

CITY OF POTLATCH

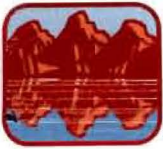
AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

CITY OF POTLATCH

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Independent Auditor's Report

Members of the City Council
City of Potlatch, Idaho

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, Idaho as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Potlatch, Idaho management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, Idaho as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2011 on our consideration of the City of Potlatch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Presnell Gage, PLLC

October 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2010

The discussion and analysis of the City of Potlatch's (hereafter the City) financial performance presents the highlights of financial activities and provides an overview of the City's financial activities for the fiscal year ended September 30, 2010 and is intended to:

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

Economic Conditions and Outlook

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

Financial Highlights

- For the 2010 fiscal year, the City's net assets increased by \$2,338,549 from \$3,795,795 in 2009 to \$6,134,344 in 2010. This increase is primarily due to the purchase of capital improvements and the capital grants and contributions used to fund the improvements. These improvements include the continuation of the sewer system improvement project, the construction of sidewalks, and the energy efficiency renovations to several of the City's buildings.
- The business-type activities service revenue stayed consistent with the prior year while expenses increased by \$85,283 from prior year primarily due to the increase in depreciation relating to sewer system infrastructure brought on by Phase II of the sewer system improvement project being placed in service. Another primary reason for the increase in business-type expenses is the increase in interest expense relating to the sewer system improvement project loan funds. As part of the sewer project, the city recorded capital grants and contributions in the amount of \$2,360,627.
- The City's General Fund (the primary operating fund), reflected on a current financial resource basis, reported a fund balance decrease of \$129,017 from \$125,626 to \$(3,391).

- General revenues, primarily from property taxes, charges for services, highway user fees, franchisee fees, and state revenue sharing were used to support the following major activities:
 - General Government
 - Highways and Streets
 - Culture and Recreation
- The City received \$43,193 of a \$100,000 grant from the Idaho Office of Energy Resources in order to make energy efficient improvements to several of the City's buildings. The City also received \$10,000 that was allocated from the Idaho Community Development Block Grant and \$1,100 from the Idaho Transportation Department in order to help fund the construction of new sidewalks and handicap access points. The State of Idaho also granted the City \$6,000 to help improve the Train Depot.

Report Layout

The City's financial statements consist of the following:

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

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

1. Government-Wide Financial Statements:

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

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

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues. The *Statement of Activities* is focused on both the gross and net cost of various activities, which are provided by the government's property tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities and/or component units.

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

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

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

2. Fund Financial Statements:

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

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

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

3. Notes to the Financial Statements:

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

4. Additional Supplementary Information:

The basic financial statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

Accounting System and Budgetary Control

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

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

Activities of the general fund and enterprise funds are included in the annual budget. Budgetary control is maintained by the issuance of monthly financial statements, which reflect current and year-to-date expenses in comparison to budgeted amounts. Anticipated expenses are reviewed to determine that sufficient funds are available prior to commitment. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a city's financial position. In the case of the City, assets exceeded liabilities by \$6,134,344 in 2010.

City of Potlatch Statement of Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Current and other assets	\$ 163,856	\$ 1,117,832	\$ 1,281,688
Capital assets, net of accumulated depreciation	<u>964,870</u>	<u>8,068,829</u>	<u>9,033,699</u>
Total assets	<u>\$1,128,726</u>	<u>\$9,186,661</u>	<u>\$10,315,387</u>
Liabilities	<u>\$ 161,001</u>	<u>\$4,020,042</u>	<u>\$ 4,181,043</u>
Total liabilities	<u>\$ 292,608</u>	<u>\$4,020,042</u>	<u>\$ 4,181,043</u>
Net assets:			
Invested in capital, net of related debt	\$ 946,025	\$ 4,107,785	\$ 5,053,810
Restricted	37,346		37,346
Unrestricted	<u>(15,646)</u>	<u>1,058,834</u>	<u>1,043,188</u>
Total net assets	<u>\$ 967,725</u>	<u>\$ 5,166,619</u>	<u>\$ 6,134,344</u>

**City of Potlatch
Changes In Net Assets**

	Governmental Activities	Business-type Activities	Total Primary Government
Program Revenue:			
Charges for services	\$ 76,773	\$ 478,162	\$ 554,935
Capital grants & contributions	60,292	2,360,627	2,420,919
Property taxes	131,547	-	131,547
Sales tax & revenue sharing	30,445	-	30,445
Liquor tax	19,438	-	19,438
Highway user fees	25,277	-	25,277
Franchise fees	9,468	-	9,468
Investment earnings	215	799	1,014
Total revenues	<u>\$ 353,455</u>	<u>\$2,839,588</u>	<u>\$ 3,193,043</u>
Expenses:			
General government	\$ 155,160	-	\$ 155,160
Highways and streets	88,389	-	88,389
Culture & recreation	56,287	-	56,287
Water – distribution	-	\$ 201,960	201,960
Sewer – collection and treatment	-	271,916	271,916
Sanitation	-	80,782	80,782
Total expenses	<u>299,836</u>	<u>554,658</u>	<u>854,494</u>
Changes in net assets	53,619	2,284,930	2,338,549
Net assets - beginning	<u>914,106</u>	<u>2,881,689</u>	<u>3,795,795</u>
Net assets - ending	<u>\$ 967,725</u>	<u>\$ 5,166,619</u>	<u>\$ 6,134,344</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The combined governmental and proprietary fund balance increase was primarily due to grant funding and construction related to the continuation of the sewer project. The construction in progress has been capitalized on the statement of net assets. When construction has been completed, the total capitalized construction will be depreciated over its respective useful life. During the year, \$1,991,701 of construction in progress was placed in service.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Revenues:
 - A \$103,904 positive variance in governmental revenues
- Expenses:
 - A \$230,796 negative variance in governmental expenses

The primary reason for the difference is due to the fact that the City budget did not include amounts received and spent directly related to the sidewalk project and the energy efficient improvements to City buildings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets (net of related debt) as of September 30, 2010 amounts to \$5,053,810.

	City of Potlatch's Capital Assets (Net of Depreciation)		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Beginning balance	\$ 781,563	\$5,871,010	\$6,652,573
Additions	210,739	2,381,636	2,592,375
Depreciation	<u>(27,432)</u>	<u>(183,817)</u>	<u>(211,249)</u>
	<u>\$ 964,870</u>	<u>\$8,068,829</u>	<u>\$9,033,699</u>

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

Debt Outstanding. The City issued two bonds in 2005 that are held by the USDA which were used to finance construction costs on the Water Improvement project. During prior fiscal years, the City obtained an interim financing loan in order to begin construction of the new sewer system. During the current fiscal year, this loan was paid off through the issuance of a \$2,074,000 bond that is held by USDA. The City also received a \$100,000 loan from the Idaho Department of Environmental Quality during the current year to assist in funding the sewer system construction.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Potlatch

STATEMENT OF NET ASSETS September 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 103,106	\$ 444,311	\$ 547,417
Receivables	170,905	563,366	734,271
Capital assets:			
Land	26,500		26,500
Buildings	1,114,076	10,400	1,124,476
Vehicles	28,224		28,224
Machinery and equipment	119,414	86,748	206,162
Infrastructure		7,315,258	7,315,258
Construction in progress	43,193	1,331,383	1,374,576
Accumulated depreciation	(366,537)	(674,960)	(1,041,497)
Advances to/from other funds	(110,155)	110,155	
Total assets	<u>1,128,726</u>	<u>9,186,661</u>	<u>10,315,387</u>
LIABILITIES			
Accounts payable and other			
current liabilities	21,174	56,224	77,398
Unearned revenue	119,314		119,314
Compensated absences	1,668	2,774	4,442
Accrued contractor payable	18,845	519,852	538,697
Long-term liabilities - due within one year		73,289	73,289
Long-term liabilities - due in more than one year		3,367,903	3,367,903
Total liabilities	<u>161,001</u>	<u>4,020,042</u>	<u>4,181,043</u>
NET ASSETS			
Investment in capital assets, net of related debt	946,025	4,107,785	5,053,810
Restricted for:			
Culture and recreation	37,346		37,346
Unrestricted	(15,646)	1,058,834	1,043,188
Total net assets	<u>\$ 967,725</u>	<u>\$ 5,166,619</u>	<u>\$ 6,134,344</u>

SEE ACCOMPANYING NOTES

City of Potlatch
Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities						
General government	\$ 155,160	\$ 22,561	\$ 49,193	\$ (83,406)		\$ (83,406)
Highways and streets	88,389		11,099	(77,290)		(77,290)
Culture and recreation	56,287	54,212		(2,075)		(2,075)
Total governmental activities	<u>\$ 299,836</u>	<u>\$ 76,773</u>	<u>\$ 60,292</u>	<u>(162,771)</u>		<u>(162,771)</u>
Business-type activities:						
Water	\$ 201,960	\$ 168,220			\$ (33,740)	(33,740)
Sewer	271,916	216,923	\$ 2,360,627		2,305,634	2,305,634
Sanitation	80,782	93,019			12,237	12,237
Total business-type activities	<u>554,658</u>	<u>478,162</u>	<u>2,360,627</u>		<u>2,284,131</u>	<u>2,284,131</u>
Total primary government	<u>\$ 854,494</u>	<u>\$ 554,935</u>	<u>\$ 2,420,919</u>	<u>(162,771)</u>	<u>2,284,131</u>	<u>2,121,360</u>
General revenues:						
Property taxes				131,547		131,547
State sales tax & revenue sharing				30,445		30,445
Liquor tax				19,438		19,438
Highway users fees				25,277		25,277
Franchise fees				9,468		9,468
Unrestricted investment earnings				215	799	1,014
Total general revenues				<u>216,390</u>	<u>799</u>	<u>217,189</u>
Change in net assets				53,619	2,284,930	2,338,549
Net assets - beginning				914,106	2,881,689	3,795,795
Net assets - ending				<u>\$ 967,725</u>	<u>\$ 5,166,619</u>	<u>\$ 6,134,344</u>

City of Potlatch

BALANCE SHEET - GOVERNMENTAL FUNDS September 30, 2010

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 103,106
Receivables	170,905
Total assets	<u>\$ 274,011</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 21,174
Accrued contract expense	18,845
Checks in excess of deposits	
Accrued salaries and benefits	0
Deferred Revenue	127,228
Interfund balances	110,155
Total liabilities	<u>277,402</u>
 Fund balances:	
Reserved for:	
Culture and recreation	47,775
Unreserved	<u>(51,166)</u>
Total fund balances	<u>(3,391)</u>
 Total liabilities and fund balances	<u>\$ 274,011</u>

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

Fund balance, governmental funds	\$ (3,391)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	964,870
Property taxes receivable to be collected this year; but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds	7,914
Employee benefits including credit leave and sick leave, which have not been paid out are not accrued in the funds	<u>(1,668)</u>
Net assets of governmental activities	<u>\$ 967,725</u>

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, 2010

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Taxes:			
Property	\$ 149,634	\$ 131,285	\$ (18,349)
Sales	11,450	30,445	18,995
Liquor	11,799	19,438	7,639
Highway user	25,356	25,277	(79)
Franchise	10,300	9,468	(832)
Licenses and permits	3,250	6,944	3,694
Charges for services	35,000	56,960	21,960
Investment earnings	2,500	215	(2,285)
Other	0	73,161	73,161
Total revenues	<u>249,289</u>	<u>353,193</u>	<u>103,904</u>
EXPENDITURES			
Current:			
General government	126,314	142,752	(16,438)
Culture and recreation	60,108	48,633	11,475
Transportation	64,992	80,086	(15,094)
Capital Outlay	0	210,739	(210,739)
Total expenditures	<u>251,414</u>	<u>482,210</u>	<u>(230,796)</u>
Net change in fund balances	(2,125)	(129,017)	(126,892)
FUND BALANCES, October 1	2,125	125,626	123,501
FUND BALANCES, September 30	<u>\$ -</u>	<u>\$ (3,391)</u>	<u>\$ (3,391)</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, 2010

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

Net change in fund balances - total governmental funds	\$ (129,017)
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:	
Current year capital outlay	210,739
Current year depreciation	(27,432)
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:	
Current year taxes receivable	7,914
Prior year taxes receivable	(7,652)
Employee benefits including credit and sick leave, which have not been paid out are not counted as expense in the funds.	(933)
Change in net assets of governmental activities	<u>\$ 53,619</u>

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Statement of Net Assets
September 30, 2010

	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	\$ 296,478	\$ 146,531	\$ 147,833	\$ 168,983			\$ 444,311
Receivables	23,790	27,351	527,249	930,817	\$ 12,327	\$ 13,761	563,366
Interfund balances	(118,913)	27,821	166,618	1,164	62,450	51,272	110,155
Total current assets	201,355	201,703	841,700	1,100,964	74,777	65,033	1,117,832
Fixed assets (net, where applicable, of accumulated depreciation)	2,044,705	2,106,303	6,024,124	3,764,707			8,068,829
Total assets	2,246,060	2,308,006	6,865,824	4,865,671	74,777	65,033	9,186,661
LIABILITIES							
Current liabilities:							
Accounts payable and other current liabilities	2,436	2,273	51,749	32,108	4,813	7,306	58,998
Accrued contract expense	8,175	8,175	511,677	980,216			519,852
Revenue bonds- current	29,937	28,751	43,352				73,289
Total current liabilities	40,548	39,199	606,778	1,012,324	4,813	7,306	652,139
Non-current liabilities:							
Revenue bonds payable	1,237,255	1,267,192	2,130,648	2,031,000			3,367,903
Total liabilities	1,277,803	1,306,391	2,737,426	3,043,324	4,813	7,306	4,020,042
NET ASSETS							
Invested in capital assets, net of related debt	769,338	802,185	3,338,447	753,491			4,107,785
Unrestricted	198,919	199,430	789,951	1,068,856	69,964	57,727	1,058,834
Total net assets	\$ 968,257	\$ 1,001,615	\$ 4,128,398	\$ 1,822,347	\$ 69,964	\$ 57,727	\$ 5,166,619

SEE ACCOMPANYING NOTES

City of Potlatch

PROPRIETARY FUNDS

Combined Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended September 30, 2010

	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	\$ 168,220	\$ 168,991	\$ 216,923	\$ 211,910	\$ 93,019	\$ 92,791	\$ 478,162
Total revenues	<u>168,220</u>	<u>168,991</u>	<u>216,923</u>	<u>211,910</u>	<u>93,019</u>	<u>92,791</u>	<u>478,162</u>
OPERATING EXPENSES							
Water - distribution	86,904	77,437					86,904
Sewer - collection & treatment			83,396	80,887			83,396
Sanitation					80,782	88,440	80,782
Depreciation	61,598	61,852	122,219	72,680			183,817
Total operating expenses	<u>148,502</u>	<u>139,289</u>	<u>205,615</u>	<u>153,567</u>	<u>80,782</u>	<u>88,440</u>	<u>434,899</u>
OPERATING INCOME	19,718	29,702	11,308	58,343	12,237	4,351	43,263
NONOPERATING REVENUES (EXPENSES)							
Capital grants			2,360,627	1,585,471			2,360,627
Investment earnings	382	1,975	417	2,092			799
Interest expense	(53,458)	(54,597)	(66,301)	(33,482)			(119,759)
Total nonoperating revenues (expenses)	<u>(53,076)</u>	<u>(52,622)</u>	<u>2,294,743</u>	<u>1,554,081</u>			<u>2,241,667</u>
CHANGE IN RETAINED EARNINGS	(33,358)	(22,920)	2,306,051	1,612,424	12,237	4,351	2,284,930
Total net assets - beginning	1,001,615	1,024,535	1,822,347	209,923	57,727	53,376	2,881,689
Total net assets - ending	<u>\$ 968,257</u>	<u>\$ 1,001,615</u>	<u>\$ 4,128,398</u>	<u>\$ 1,822,347</u>	<u>\$ 69,964</u>	<u>\$ 57,727</u>	<u>\$ 5,166,619</u>

SEE ACCOMPANYING NOTES

City of Potlatch

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Year Ended September 30, 2010

	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	\$ 171,781	\$ 161,658	\$ 217,245	\$ 201,210	\$ 94,453	\$ 89,781	\$ 483,479
Payments to suppliers	(50,600)	(44,446)	(47,368)	(48,351)	(83,275)	(90,467)	(181,243)
Payments to employees	(36,141)	(34,165)	(34,822)	(34,165)			(70,963)
Payments for interfund services used	146,734	(17,576)	(165,454)	(66,966)	(11,178)	686	(29,898)
Net cash provided (used) by operating activities	231,774	65,471	(30,399)	51,728			201,375
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES							
Proceeds from capital grants			2,763,873	683,173			2,763,873
Proceeds from capital debt			143,000	1,609,656			143,000
Acquisition and construction of capital assets			(2,850,175)	(2,321,734)			(2,850,175)
Principal paid on capital debt	(28,751)	(27,612)		(500)			(28,751)
Interest paid on capital debt	(53,458)	(54,597)	(47,866)	(8,188)			(101,324)
Net cash (used) provided by capital & related financing activities	(82,209)	(82,209)	8,832	(37,593)			(73,377)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	382	1,975	417	2,092			799
Net cash provided by investing activities	382	1,975	417	2,092			799
NET INCREASE (DECREASE) IN CASH	149,947	(14,763)	(21,150)	16,227			128,797
CASH AND CASH EQUIVALENTS, October 1	146,531	161,294	168,983	152,756			315,514
CASH AND CASH EQUIVALENTS, September 30	\$ 296,478	\$ 146,531	\$ 147,833	\$ 168,983	\$ -	\$ -	\$ 444,311
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating income	\$ 19,718	\$ 29,702	\$ 11,308	\$ 58,343	\$ 12,237	\$ 4,351	\$ 43,263
Adjustment to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation	61,598	61,852	122,219	72,680			183,817
Changes in other balance sheet accounts:							
Receivables	3,561	(7,333)	322	(10,700)	1,434	(3,010)	5,317
Accounts payable	(490)	363	553	(102)	(2,493)	(2,027)	(2,430)
Other current assets and liabilities	147,387	(19,113)	(164,801)	(68,493)	(11,178)	686	(28,592)
Net cash provided (used) by operating activities	\$ 231,774	\$ 65,471	\$ (30,399)	\$ 51,728	\$ -	\$ -	\$ 201,375
SUPPLEMENTAL DISCLOSURES							
Cash paid for interest	\$ 53,458	\$ 54,597	47,866	8,188			\$ 101,324

SEE ACCOMPANYING NOTES

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Generally accepted accounting principles require the City of Potlatch's financial statements to include component units. Component units are entities for which the City is considered to be financially accountable as defined by GASB 14. The City of Potlatch has no component units.

B. Government-Wide and Fund Financial Statements

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

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

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.

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.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

2. Receivables and Payables

Transactions between funds that are outstanding at the end of the year are reported as "interfund balances" on the Balance Sheet.

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

2. Receivables and Payables (Continued)

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

District assessed market value and tax levy rates:

	Total Market <u>Valuation</u>	<u>Levy</u>
2010	\$ 23,669,514	0.5040%
2009	23,436,807	0.4939%
2008	24,258,446	0.4625%
2007	19,325,776	0.5579%
2006	18,713,734	0.6296%

3. Restricted Assets

At times, certain proceeds of the City's bonds and Certificates of Participation, as well as certain resources set aside for their repayment, are classified as restricted assets on the Balance Sheet because their use is limited by applicable bond covenants. For the current fiscal year, there are no bond required restrictions. The City does have restricted assets relating to the accumulated revenues from cultures and recreation.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset 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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

5. Compensated Absences

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

6. Long-Term Obligations

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

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

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

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.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

II. BUDGETARY AND LEGAL COMPLIANCE (Continued)

A. Budgetary Information (Continued)

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

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 \$547,417, and the bank balance was \$561,126. Of the bank balance, \$39,275 was held by US Bank and was covered by federal depository insurance and \$521,851 was held by the Idaho State Treasurer's Local Government Investment Pool and approximates market value.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will reduce the value of the City's investments. The City does not have a policy regarding interest rate risk.

Custodial Risk. Custodial risk is the risk that, in the event of the failure of the investment custodian, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the custodian. The City owns a percentage of each investment held by the Idaho State Treasurer's Local Government Investment Pool and the Pool diversifies investments to minimize credit risk to any individual government. The City's investment in the Idaho State Treasurer's Local Government Investment Pool has not been issued an external credit quality rating.

Concentration of Credit Risk. The City has no policy on the amount they may invest in any one issuer.

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

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

B. Capital Assets

Capital asset activity for the year ended September 30, 2010 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 26,500			\$ 26,500
Construction in progress	179,527	\$ 195,789	\$ (332,123)	43,193
Total capital assets not being depreciated	206,027	195,789	(332,123)	69,693
Capital assets being depreciated:				
Buildings & Improvements	775,953	338,123		1,114,076
Vehicles	28,224			28,224
Equipment	110,464	8,950		119,414
Total capital assets being depreciated	914,641	347,073		1,261,714
Less accumulated depreciation for:				
Buildings	(206,326)		(24,676)	(231,002)
Vehicles	(28,224)			(28,224)
Equipment	(104,555)		(2,756)	(107,311)
Total accumulated depreciation	(339,105)		(27,432)	(366,537)
Total capital assets being depreciated, net	575,536	347,073	(27,432)	895,177
Governmental activities capital assets, net	\$ 781,563	\$ 542,862	\$ (359,555)	\$ 964,870

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

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:				
Construction in progress	\$ 941,448	\$ 2,381,636	\$ (1,991,701)	\$ 1,331,383
Total capital assets not being depreciated	<u>941,448</u>	<u>2,381,636</u>	<u>(1,991,701)</u>	<u>1,331,383</u>
Capital assets being depreciated:				
Buildings	10,400			10,400
Water Systems	2,414,046			2,414,046
Equipment	86,748			86,748
Sewer Systems	2,909,511	1,991,701		4,901,212
Total capital assets being depreciated	<u>5,420,705</u>	<u>1,991,701</u>		<u>7,412,406</u>
Less accumulated depreciation for:				
Buildings	(10,400)			(10,400)
Water Systems	(307,744)		(61,597)	(369,341)
Equipment	(86,747)		(1)	(86,748)
Sewer Systems	(86,252)		(122,219)	(208,471)
Total accumulated depreciation	<u>(491,143)</u>		<u>(183,817)</u>	<u>(674,960)</u>
Total capital assets being depreciated, net	<u>4,929,562</u>	<u>1,991,701</u>	<u>(183,817)</u>	<u>6,737,446</u>
Business-type activities capital assets, net	<u>\$ 5,871,010</u>	<u>\$ 4,373,337</u>	<u>\$ (2,175,518)</u>	<u>\$ 8,068,829</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

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	\$ 11,743
Culture & recreation	7,386
Streets	8,303
Total depreciation expense - governmental activities	<u>\$ 27,432</u>

Business-type activities:

Water	\$ 61,598
Sewer	122,219
Total depreciation expense - business-type activities	<u>\$ 183,817</u>

C. Long-Term Debt

The City issued bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The City issued \$1,400,000 of revenue bonds in prior years to for a water system improvement project. During the current year the City also issued \$2,074,000 of revenue bonds and obtained a \$100,000 note payable to the Idaho Department of Environmental Quality for the sewer system improvement project. Long-term debt outstanding at year end is as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Water System Improvement Bonds	4.125%	\$1,267,192
Sewer System Improvement Bonds	3.250%	\$2,074,000
Sewer System Improvement Note	0.000%	\$ 100,000

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

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, 2010 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
Water revenue bonds	\$ 1,295,943		\$ (28,751)	\$ 1,267,192
Sewer DEQ loan		\$ 100,000		100,000
Sewer revenue bonds		2,074,000		2,074,000
Sewer bond anticipation note	2,031,000		(2,031,000)	-
	<u>\$ 3,326,943</u>	<u>\$ 2,174,000</u>	<u>\$ (2,059,751)</u>	<u>\$ 3,441,192</u>

Year Ending September 30

Principal

Interest

2011	\$ 73,289	\$ 118,200
2012	77,962	118,527
2013	82,100	114,389
2014	84,890	111,599
2015	87,783	108,706
2016-2020	486,152	496,293
2021-2025	576,184	406,261
2026-2030	684,078	298,367
2031-2035	792,668	168,997
2036-2040	496,086	49,339
Total	<u>\$ 3,441,192</u>	<u>\$ 1,990,678</u>

CITY OF POTLATCH

NOTES TO FINANCIAL STATEMENTS Year Ended September 30, 2010

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, 2010

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, 2010, the required contribution rate as a percentage of covered payroll for members was 6.23 percent for general members and 7.65 percent for police/firefighters. The employer rate as a percentage of covered payroll was 10.39 percent for general members and 10.73 percent for police/firefighters.

The City's contribution required and paid was \$11,757, \$10,655, and \$12,248 for the years ended September 30, 2010, 2009, and 2008, respectively.

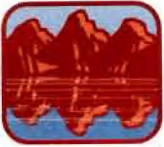
C. Contingencies and Commitments

1. Grant and Contract Expenditures

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.

2. Reserved Fund Balances

By various City Council actions, certain amounts of fund balances have been identified for specific activities, and are reported as reserved or restricted fund balances. These amounts have accumulated from revenue sources identified for specific future activities.



Independent Auditor's Report – Government Auditing Standards

presnell
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We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Potlatch as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* used by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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.

1. *Government Auditing Standards* require that the independent auditor identify all non-attest services performed for a governmental audit client and evaluate whether such services impair the auditor's independence. The non-attest service performed by the independent auditor was the compilation of the year-end financial statements. This service is permitted under *Government Auditing Standards*.

2. Internal control systems generally attempt to divide up accounting tasks among multiple individuals (segregation of duties) to improve the ability of the organization to identify errors within the accounting system. 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."
3. Internal control systems related to cash generally attempt to ensure that all cash receipts are accounted for and deposited properly. The level of internal controls related to the cash collection for parks and recreation is considered to be inadequate.
4. Internal control systems related to cash disbursements generally attempt to ensure that proper documentation is obtained and approved. The internal controls related to cash disbursement documentation are not being followed properly.
5. Internal control systems related to payroll generally attempt to ensure that all employee time is reviewed and approved. The internal controls related to the approval of employee time are not being followed properly.

Compliance and Other Matters

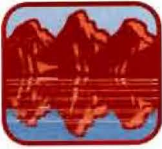
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

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

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

Princeton Gage, PLLC

October 26, 2011



Independent Auditor's Report – Single Audit Act

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City of Potlatch
Potlatch, Idaho

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Compliance

We have audited the compliance of the City of Potlatch with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement, that could have a direct and material effect on each of the City's major federal programs for the years ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirement of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Potlatch complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended September 30, 2010.

Internal Control Over Compliance

The management of City of Potlatch is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 City of Potlatch's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control 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 by the entity's internal control.

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

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

Princeton Gage, PLLC

October 26, 2011



ACCOUNTING AND CONSULTING

Independent Auditor's Report – Schedule of Expenditures of Federal Awards

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Potlatch, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2011. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Presnell Gage, PLLC

October 26, 2011

City of Potlatch

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - ACCRUAL BASIS
For the Year Ended September 30, 2010

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
UNITED STATES DEPARTMENT OF AGRICULTURE		
Direct Programs		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 429,242
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Passed through the State of Idaho -		
Department of Commerce		
Community Development Block Grants	14.228	264,689
DEPARTMENT OF TRANSPORTATION		
Passed through the State of Idaho -		
Department of Transportation		
Highway Planning and Construction	20.205	1,100
ENVIRONMENTAL PROTECTION AGENCY		
Passed through the State of Idaho -		
Department of Environmental Quality		
Capitalization Grants for Clean Water State Revolving Grants	66.458	<u>1,676,696</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,371,727</u>

BASIS OF PRESENTATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

City of Potlatch

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified ☐ yes ☒ no

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

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified ☐ yes ☒ no

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? ☐ yes ☒ no

CITY OF POTLATCH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2010

Section II – Financial Statement Findings

Finding No. 1

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

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

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

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

Recommendation – We concur with the City's response.

Finding No. 2

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

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

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

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

Recommendation – We concur with the City's response.

Finding No. 3

Criteria – Internal controls over cash are necessary to ensure that all cash receipts are accounted for and deposited to the City's bank account.

Condition – The cash received from parks and recreation sources lacks adequate controls.

Effect – Without proper internal controls in place, the City is exposing itself to a risk of financial loss due to employee dishonesty and/or error.

Response – The City's management and City Council will implement proper internal control procedures in the future related to cash.

Recommendation – We recommend that the City implement internal controls such as separation of duties or utilization of daily use sheets with cash reconciliations to reduce the current level of risk.

Finding No. 4

Criteria – Internal controls over cash disbursement are necessary to ensure that all expenditures are properly approved, calculated, and recorded.

Condition – The obtaining of proper documentation and approval of cash disbursements is not being consistently performed.

Effect – Without proper internal controls in place, the City is exposing itself to a risk of financial loss due to employee dishonesty and/or error.

Response – The City's management and City Council will re-emphasize the requirement of obtaining proper documentation and approval of all city cash disbursements.

Recommendation – We recommend that the City properly implement the internal controls related to cash disbursements in order to reduce the current level of risk.

Finding No. 5

Criteria – Internal controls over payroll are necessary to ensure that all payroll expenditures are properly approved, calculated, and recorded.

Condition – The approval of City employees' timecards is not being consistently performed.

Effect – Without proper internal controls in place, the City is exposing itself to a risk of financial loss due to employee dishonesty and/or error.

Response – The City's management and City Council will re-emphasize the requirement of approval of all city employee timecards by the appropriate supervisor.

Recommendation – We recommend that the City properly implement the internal controls related to payroll in order to reduce the current level of risk.

Section III – Federal Award Findings and Questioned Costs

None