENSES)							
Capital grants	49,960			411,407			49,960
Investment earnings	358	505	395	479			753
Interest expense	(47,721)	(49,040)	(62,085)	(63,477)			(109,806)
Total nonoperating revenues (expenses)	<u>2,597</u>	<u>(48,535)</u>	<u>(61,690)</u>	<u>348,409</u>			<u>(59,093)</u>
CHANGE IN NET POSITION	<u>11,349</u>	<u>(21,527)</u>	<u>(82,175)</u>	<u>309,748</u>	<u>10,146</u>	<u>17,484</u>	<u>(60,680)</u>
Total net position - beginning	<u>893,805</u>	<u>915,332</u>	<u>4,880,255</u>	<u>4,570,507</u>	<u>113,310</u>	<u>95,826</u>	<u>5,887,370</u>
Total net position - ending	<u>\$ 905,154</u>	<u>\$ 893,805</u>	<u>\$ 4,798,080</u>	<u>\$ 4,880,255</u>	<u>\$ 123,456</u>	<u>\$ 113,310</u>	<u>\$ 5,826,690</u>

SEE ACCOMPANYING NOTES

City of Potlatch
PROPRIETARY FUNDS

Combined Statement of Cash Flows
For the Year Ended September 30, 2014

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 195,639	\$ 197,804	\$ 275,263	\$ 262,446	\$ 116,030	\$ 100,687	\$ 566,932
Payments to suppliers	(84,250)	(71,476)	(56,602)	(58,996)	(104,484)	(83,067)	(245,336)
Payments to employees	(34,708)	(34,604)	(34,313)	(34,605)	(69,021)	(69,021)	(69,021)
Payments for interfund services used	(163,555)	14,464	214,416	59,960	(11,546)	(17,620)	39,315
Net cash provided by operating activities	<u>(86,874)</u>	<u>106,188</u>	<u>398,764</u>	<u>228,805</u>	<u>-</u>	<u>-</u>	<u>311,890</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES							
Proceeds from capital grants	49,960			358,312			49,960
Acquisition and construction of capital assets	(56,948)	(6,375)		(358,043)			(56,948)
Principal paid on capital debt	(33,313)	(31,994)	(51,096)	(47,191)			(84,409)
Interest paid on capital debt	(47,721)	(49,040)	(63,185)	(64,590)			(110,906)
Net cash used by capital & related financing activities	<u>(88,022)</u>	<u>(87,409)</u>	<u>(114,281)</u>	<u>(111,512)</u>	<u>-</u>	<u>-</u>	<u>(202,303)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	358	505	395	479			753
Net cash provided by investing activities	<u>358</u>	<u>505</u>	<u>395</u>	<u>479</u>	<u>-</u>	<u>-</u>	<u>753</u>
NET INCREASE (DECREASE) IN CASH	<u>(174,538)</u>	<u>19,284</u>	<u>284,878</u>	<u>117,772</u>	<u>-</u>	<u>-</u>	<u>110,340</u>
CASH AND CASH EQUIVALENTS, October 1	<u>295,486</u>	<u>276,202</u>	<u>438,327</u>	<u>320,555</u>	<u>-</u>	<u>-</u>	<u>733,813</u>
CASH AND CASH EQUIVALENTS, September 30	<u>\$ 120,948</u>	<u>\$ 295,486</u>	<u>\$ 723,205</u>	<u>\$ 438,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 844,153</u>
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating income	\$ 8,752	\$ 27,008	\$ (20,485)	\$ (38,661)	\$ 10,146	\$ 17,484	\$ (1,587)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation							
Changes in other balance sheet accounts:							
Receivables	66,147	64,723	206,181	206,181			272,328
Accounts payable	(1,264)	1,251	(1,325)	1,200	(1,718)	1,273	(4,307)
Other current assets and liabilities	2,520	(431)	(2,481)	2,691	3,118	(1,137)	3,157
Net cash provided by operating activities	<u>(163,029)</u>	<u>13,637</u>	<u>216,874</u>	<u>57,394</u>	<u>(11,546)</u>	<u>(17,620)</u>	<u>42,299</u>
	<u>(86,874)</u>	<u>106,188</u>	<u>398,764</u>	<u>228,805</u>	<u>-</u>	<u>-</u>	<u>311,890</u>
SUPPLEMENTAL DISCLOSURES							
Total cash paid for interest	\$ 47,721	\$ 49,040	\$ 63,185	\$ 64,590	\$ -	\$ -	\$ 110,906

SEE ACCOMPANYING NOTES

City of Potlatch

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
September 30, 2014

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

SEE ACCOMPANYING NOTES

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2014

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 in governmental accounting standards. The City of Potlatch has no component units.

B. **Government-Wide and Fund Financial Statements**

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

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2014

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, 2014

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, 2014

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* 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.

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

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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (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 Valuation	Levy
2014	\$ 23,524,528	0.5692%
2013	22,744,220	0.5630%
2012	23,931,652	0.5393%
2011	23,664,565	0.5267%
2010	23,669,514	0.5040%

3. 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:

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Net Position/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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category in the current year.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. 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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. 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.

8. 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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance 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, 2014

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 \$213,323 and the bank balance was \$228,630. Of the bank balance, \$228,630 was covered by federal depository insurance. The City also had \$727,482 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, 2014

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

B. Capital Assets

Capital asset activity for the year ended September 30, 2014 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 31,745	\$ 135,000		\$ 166,745
Construction in progress		8,000		8,000
Total capital assets not being depreciated	<u>31,745</u>	<u>143,000</u>	<u>-</u>	<u>174,745</u>
Capital assets being depreciated:				
Buildings & improvements	1,248,543	95,566		1,344,109
Vehicles	28,224			28,224
Equipment	137,861		\$ (15,000)	122,861
Total capital assets being depreciated	<u>1,414,628</u>	<u>95,566</u>	<u>(15,000)</u>	<u>1,495,194</u>
Less accumulated depreciation for:				
Buildings	(313,078)	(30,427)		(343,505)
Vehicles	(28,224)			(28,224)
Equipment	(110,528)	(4,236)	15,000	(99,764)
Total accumulated depreciation	<u>(451,830)</u>	<u>-</u>	<u>15,000</u>	<u>(471,493)</u>
Total capital assets being depreciated, net	<u>962,798</u>	<u>95,566</u>	<u>-</u>	<u>1,023,701</u>
Governmental activities capital assets, net	<u>\$ 994,543</u>	<u>\$ 238,566</u>	<u>\$ -</u>	<u>\$ 1,198,446</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

III. 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
Construction in progress	-			-
Total capital assets not being depreciated	<u>155,460</u>	<u>-</u>	<u>-</u>	<u>155,460</u>
Capital assets being depreciated:				
Buildings	10,400			10,400
Water systems	2,414,046	\$ 56,948		2,470,994
Equipment	130,498			130,498
Sewer systems	8,134,672			8,134,672
Total capital assets being depreciated	<u>10,689,616</u>	<u>56,948</u>		<u>10,746,564</u>
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water systems	(554,135)	(63,022)		(617,157)
Equipment	(101,854)	(6,250)		(108,104)
Sewer systems	(730,675)	(203,056)		(933,731)
Total accumulated depreciation	<u>(1,397,064)</u>		<u>-</u>	<u>(1,669,392)</u>
Total capital assets being depreciated, net	<u>9,292,552</u>	<u>56,948</u>	<u>-</u>	<u>9,077,172</u>
Business-type activities capital assets, net	<u>\$ 9,448,012</u>	<u>\$ 56,948</u>	<u>\$ -</u>	<u>\$ 9,232,632</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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	\$ 15,267
Culture & recreation	11,093
Streets	8,303
Total depreciation expense - governmental activities	<u>\$ 34,663</u>

Business-type activities:	
Water	\$ 66,147
Sewer	206,181
Total depreciation expense - business-type activities	<u>\$ 272,328</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 issued \$2,074,000 of USDA revenue bonds in prior years for a sewer system improvement project. The City also issued \$100,000 of DEQ sewer revenue bonds in the current year to pay off a prior interim loan relating to the sewer system improvement project. In the current year the City received \$555,269 on an interim note payable to the Idaho Department of Environmental Quality for the continuation of the sewer system improvement project. After project completion, the note will be refinanced using DEQ revenue bonds, which will be repaid in biannual installments over 20 years at 0.00% interest. A portion of the principal will be forgiven. The long-term debt outstanding at year end is as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Water System Improvement Bonds	4.125%	\$1,123,549
Sewer System Improvement Bonds	3.250%	\$1,898,072
Sewer System Improvement Bonds	0.000%	\$ 92,500
Sewer System Interim Financing	0.000%	\$1,053,358

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2014

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, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
USDA water revenue bonds	\$ 1,156,862		\$ (33,314)	\$ 1,123,548
DEQ sewer revenue bonds - 2013	97,500		(5,000)	92,500
USDA sewer revenue bonds	1,944,167		(46,095)	1,898,072
DEQ sewer revenue bonds - 2014		<u>\$ 1,053,358</u>		<u>1,053,358</u>
	<u>\$ 3,198,529</u>	<u>\$ 1,053,358</u>	<u>\$ (84,409)</u>	<u>\$ 4,167,478</u>
 Long-term interim financing	 <u>\$ 1,053,358</u>	 <u>\$ -</u>	 <u>\$ (1,053,358)</u>	 <u>\$ -</u>

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 139,949	\$ 108,033
2016	142,925	105,057
2017	146,012	101,970
2018	149,213	98,769
2019	152,531	95,451
2020-2024	816,855	423,055
2025-2029	920,162	319,748
2030-2034	1,036,497	195,911
2035-2039	558,551	68,148
2040	<u>104,783</u>	<u>3,409</u>
 Total	 <u>\$ 4,167,478</u>	 <u>\$ 1,519,551</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2014

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, 2014

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, 2014, the required contribution rate as a percentage of covered payroll for members was 6.79 percent for general members and 8.36 percent for police/firefighters. The employer rate as a percentage of covered payroll was 11.32 percent for general members and 11.66 percent for police/firefighters.

The City's required and paid contribution was \$13,595, \$13,507, and \$12,353 for the years ended September 30, 2014, 2013, and 2012, 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 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.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2014

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 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.



609 South Washington, Suite 202
Moscow, Idaho 83843
www.presnellgage.com

(208) 882-2211

Fax: (208) 883-3808

Independent Auditor's Report – Government Auditing Standards

Members of the City Council
City of Potlatch
Potlatch, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, and each major fund of the City of Potlatch, Idaho, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Potlatch, Idaho's basic financial statements and have issued our report thereon dated March 31, 2015.

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.

Lewiston Office: 1216 Idaho Street, Lewiston, Idaho 83501, (208) 746-8281
Grangeville Office: 111 South Mill Street, Grangeville, Idaho 83530, (208) 983-1254
Orofino Office: 216 Johnson Avenue, Orofino, Idaho 83544, (208) 476-3012
Pullman Office: 1230 SE Bishop Blvd., Pullman, Washington 99163, (509) 332-6541

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

Compliance and Other Matters

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

City of Potlatch, Idaho's Response to Findings

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

Purpose of this Report

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

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

March 31, 2015

CITY OF POTLATCH

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended September 30, 2014

Finding No. 1

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

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

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

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

Recommendation – We concur with the City’s response.