

CITY OF POTLATCH

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

# CITY OF POTLATCH

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## **Independent Auditor's Report**

Members of the City Council  
City of 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, 2013, 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.

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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, 2013, 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 Information*

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued a report dated February 21, 2014, 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*

February 21, 2014

**City of Potlatch**  
**Statement of Net Position**  
**September 30, 2013**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 67,039	\$ 636,202	\$ 703,241
Receivables	46,489	91,909	138,398
Cash and cash equivalents - restricted		97,611	97,611
Capital assets:			
Land	31,745	155,460	187,205
Buildings	1,248,543	10,400	1,258,943
Vehicles	28,224		28,224
Machinery and equipment	137,861	130,498	268,359
Infrastructure		10,548,718	10,548,718
Accumulated depreciation	(451,830)	(1,397,064)	(1,848,894)
Advances to/from other funds	27,305	(27,305)	
Total assets	<u>1,135,376</u>	<u>10,246,429</u>	<u>11,381,805</u>
<b>LIABILITIES</b>			
Accounts payable and other			
current liabilities	18,710	54,579	73,289
Compensated absences	1,990	3,486	5,476
Accrued contractor payable		49,107	49,107
Long-term liabilities - due within one year		84,408	84,408
Long-term liabilities - due in more than one year		4,167,479	4,167,479
Total liabilities	<u>20,700</u>	<u>4,359,059</u>	<u>4,379,759</u>
<b>NET POSITION</b>			
Net investment in capital assets	994,543	5,147,018	6,141,561
Restricted for debt service		97,611	97,611
Unrestricted	120,133	642,741	762,874
Total net position	<u>\$ 1,114,676</u>	<u>\$ 5,887,370</u>	<u>\$ 7,002,046</u>

SEE ACCOMPANYING NOTES

**City of Potlatch**  
**Statement of Activities**  
**For the Year Ended September 30, 2013**

	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
<b><u>Functions/Programs</u></b>							
<b>Primary government:</b>							
Governmental activities							
General government	\$ 132,108	\$ 23,428	\$ 4,991	\$ 33,723	\$ (69,966)	\$	\$ (69,966)
Highways and streets	85,587		26,782		(58,805)		(58,805)
Culture and recreation	103,853	55,946	2,662	13,000	(32,245)		(32,245)
Total governmental activities	\$ 321,548	\$ 79,374	\$ 34,435	\$ 46,723	(161,016)		(161,016)
Business-type activities:							
Water	\$ 218,585	\$ 193,740	\$ 2,813		\$	\$ (22,032)	(22,032)
Sewer	363,384	260,746	500	411,407		309,269	309,269
Sanitation	81,930	99,414				17,484	17,484
Total business-type activities	663,899	553,900	3,313	411,407		304,721	304,721
Total primary government	\$ 985,447	\$ 633,274	\$ 37,748	\$ 458,130	(161,016)	304,721	143,705
General revenues:							
Property taxes					144,015		144,015
State sales tax & revenue sharing					39,269		39,269
Liquor tax					19,563		19,563
Franchise fees					8,798		8,798
Unrestricted investment earnings					139	984	1,123
Other					483		483
Total general revenues					212,267	984	213,251
Change in net position					51,251	305,705	356,956
Net position - beginning					1,063,425	5,581,665	6,645,090
Net position - ending					\$ 1,114,676	\$ 5,887,370	\$ 7,002,046

SEE ACCOMPANYING NOTES

City of Potlatch  
Balance Sheet - Governmental Funds  
September 30, 2013

	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 67,039
Receivables	46,489
Interfund balances	27,305
Total assets	\$ 140,833
<b>LIABILITIES</b>	
Accounts payable	\$ 11,661
Accrued salaries and benefits	7,049
Total liabilities	18,710
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	7,716
Total deferred inflows of resources	7,716
<b>FUND BALANCES</b>	
Assigned for:	
Streets	18,407
Unassigned	96,000
Total fund balances	114,407
Total liabilities, deferred inflows of resources, and fund balances	\$ 140,833

**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	\$ 114,407
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	1,446,373
Accumulated depreciation	(451,830)
Property taxes receivable to be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.	7,716
Employee benefits, including credit leave and sick leave, which have not been paid out are not accrued in the funds.	(1,990)
Net position of governmental activities	\$ 1,114,676

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, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 133,413	\$ 133,413	\$ 142,158	\$ 8,745
State sales tax & revenue sharing	35,838	35,838	39,269	3,431
Liquor tax	18,000	18,000	19,563	1,563
Highway user	26,893	26,893	26,782	(111)
Franchise fees	6,800	6,800	8,798	1,998
Licenses and permits	3,450	3,450	9,813	6,363
Charges for services	37,300	37,300	59,770	22,470
Investment earnings	120	120	139	19
Other	11,000	157,857	64,650	(93,207)
Total revenues	<u>272,814</u>	<u>419,671</u>	<u>370,942</u>	<u>(48,729)</u>
<b>EXPENDITURES</b>				
Current:				
General government	112,750	135,200	117,186	18,014
Culture and recreation	68,010	74,835	92,760	(17,925)
Transportation	78,312	84,237	76,373	7,864
Capital Outlay	13,742	162,644	58,735	103,909
Total expenditures	<u>272,814</u>	<u>456,916</u>	<u>345,054</u>	<u>111,862</u>
Net change in fund balances	0	(37,245)	25,888	63,133
FUND BALANCES, October 1	0	37,245	88,519	51,274
<b>FUND BALANCES, September 30</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 114,407</u>	<u>\$ 114,407</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, 2013

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

Net change in fund balances - total governmental funds	\$	25,888
<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		58,735
Current year depreciation		(35,572)
<p>Some amounts receivable will not be collected for several months after the fiscal year ends, and they are not considered available revenues in the governmental funds. Instead, they are counted as deferred tax revenues. They are, however, recorded in the statement of activities:</p>		
Current year taxes receivable		7,716
Prior year taxes receivable		(5,859)
<p>Employee benefits, including credit and sick leave, which have not been paid out are not counted as expense in the funds.</p>		
Change in net assets of governmental activities		343
	\$	<u>51,251</u>

City of Pottlatch

PROPRIETARY FUNDS

Combined Statement of Net Position  
September 30, 2013

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
<b>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 295,486	\$ 276,202	\$ 340,716	\$ 241,975	\$ 9,064	\$ 10,337	\$ 636,202
Receivables	19,535	20,786	63,310	23,578	9,064	10,337	91,909
Interfund balances	(126,929)	(112,465)	(9,856)	50,104	109,480	91,860	(27,305)
Total current assets	188,092	184,523	394,170	315,657	118,544	102,197	700,806
Cash and cash equivalents - restricted			97,611	78,580			97,611
Fixed assets (net, where applicable, of accumulated depreciation)	1,874,233	1,932,581	7,573,779	7,268,153			9,448,012
Total assets	2,062,325	2,117,104	8,065,560	7,662,390	118,544	102,197	10,246,429
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other current liabilities	3,483	4,741	49,348	50,336	5,234	6,371	58,065
Accrued contract expense	8,175	8,175	40,932	454,600			49,107
Revenue bonds- current	33,313	31,994	51,095	49,642			84,408
Total current liabilities	44,971	44,910	141,375	554,578	5,234	6,371	191,580
Non-current liabilities:							
Revenue bonds payable	1,123,549	1,156,862	3,043,930	2,537,305			4,167,479
Total liabilities	1,168,520	1,201,772	3,185,305	3,091,883	5,234	6,371	4,359,059
<b>NET POSITION</b>							
Net investment in capital assets	709,196	735,550	4,437,822	4,226,606			5,147,018
Restricted for:							
Debt service	184,609	179,782	97,611	78,580	113,310	95,826	97,611
Unrestricted	893,805	915,332	344,822	265,321	113,310	95,826	642,741
Total net position	\$ 893,805	\$ 915,332	\$ 4,880,255	\$ 4,570,507	\$ 113,310	\$ 95,826	\$ 5,887,370

SEE ACCOMPANYING NOTES

City of Potlatch  
PROPRIETARY FUNDS

Combined Schedule of Revenues, Expenses, and Changes in Net Position  
For the Year Ended September 30, 2013

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
<b>OPERATING REVENUES</b>							
Charges for services	\$ 193,740	\$ 193,267	\$ 260,746	\$ 243,170	\$ 99,414	\$ 97,976	\$ 553,900
Other	2,813		500	12,625			3,313
Total revenues	<u>196,553</u>	<u>193,267</u>	<u>261,246</u>	<u>255,795</u>	<u>99,414</u>	<u>97,976</u>	<u>557,213</u>
<b>OPERATING EXPENSES</b>							
Water - distribution	104,822	92,744					104,822
Sewer - collection & treatment			93,726	96,797			93,726
Sanitation					81,930	82,837	81,930
Depreciation	64,723	63,812	206,181	161,788			270,904
Total operating expenses	<u>169,545</u>	<u>156,556</u>	<u>299,907</u>	<u>258,585</u>	<u>81,930</u>	<u>82,837</u>	<u>551,382</u>
<b>OPERATING INCOME</b>	<u>27,008</u>	<u>36,711</u>	<u>(38,661)</u>	<u>(2,790)</u>	<u>17,484</u>	<u>15,139</u>	<u>5,831</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Capital grants			411,407	450,962			411,407
Investment earnings	505	623	479	467			984
Interest expense	(49,040)	(50,308)	(63,477)	(65,058)			(112,517)
Total nonoperating revenues (expenses)	<u>(48,535)</u>	<u>(49,685)</u>	<u>348,409</u>	<u>386,371</u>			<u>299,874</u>
<b>CHANGE IN NET POSITION</b>	<u>(21,527)</u>	<u>(12,974)</u>	<u>309,748</u>	<u>383,581</u>	<u>17,484</u>	<u>15,139</u>	<u>305,705</u>
Total net position - beginning	<u>915,332</u>	<u>928,306</u>	<u>4,570,507</u>	<u>4,186,926</u>	<u>95,826</u>	<u>80,687</u>	<u>5,581,665</u>
Total net position - ending	<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>

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Statement of Cash Flows  
For the Year Ended September 30, 2013

	Water Current Year	Water Prior Year	Sewer Current Year	Sewer Prior Year	Sanitation Current Year	Sanitation Prior Year	Total Current Year
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers and users	\$ 197,804	\$ 193,569	\$ 262,446	\$ 256,051	\$ 100,687	\$ 97,819	\$ 560,937
Payments to suppliers	(71,476)	(58,993)	(58,996)	(62,903)	(83,067)	(82,847)	(213,539)
Payments to employees	(34,604)	(33,506)	(34,605)	(33,510)	(17,620)	(14,972)	(69,209)
Payments for interfund services used	14,464	(21,297)	59,960	57,186			56,804
Net cash provided by operating activities	<u>106,188</u>	<u>79,773</u>	<u>228,805</u>	<u>216,824</u>			<u>334,993</u>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital grants			358,312	461,347			358,312
Acquisition and construction of capital assets	(6,375)		(358,043)	(474,708)			(364,418)
Principal paid on capital debt	(31,994)	(30,726)	(47,191)	(41,790)			(79,185)
Interest paid on capital debt	(49,040)	(50,308)	(64,590)	(67,490)			(113,630)
Net cash used by capital & related financing activities	<u>(87,409)</u>	<u>(81,034)</u>	<u>(111,512)</u>	<u>(122,641)</u>			<u>(198,921)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest received	505	623	479	467			984
Net cash provided by investing activities	<u>505</u>	<u>623</u>	<u>479</u>	<u>467</u>			<u>984</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>19,284</b>	<b>(638)</b>	<b>117,772</b>	<b>94,650</b>			<b>137,056</b>
<b>CASH AND CASH EQUIVALENTS, October 1</b>	<b>276,202</b>	<b>276,840</b>	<b>320,555</b>	<b>225,905</b>			<b>596,757</b>
<b>CASH AND CASH EQUIVALENTS, September 30</b>	<b>\$ 295,486</b>	<b>\$ 276,202</b>	<b>\$ 438,327</b>	<b>\$ 320,555</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 733,813</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>							
Operating income	\$ 27,008	\$ 36,711	\$ (38,661)	\$ (2,790)	\$ 17,484	\$ 15,139	\$ 5,831
Adjustment to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation	64,723	63,812	206,181	161,788			270,904
Changes in other balance sheet accounts:							
Receivables	1,251	302	1,200	256	1,273	(157)	3,724
Accounts payable	(431)	(72)	2,691	67	(1,137)	(10)	1,123
Other current assets and liabilities	13,637	(20,980)	57,394	57,503	(17,620)	(14,972)	53,411
Net cash provided by operating activities	<u>\$ 106,188</u>	<u>\$ 79,773</u>	<u>\$ 228,805</u>	<u>\$ 216,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,993</u>
<b>SUPPLEMENTAL DISCLOSURES</b>							
Cash paid for interest	\$ 49,040	\$ 53,458	\$ 64,590	\$ 47,966	\$ -	\$ -	\$ 113,630

SEE ACCOMPANYING NOTES

City of Potlatch

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
September 30, 2013

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

SEE ACCOMPANYING NOTES

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

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### I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### A. **Reporting Entity**

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

Generally accepted accounting principles require the City of Potlatch's financial statements to include component units. Component units are entities for which the City is considered to be financially accountable as defined 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, 2013

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

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

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

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

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



# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

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

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

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

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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, 2013

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### 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 <u>Valuation</u>	<u>Levy</u>
2013	\$ 22,744,220	0.5630%
2012	23,931,652	0.5393%
2011	23,664,565	0.5267%
2010	23,669,514	0.5040%
2009	23,436,807	0.4939%

##### 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, 2013

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### 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, 2013

---

### 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, 2013

---

### 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, 2013

---

### 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, 2013

---

### 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, 2013

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

#### A. Cash and Equivalents

The carrying amount of the City's deposits at year-end was \$240,328 and the bank balance was \$251,175. Of the bank balance, \$250,000 was covered by federal depository insurance. The City also had \$561,460 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, 2013

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

**B. Capital Assets**

Capital asset activity for the year ended September 30, 2013 was as follows:

**Governmental activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 26,500	\$ 5,245		\$ 31,745
Total capital assets not being depreciated	<u>26,500</u>	<u>5,245</u>	<u>-</u>	<u>31,745</u>
Capital assets being depreciated:				
Buildings & improvements	1,207,803	40,740		1,248,543
Vehicles	28,224			28,224
Equipment	125,111	12,750		137,861
Total capital assets being depreciated	<u>1,361,138</u>	<u>53,490</u>		<u>1,414,628</u>
Less accumulated depreciation for:				
Buildings	(285,040)		(28,038)	(313,078)
Vehicles	(28,224)			(28,224)
Equipment	(102,994)		(7,534)	(110,528)
Total accumulated depreciation	<u>(416,258)</u>		<u>(35,572)</u>	<u>(451,830)</u>
Total capital assets being depreciated, net	<u>944,880</u>	<u>53,490</u>	<u>(35,572)</u>	<u>962,798</u>
Governmental activities capital assets, net	<u>\$ 971,380</u>	<u>\$ 58,735</u>	<u>\$ (35,572)</u>	<u>\$ 994,543</u>

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

### 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	\$ 150,000	\$ 5,460		\$ 155,460
Construction in progress	1,239,294	499,972	\$ (1,739,266)	-
Total capital assets not being depreciated	<u>1,389,294</u>	<u>505,432</u>	<u>(1,739,266)</u>	<u>155,460</u>
Capital assets being depreciated:				
Buildings	10,400			10,400
Water systems	2,414,046			2,414,046
Equipment	117,748	12,750		130,498
Sewer systems	6,395,406	1,739,266		8,134,672
Total capital assets being depreciated	<u>8,937,600</u>	<u>1,752,016</u>		<u>10,689,616</u>
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water systems	(492,537)		(61,598)	(554,135)
Equipment	(95,604)		(6,250)	(101,854)
Sewer systems	(527,619)		(203,056)	(730,675)
Total accumulated depreciation	<u>(1,126,160)</u>		<u>(270,904)</u>	<u>(1,397,064)</u>
Total capital assets being depreciated, net	<u>7,811,440</u>	<u>1,752,016</u>	<u>(270,904)</u>	<u>9,292,552</u>
Business-type activities capital assets, net	<u>\$ 9,200,734</u>	<u>\$ 2,257,448</u>	<u>\$ (2,010,170)</u>	<u>\$ 9,448,012</u>

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

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

#### B. Capital Assets (Continued)

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

Governmental activities:

General government	\$ 15,266
Culture & recreation	11,092
Streets	<u>9,214</u>
Total depreciation expense - governmental activities	<u>\$ 35,572</u>

Business-type activities:

Water	\$ 64,723
Sewer	<u>206,181</u>
Total depreciation expense - business-type activities	<u>\$ 270,904</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%	\$1,156,862
Sewer System Improvement Bonds	3.250%	\$1,944,167
Sewer System Improvement Bonds	0.000%	\$ 97,500
Sewer System Interim Financing	0.000%	\$1,053,358

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS  
Year Ended September 30, 2013

---

**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, 2013 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
USDA water revenue bonds	\$ 1,188,856		\$ (31,994)	\$ 1,156,862
DEQ sewer revenue bonds	100,000		(2,500)	97,500
USDA sewer revenue bonds	1,988,858		(44,691)	1,944,167
	<u>\$ 3,277,714</u>	<u>\$ -</u>	<u>\$ (79,185)</u>	<u>\$ 3,198,529</u>
Long-term interim financing	<u>\$ 498,089</u>	<u>\$ 555,269</u>	<u>\$ -</u>	<u>\$ 1,053,358</u>

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 84,408	\$ 110,906
2015	87,281	108,033
2016	90,257	105,057
2017	93,344	101,970
2018	96,545	98,769
2019-2023	535,003	441,567
2024-2028	634,638	341,932
2029-2033	751,561	222,509
2034-2038	618,166	89,567
2039-2040	207,326	10,147
Total	<u>\$ 3,198,529</u>	<u>\$ 1,630,457</u>

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

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### IV. OTHER INFORMATION

#### A. Risk Management

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

The general insurance limits are as follow:

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

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

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

# CITY OF POTLATCH

## NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2013

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### IV. OTHER INFORMATION (Continued)

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

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

The contribution requirements of the City of Potlatch, Idaho and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2013, 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 contribution required and paid was \$13,507, \$12,353, and \$10,746 for the years ended September 30, 2013, 2012, and 2011, 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, 2013

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### IV. OTHER INFORMATION (Continued)

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

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





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## **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, 2013, 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 February 21, 2014.

### **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 responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.

February 21, 2014



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## Independent Auditor's Report – Single Audit Act

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Members of the City Council  
City of Potlatch  
Potlatch, Idaho

### Report on Compliance for Each Major Federal Program

We have audited the City of Potlatch, Idaho's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Potlatch, Idaho's major federal programs for the year ended September 30, 2013. The City of Potlatch, Idaho's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Potlatch, Idaho's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

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An audit includes examining, on a test basis, evidence about the City of Potlatch, Idaho's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Potlatch, Idaho's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City of Potlatch, Idaho complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Presnell Gage, PLLC*

February 21, 2014

# CITY OF POTLATCH

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2013

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### **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.

**City of Potlatch**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - ACCRUAL BASIS  
For the Year Ended September 30, 2013

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	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY		
Passed-through State of Idaho		
State of Idaho Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 490,852
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Passed-through the State of Idaho		
State of Idaho Community Development Block	14.228	<u>33,387</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u><u>\$ 524,239</u></u>

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

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

**City of Potlatch**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2013

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Section I -- Summary of Auditor's Results

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

\* Material weakness(es) identified  yes  no

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

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

\* Material weakness(es) identified  yes  no

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?  yes  no