

POST FALLS URBAN RENEWAL AGENCY

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

POST FALLS URBAN RENEWAL AGENCY

September 30, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Post Falls Urban Renewal Agency
Post Falls, Idaho

We have audited the accompanying financial statements of the governmental activities of the Post Falls Urban Renewal Agency, as of and for the year ended September 30, 2010, which comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Post Falls Urban Renewal Agency's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Post Falls Urban Renewal Agency, as of September 30, 2010, and the results of its operations 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 our report dated, January 13, 2011, on our consideration of the Post Falls Urban Renewal Agency's internal control over financial reporting and on 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* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and page 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Anderson, McNelis & Co

CLARK, ANDERSON, McNELIS & CO., P.A.

January 13, 2011

This section of the Post Falls Urban Renewal Agency's FY 2010 financial report offers readers an overview and analysis of the Agency's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total fund balance for the Agency was \$4,730,288
- The Agency's long term obligations at September 30, 2010 were \$273,900
- The Agency's total net assets were \$4,676,423

OVERVIEW OF FINANCIAL STATEMENTS

This annual report has four parts: (a) this discussion and analysis, (b) government - wide financial statements, (c) fund financial statements, and (d) notes and required supplemental information.

Government - Wide Financial Statements

The Agency's required format of government-wide financial statements provides the reader with a broad overview of the Post Falls Urban Renewal Agency's finances, using accounting methods similar to those used by private-sector businesses.

The Statement of Net Assets presents all of the Agency's assets and liabilities, with the difference between the two reported as net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., property tax increment payments to be received in future years).

The Post Falls Urban Renewal Agency's net assets total \$4,676,423 at September 30, 2010. The increase in the Agency's net assets is due primarily to property tax revenues exceeding proponent payments by \$1,997,494 and the partial return of a \$500,000 payment to the Idaho Department of Transportation for the Post Falls Access Improvements in the amount of \$331,442.

Post Falls Urban Renewal Agency's main assets (87%) are cash, short-term investments in the State Investment Pool and Certificates of Deposit.

POST FALLS URBAN RENEWAL AGENCY
 Management's Discussion and Analysis
 September 30, 2010

STATEMENT OF NET ASSETS
 September 30, 2010

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash	\$ 2,896,662	\$ 4,196,347
Investments	1,482,448	1,007,435
Interest Receivable	7,432	2,730
Accounts Receivable	285,420	358,339
Receivable from Idaho Department of Transportation	331,442	
Prepaid Insurance	2,106	
Capital Assets, Net of Depreciation	<u>1,975</u>	
 TOTAL ASSETS	 <u>\$ 5,007,485</u>	 <u>\$ 5,564,851</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts Payable	\$ 51,010	\$ 539,082
Accrued Rebate of Surplus Increment Revenue		2,200,000
Accrued Interest Payable	2,054	2,068
Due to Proponents	4,098	90,966
 Long-Term Liabilities:		
Due in One Year	49,800	49,800
Due in More than One Year	<u>224,100</u>	<u>273,900</u>
 Total Liabilities	 <u>331,062</u>	 <u>3,155,816</u>
 Net Assets:		
Invested in Capital Assets	1,975	
Restricted	4,343,975	2,155,191
Unrestricted	<u>330,473</u>	<u>253,844</u>
 Total Net Assets	 <u>4,676,423</u>	 <u>2,409,035</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,007,485</u>	 <u>\$ 5,564,851</u>

In FY 2010, Agency revenues continued to be used to reimburse proponent obligations in the City Center, Riverbend, Center Point, Expo, West Seltice and the East Post Falls districts. Most districts, including portions of the Center Point district, Expo, City Center, West Seltice II and the northern portion of East Post Falls continue to have ongoing construction and expansion of public improvements. In some instances, the costs of these improvements are still being reviewed and analyzed by the Agency. Such costs have been neither finalized nor approved by the Agency and, therefore, proponent obligation figures had not yet been finalized by the end of fiscal year 2010. The Agency anticipates receiving sufficient funds in future years from incremental property taxes generated by new commercial and industrial development in its districts, to fully repay all of its current and future liabilities and proponent obligations and to continue its operations.

It is anticipated that all of the accrued liabilities shown above will be fully paid from future fund sources that are not reflected in this report.

The Statement of Changes in Net Assets presents information showing how the Agency's net assets changed during the most recent fiscal year. It is only one indicator of the Agency's financial position, however. To assess the overall health of the Agency, one needs to consider additional factors, such as changes in the property tax base from new and potential new developments being added to the tax rolls, plans for future development within the urban renewal districts created by the Post Falls City Council and administered by the Agency, the state of the area's economy, national economic trends and other factors.

Changes in Net Assets

	<u>2010</u>	<u>2009</u>
<u>REVENUES</u>		
Property Taxes, Levied for General Purposes	\$ 4,172,827	\$ 3,638,620
Interest and Investment Earnings	41,133	57,586
Penalties and Late Fees	60,279	50,969
Administrative Fees		23,000
Reimbursement from Idaho Department of Transportation	331,442	
Gain on Settlement of Debt at Less than Book Value		7,336
	<u>4,605,681</u>	<u>3,777,511</u>
Total Revenues		
<u>EXPENSES</u>		
Tax Increment Expense	2,175,333	1,972,352
General Government	142,684	117,664
Rebate of Surplus Increment Revenue		2,200,000
Public Facilities and Infrastructure Improvements	6,535	539,374
Interest on Long-Term Debt	13,741	15,246
	<u>2,338,293</u>	<u>4,844,636</u>
Total Expense		
Change in Net Assets	<u>\$ 2,267,388</u>	<u>\$(1,067,125)</u>

Government Activity Analysis

The majority of the revenue received by the Post Falls Urban Renewal Agency results from incremental increases in property taxes in its renewal districts resulting from new commercial and industrial development stimulated by public improvements and the extension of public utilities. The expenses of the Agency consist primarily of capital improvements consistent with the plan of development for each of its districts as approved by the City Council of the City of Post Falls, principal and interest payments on long term debt and the expenses associated with the operation and administration of the Agency. The Agency sold no bonds in FY 2010, and has no bonds outstanding.

The Agency's financial statements show that the functions of the Post Falls Urban Renewal Agency are principally supported by the expansion of the property tax revenue within the urban renewal districts that the Agency administers. This tax increment is derived from the incremental increase in property values, resulting from new development within the Agency's renewal districts.

The Agency adopts an annual budget for its administrative operations. The annual budget is reviewed at a public meeting after being published for citizen comment, and, upon approval by the Commissioners of the Agency, is forwarded to the City Council of the City of Post Falls.

Fund Financial Statements

Fund financial statements indicate related accounts grouped to maintain control over resources that have been segregated for specific activities or objectives. The Post Falls Urban Renewal Agency, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund financial statements focus on near-term inflows and 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 to the reader in evaluating the Agency's near-term financing requirements.

Because the focus of Agency funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the Agency with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the Agency's balance sheet and its statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Agency funds and activities.

For cash management purposes the Post Falls Urban Renewal Agency maintains deposit accounts at Inland Northwest Bank and the State of Idaho Local Government Investment Pool, as well as six Certificates of Deposit (CDs). These accounts are as follows:

<u>INB</u>	<u>LGIP</u>	<u>CDs</u>
Money Market Account (ACH)	General Fund (ACH)	Inland Northwest Bank
Checking Account	Capital Improvements	Community 1 st Bank
	Reserves	Panhandle State Bank
		Spokane Teacher's Credit Union
		Mountain West Bank
		Global Credit Union

POST FALLS URBAN RENEWAL AGENCY
 Management's Discussion and Analysis
 September 30, 2010

All funds received for deposit, primarily tax increment checks are deposited to the INB money market account, as that is an Automated Clearing House (ACH) account which is used to transfer funds to and receive funds from the LGIP General Fund (ACH) account. All funds are transferred to the LGIP General Fund as a receiving account and then transferred to the Capital Improvements account. Funds retained in the General Fund represent the Agency annual operating budget funds. The minimum balances carried in the INB money market and checking account also maintain Agency operating budget balances. The Capital Improvements funds are used for proponent and project reimbursement typically on a semi-annual basis. City Center District and East Post Falls District reimbursements are made on a monthly as-billed basis. The Reserves account holds required Loan reserves as applicable.

In order to attain a higher interest rate, the Agency transferred \$1.5 million from the LGIP account to Certificates of Deposit in equal amounts in each of 6 local banks. They are under the FDIC insurance amount of \$250,000 each, with varied maturity dates to provide for necessary periodic liquidity. As the CDs matured, the Agency renewed them for \$245,000 each, to include the interest accrued under the FDIC insurance.

From a financial reporting standpoint, the Agency revenues and expenditures are disclosed as one fund as follows:

	General Fund <u>2010</u>	General Fund <u>2009</u>
<u>REVENUES</u>		
Property Taxes	\$ 4,276,784	\$ 3,581,789
Other Local Revenue	60,279	50,969
Interest Income	41,133	57,586
Administrative Fees		23,000
Reimbursement from Idaho Department of Transportation	<u>331,442</u>	<u> </u>
Total Revenue	<u>4,709,638</u>	<u>3,713,344</u>
<u>EXPENDITURES</u>		
Tax Increment Expense	2,175,333	1,972,352
Rebate of Surplus Increment Revenue		2,200,000
Public Facilities and Infrastructure Improvements	6,535	539,374
General Government	144,659	117,664
Debt Service - Principal	49,800	161,542
Debt Service - Interest	<u>13,755</u>	<u>15,998</u>
Total Expenditures	<u>2,390,082</u>	<u>5,006,930</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,319,556	(1,293,586)
Fund Balances - Beginning	<u>2,410,732</u>	<u>3,704,318</u>
Fund Balances - Ending	<u>\$ 4,730,288</u>	<u>\$ 2,410,732</u>

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the agency-wide and fund financial statements. Notes to the financial statements may be found on pages 16 to 24 of this report.

Financial Analysis of the Agency's Funds

As noted earlier, the Post Falls Urban Renewal Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Post Falls Urban Renewal Agency governmental funds section is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. At the end of FY 2010, the Agency reported combined ending fund balances of \$4,730,288, an increase of \$2,319,556 over the prior year.

General Fund Budgetary Highlights

The general fund is used to fund the annual expenses of operating the Agency and administering the urban renewal districts for which it is responsible. The total operating expenses for the fiscal year were \$144,659, or \$42,306 under the budget of \$186,965.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the fiscal year 2010, the Agency began leasing new office space in the Post Falls Chamber of Commerce building. As a result of this move, the Agency purchased new office equipment totaling \$2,114.

Long-term Debt

At the end of FY 2010, the Post Falls Urban Renewal Agency had total debt outstanding of \$273,900 which was the balance owing Washington Trust Bank. This debt has a fixed interest rate of 4.53% through October 2010, and adjusts annually thereafter at 2.25% over the 5 Year Fixed Federal Home Loan Base Intermediate/Long-Term Bullet Advance rate. This debt is being repaid by quarterly payments of principal and interest and will be fully repaid by 2016. The debt was incurred to pay one third of the cost of a water reservoir built in conjunction with improvements made to the Agency's Center Point urban renewal district. The reservoir improved water pressure and services throughout that district and other areas within the western portion of the City of Post Falls to a level required by new businesses locating to that area.

ECONOMIC FACTORS AND CONDITIONS CONSIDERATION

- **In-migration of new employers:** Post Falls continues to be an increasingly attractive location for employers seeking to relocate from other areas or entrepreneurs seeking to start new businesses. This trend is expected to continue, although at a slower pace given the

current economic uncertainties. Some of the business that has come in includes:

1. Development of The Pointe, initially anchored by a large Cabela's retail store, added Wal-Mart and is in discussion with other large retail and commercial tenants.
 2. Construction of a new production and research facility by ALK-Abello.
 3. Life Care Centers of America nursing center and assisted living complex.
 4. New retail developments along the Highway 41 corridor.
 5. Numerous other industrial and commercial businesses locating in Post Falls' Urban Renewal Districts.
 6. Start of road construction on The Landing development in City Center District.
- **Expansion of revenue from incremental property taxes resulting from new industrial and commercial development in renewal districts:** Tax increments resulting from investments in several Urban Renewal districts are expanding as new buildings are being built, and should enable the Agency to continue to reduce proponents' obligations, providing the opportunity to close-out renewal districts on or prior to their expiration date.
 - **Continued improvement in Agency policies and procedures:** The Agency continues to refine its policies and to add specificity to developer agreements which have resulted in smoother negotiations of capital project financial reimbursements. Agency Commissioners continue to closely examine actual benefits received from infrastructure improvements in which the Agency is asked to invest, and are continuing to hold the Agency's developer partners and the Agency to a high standard of accountability for results against the goals envisioned in each district Plan. Revised policies in 2010: Cash Management, Check Issuance, Finance Cost Reimbursement.
 - **Strengthening of internal controls:** The Agency has adopted comprehensive policies governing conflict of interest, investment of revenues, and aggressive management of cash flow. It continues to improve the transparency of its operations and the manner and clarity of the monthly and annual reports it provides to the public regarding its activities. Two new reports that have been added are a quarterly funds reconciliation review and a fund reconciliation report.

All of these factors were considered in preparing the Post Falls Urban Renewal Agency's budget for the 2011 fiscal year. The Agency was able to maintain a relatively low annual administrative fee that it allocates to each renewal district to meet its general operating expenses.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Post Falls Urban Renewal Agency for all those with an interest in the Agency's finances. Questions concerning the information provided in this report, or requests for additional financial information, should be addressed to the Post Falls Urban Renewal Agency, PO Box 236, Post Falls, ID 83877-0236. The office telephone number is 208-777-8151. The Agency moved its office location to leased space on the second floor of the new Post Falls Chamber of Commerce building at 201 E. 4th Ave. This move provided a lower annual lease cost and better organization of space.

POST FALLS URBAN RENEWAL AGENCY
Statement of Net Assets
September 30, 2010

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 30,787
Equity in State Treasurer Investment Pool	2,865,875
Interest Receivable	7,432
Property Taxes Receivable	285,420
Receivable from Idaho Department of Transportation	331,442
Prepaid Insurance	2,106
Investments	<u>1,482,448</u>
 Total Current Assets	 <u>5,005,510</u>
 Capital Assets	 2,114
 Less Accumulated Depreciation	 <u>(139)</u>
 Net Capital Assets	 <u>1,975</u>
 TOTAL ASSETS	 <u>\$ 5,007,485</u>

LIABILITIES AND FUND BALANCES

Current Liabilities:	
Accounts Payable	\$ 51,010
Accrued Interest Payable	2,054
Due to Proponents	4,098
 Long-Term Liabilities:	
Due Within One Year	49,800
Due In More Than One Year	<u>224,100</u>
 Total Liabilities	 <u>331,062</u>
 Net Assets:	
Invested in Capital Assets	1,975
Restricted	4,343,975
Unrestricted	<u>330,473</u>
 Total Net Assets	 <u>4,676,423</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,007,485</u>

POST FALLS URBAN RENEWAL AGENCY
Statement of Activities
September 30, 2010

EXPENSES

Tax Increment Expense	\$ 2,175,333
General Government	142,684
Public Facilities and Infrastructure Improvements	6,535
Interest on Long-Term Debt	<u>13,741</u>
Total Program Expenses	<u>2,338,293</u>

GENERAL REVENUES

Property Taxes	4,172,827
Penalties and Late Fees	60,279
Interest and Investment Earnings	41,133
Reimbursement from Idaho Department of Transportation	<u>331,442</u>
Total General Revenues	<u>4,605,681</u>
Change in Net Assets	2,267,388
Net Assets - Beginning	<u>2,409,035</u>
Net Assets - Ending	<u>\$ 4,676,423</u>

POST FALLS URBAN RENEWAL AGENCY
Balance Sheet - Governmental Funds
September 30, 2010

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 30,787
Equity in State Treasurer Investment Pool	2,865,875
Interest Receivable	7,432
Property Taxes Receivable	285,420
Receivable from Idaho Department of Transportation	331,442
Prepaid Insurance	2,106
Investments	<u>1,482,448</u>

TOTAL ASSETS \$ 5,005,510

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	51,010
Due to Proponents	4,098
Deferred Tax Revenue	<u>220,114</u>

Total Liabilities 275,222

Fund Balances:

Reserved	4,195,845
Unreserved, Undesignated	<u>534,443</u>

Total Fund Balances 4,730,288

TOTAL LIABILITIES AND FUND BALANCES \$ 5,005,510

POST FALLS URBAN RENEWAL AGENCY
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
September 30, 2010

Total Fund Balances at September 30, 2010 - Governmental Funds	\$ 4,730,288
Capital Assets of \$2,114, Net of Accumulated Depreciation of (\$139)	1,975
Elimination of Deferred Revenue	220,114
Accrued Interest Payable	(2,054)
Long-Term Liabilities at September 30, 2010: Notes Payable	<u>(273,900)</u>
Net Assets at September 30, 2010	<u>\$ 4,676,423</u>

POST FALLS URBAN RENEWAL AGENCY
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2010

REVENUES	
Property Taxes	\$ 4,276,784
Penalties and Late Fees	60,279
Interest and Investment Earnings	41,133
Reimbursement from Idaho Department of Transportation	<u>331,442</u>
Total Revenues	<u>4,709,638</u>
EXPENDITURES	
Current:	
Tax Increment Expense	2,175,333
Public Facilities and Infrastructure Improvements	6,535
General Government	144,659
Debt Service - Principal	49,800
Debt Service - Interest	<u>13,755</u>
Total Expenditures	<u>2,390,082</u>
Excess of Revenues Over Expenditures	2,319,556
Fund Balances - Beginning	<u>2,410,732</u>
Fund Balances - Ending	<u>\$ 4,730,288</u>

POST FALLS URBAN RENEWAL AGENCY

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2010

Total Net Changes in Fund Balances for the Year Ended
September 30, 2010 \$ 2,319,556

Elimination of Interfund Revenues and Expenditures:

Add: Note Principal Payments Considered as an
Expenditure 49,800

Add: Interest Recognized in Prior Year on Full Accrual
Basis 14

Add: Capital Outlays Considered as an Expenditure Less
Depreciation Expense 1,975

Less: Difference Between Revenue Earned from Property
Taxes on Modified Accrual Basis versus Revenue
from Property Taxes on Accrual Basis (103,957)

Change in Net Assets for Year Ended September 30, 2010 \$ 2,267,388

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Agency have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A) REPORTING ENTITY

Post Falls Urban Renewal Agency is an urban renewal agency created by and existing under the Idaho Urban Renewal Law of 1965, as amended, and is an independent public body.

The accompanying financial statements include all aspects controlled by the Board of Commissioners of Post Falls Urban Renewal Agency. The Agency is included in the City of Post Falls, Idaho financial reporting based on certain criteria in GASB Statement No. 14. These statements present only the funds of the Agency and are not intended to present the financial position and results of operations of the City of Post Falls, Idaho in conformity with GAAP.

Under the Idaho Code, in May 1991, the Post Falls City Council passed an ordinance that created the Post Falls Urban Renewal Agency. The Agency was established to promote urban development and improvement in and around the City of Post Falls. The Agency is governed by a board of seven commissioners. Under the Idaho Code, the Agency has the authority to issue bonds. Any bonds issued by the Agency are payable solely from the revenues attributable to tax increment financing. Any bonds issued are not a debt of the City. Post Falls City Council is not responsible for approving the Agency budget or funding any annual deficits. The Agency controls disbursements independent of City Council.

B) BASIC FINANCIAL STATEMENTS

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. The accounts of the Agency are organized on the basis of only one governmental fund. The general fund is the only fund used by the Agency. The Agency does not have any business-type activities. Therefore, both the government-wide and the fund financial level consist of only the Agency's general fund.

The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. The fund financial statements consist of the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds. A reconciliation between the government-wide

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS (Continued)

financial statements and the fund financial statements is also presented.

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

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 Agency considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, expenditures related to debt service, are recorded when payment is due. Expenditure recognition occurs in the accounting period in which the liability is incurred if measurable. Principal and interest on general long-term debt are recognized as fund liabilities when due, or when amounts have been accumulated (if appropriate) in a debt service fund for payments to be made in the following year.

Property taxes, interest income, and various other revenues 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. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, as the Agency meets both revenue recognition criteria, this triggers the revenue entry and reduces the deferred revenue liability.

D) CASH AND INVESTMENTS

In the governmental funds, cash received by the Agency is pooled for investment purposes and is presented as "Cash and Cash Equivalents" on the financial statements. For presentation in the financial statements, cash and investments includes cash on hand, amounts due

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) CASH AND INVESTMENTS (Continued)

from banks, and investments with an original maturity of three months or less at the time they are purchased by the Agency. Investments with an initial maturity of more than three months are reported as investments.

E) RECEIVABLES

The Agency is due a refund of unexpended funds paid to the Idaho Department of Transportation for the Post Falls Access improvements. The total payment of \$335,629, which included \$4,187 of accrued interest, was received in October of 2010.

F) CAPITAL ASSETS

General capital assets generally result from expenditures in the government funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Agency does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

G) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from government funds are reported on the government fund financial statements regardless of whether they will be liquidated with current resources.

In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) FUND BALANCE RESERVES

The Agency has the ability to reserve those portions of fund equity that are legally segregated for a specific future use or that do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balances indicate the portion of fund equity that is available for appropriation in future periods. Restricted resources are used first to fund appropriations as necessary.

I) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets (net of related debt) consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

J) PROPERTY TAXES

Property taxes are levied each November based on the assessed value of property as listed on the previous December tax rolls. Assessed values are an approximation of market value. Assessed values are established by the County Assessor. Property taxes become a lien on the property when it is levied.

Property tax and debt service revenues are recognized when measurable and available to finance current expenditures. The criterion of available has been defined as having been received within 60 days after year-end. Any portion of taxes receivable not meeting this criteria are recorded in the deferred tax revenue account and will be recognized as revenue when measurable and available.

K) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 BUDGETARY DATA

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the general fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the general fund.

NOTE 2 BUDGETARY DATA (Continued)

This is in conformance with Idaho State Statutes, which require that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation.

Reported budgeted amounts are as originally adopted or as amended by the Board. Professional management cannot legally amend appropriations within the budget without first seeking Board approval once the budget has been approved. The Board properly approved the original budget and there were no amendments to the budget during the fiscal year 2010.

Lapsing of Appropriations - At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.

NOTE 3 CASH AND INVESTMENTS

The Agency maintains its cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Agency also holds six certificates of deposit at six different financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of September 30, 2010, the Agency had uninsured balances of \$37,817. The certificates of deposit mature on dates ranging from January 2011 to February 2012.

The State of Idaho Local Government Investment Pool (the Pool) is duly chartered and administered by the State Treasurer's Office. The Pool consists of U.S. Treasury bills and notes, collateralized certificates of deposit and repurchase agreements. Idaho code defines allowable investments. Governmental Accounting Standards Board Statement No. 3 requires the Agency to assign risk categories for its investments, except those in which securities are not used as evidence of the investment. The Pool has not been assigned a risk category since the Agency is not issued securities, but rather it owns an undivided beneficial interest in the assets of the Pool. The Pool is not registered with the Securities and Exchange Commission or any other regulatory body nor are any balances insured by the Federal Deposit Insurance Corporation. Financial reports are available from the Idaho State Treasurer's Office upon request.

NOTE 4 CHANGES IN CAPITAL ASSETS

	<u>9/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/10</u>
Office Furniture	\$	\$ 2,114	\$	\$ 2,114
Less Accumulated Depreciation	_____	139	_____	139
Capital Assets, Net	<u>\$</u>	<u>\$ 1,975</u>	<u>\$</u>	<u>\$ 1,975</u>

See Auditors' Report

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE 5 LONG-TERM DEBT

Washington Trust Bank - During the 2005 fiscal year, the Agency entered into an agreement to participate in one-third of the cost of a water reservoir to be constructed on the Center Point property, up to \$500,000. The \$498,000 financing was secured through Washington Trust Bank on September 29, 2005. The stated rate of 4.53% on the note is adjustable after five years. The adjustment is based on the 5 Year Fixed Federal Home Loan Base Intermediate/Long-Term Bullet Advance rate plus 2.25%. The annual requirements to service the debt are as follows:

<u>Fiscal Year</u> <u>Ending September 30,</u>	<u>Rate*</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.53%	\$ 49,800	\$ 11,562	\$ 61,362
2012	4.53%	49,800	9,306	59,106
2013	4.53%	49,800	7,050	56,850
2014	4.53%	49,800	4,794	54,594
2015	4.53%	49,800	2,538	52,338
2016	4.53%	<u>24,900</u>	<u>421</u>	<u>25,321</u>
Totals		<u>\$273,900</u>	<u>\$ 35,671</u>	<u>\$309,571</u>

*Rate is subject to change based on criteria listed above.

The changes in long-term debt for the year ending September 30, 2010 are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Retired</u>	<u>Ending</u> <u>Balance</u>
Washington Trust Bank	<u>\$323,700</u>	<u>\$ 49,800</u>	<u>\$273,900</u>

NOTE 6 COMMITMENTS

Greenstone - (Centerpoint) - During the 2006 fiscal year, the Agency entered into an Owner Participation Agreement with the Greenstone Corporation. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the Center Point Urban Renewal District totaling \$1,198,003. The Agency is only obligated to reimburse the Greenstone Corporation if tax increment revenues of the Agency, directly resulting from the project improvements made by the Greenstone Corporation are available. The Agency receives increment revenue and then deducts the amount necessary to cover administrative costs, fund the district reserve, and pay any district debt. The amount remaining is the reimbursement. Of the total amount the Agency has agreed to reimburse, \$935,560 was reimbursed in previous fiscal years, and the final reimbursement of \$262,443 was made in fiscal year 2010.

NOTE 6 COMMITMENTS (Continued)

Stateline - During the 2007 fiscal year, the Agency entered into an Owner Participation Agreement with Stateline Business Park, LLC. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the Center Point Urban Renewal District totaling \$762,250. The Agency is only obligated to reimburse Stateline Business Park, LLC if net tax increment revenues of the Agency, directly resulting from the project improvements made by Stateline Business Park, LLC are available. The Agency receives tax increment revenue and then deducts the amounts necessary to cover administrative costs, fund the district reserve, and pay any district debt. The amount remaining is the reimbursement. Of the total amount the Agency has agreed to reimburse, \$201,774 was reimbursed in previous fiscal years, and \$371,834 was reimbursed in fiscal year 2010, leaving a balance of \$188,642.

Watson - During the 2007 fiscal year, the Agency entered into a Settlement Agreement with Watson and Associates for the Expo Urban Renewal District in an amount not to exceed \$4,702,827. Under this Agreement, the Agency will reimburse the cost of infrastructure improvements made within the Expo Urban Renewal District. The first reimbursement request of \$705,561 was increased by \$52,141 to a new total of \$757,702 and included cost submittals #1 and #2. A second reimbursement request for cost submittals #3 and #4 in the total of \$687,043 was approved January of 2009. It is anticipated that as infrastructure improvements are completed, further reimbursement requests will be made. The Agency is only obligated to reimburse Watson and Associates if tax increment revenues of the Agency, directly resulting from the project improvements made by Watson and Associates are available. The Agency receives tax increment revenue and then deducts the amounts necessary to cover administrative costs, fund the district reserve, and pay any district debt. The amount remaining is the reimbursement. Of the total amount the Agency has agreed to reimburse, \$515,646 was reimbursed in previous fiscal years, and \$231,273 was reimbursed in fiscal year 2010, leaving a balance of \$697,826.

Greenstone - (West Seltice II) - During the fiscal year, the Agency entered into an Owner Participation Agreement with Greenstone-Kootenai, Inc. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the West Seltice II Urban Renewal District totaling \$1,990,008. The Agency is only obligated to reimburse Greenstone-Kootenai, Inc. if tax increment revenues of the Agency, directly resulting from the project improvements made by Greenstone-Kootenai, Inc. are available. The Agency receives tax increment revenue and then deducts the amount necessary to cover administrative costs, fund the district reserve, and pay any district debt. The amount remaining is the reimbursement. Of the total amount the Agency has agreed to reimburse, \$181,046 was reimbursed in fiscal year 2009, and \$124,117 was reimbursed in fiscal year 2010, leaving a balance of \$1,684,845.

NOTE 6 COMMITMENTS (Continued)

Jacklin Land Company - During the 2008 fiscal year, the Agency entered into an Owner Participation Agreement with Jacklin Land Company. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the Riverbend II Urban Renewal District totaling \$2,769,476. The Agency is only obligated to reimburse Jacklin Land Company if tax increment revenues of the Agency, directly resulting from the project improvements made by Jacklin Land Company are available. The Agency receives tax increment revenue and then deducts the amounts necessary to cover administrative costs, fund the district reserve, and pay any district debt. The amount remaining is the reimbursement. Of the total amount the Agency has agreed to reimburse, \$805,800 was reimbursed in fiscal year 2009, and \$628,099 was reimbursed in fiscal year 2010, leaving a balance of \$1,335,577.

Tullamore Properties, LLC - During the 2008 fiscal year, the Agency entered into an Owner Participation Agreement with Tullamore Properties, LLC. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the East Post Falls Urban Renewal District totaling \$2,724,027. The Agency is only obligated to reimburse Tullamore Properties, LLC if tax increment revenues of the Agency, directly resulting from the project improvements made by Tullamore Properties, LLC are available. The Agency receives increment revenue and then deducts the amounts necessary to cover administrative costs, fund the district reserve, and pay any district debt. The amount remaining is the reimbursement. Of the total amount the Agency has agreed to reimburse, \$94,795 was reimbursed in fiscal year 2009, and \$46,279 was reimbursed in fiscal year 2010, leaving a balance of \$2,582,953.

NOTE 7 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Agency contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

An outside insurance company protects professional liability with a \$2,000,000 liability and a \$3,000,000 umbrella. Errors and omissions liability has a \$2,000,000 liability with \$2,000,000 in the aggregate annually per insured. Automobile liability has a \$2,000,000 single limit of liability.

The Agency has also established debt service reserves equal to one year's payment of principal and interest in each Agency where the Agency has a specific debt (Washington Trust Loan). Reserves held for this purpose by the Agency total \$64,402.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE 8 RESERVES/RESTRICTIONS

The Agency tracks reservations and restrictions on a cash basis internally. The following is a reconciliation of cash basis reservations to modified accrual basis and full accrual basis reservations and restrictions:

	Total Cash & Investments	Receivables	Prepaid Insurance	Payables	Deferred Revenue	Modified Accrual Fund Balance
Reserved for Appropriation in:						
East Post Falls District	\$ 2,625,699	\$ 437,098		\$ (93)	\$ (87,898)	\$ 2,974,806
City Center District	1,160,759	109,781		(51,670)	(65,730)	1,153,140
Expo District		7,399			(7,399)	
Centerpoint District	64,402	7,582			(7,582)	64,402
Riverbend District		37,044			(33,547)	3,497
West Seltice II District	1,545	17,958		(1,545)	(17,958)	
Total	3,852,405	616,862		(53,308)	(220,114)	4,195,845
Unreserved	526,705	7,432	\$ 2,106	(1,800)		534,443
Total	\$ 4,379,110	\$ 624,294	\$ 2,106	\$ (55,108)	\$ (220,114)	\$ 4,730,288
Restricted for Appropriation in:					Elimination of Negative Amounts	Full Accrual Net Assets
East Post Falls District	\$ 2,974,806		\$ 87,898			\$ 3,062,704
City Center District	1,153,140		65,730			1,218,870
Expo District			7,399			7,399
Centerpoint District	64,402		7,582	\$ (275,954)	\$ 203,970	37,044
Riverbend District	3,497		33,547			17,958
West Seltice II District			17,958			
Total	4,195,845		220,114	(275,954)	203,970	4,343,975
Invested in Capital Assets		\$ 1,975				1,975
Unreserved	534,443				(203,970)	330,473
Total	\$ 4,730,288	\$ 1,975	\$ 220,114	\$ (275,954)		\$ 4,676,423

See Auditors' Report

POST FALLS URBAN RENEWAL AGENCY
 Budgetary Comparison Schedules - General Fund
 For the Year Ended September 30, 2010

	ORIGINAL AND FINAL BUDGETED AMOUNTS	ACTUAL AMOUNTS	VARIANCE WITH BUDGET
REVENUES:			
Property Taxes	\$ 3,807,216	\$ 4,276,784	\$ 469,568
Penalties and Late Fees		60,279	60,279
Interest and Investment Earnings	62,965	41,133	(21,832)
Reimbursement from Idaho Department of Transportation		<u>331,442</u>	<u>331,442</u>
Total Revenues	<u>3,870,181</u>	<u>4,709,638</u>	<u>839,457</u>
EXPENDITURES:			
Current:			
General Government	186,965	144,659	42,306
Tax Increment Expense	3,619,598	2,175,333	1,444,265
Public Facilities and Infrastructure Improvements		6,535	(6,535)
Debt Service - Principal	49,800	49,800	
Debt Service - Interest	<u>13,818</u>	<u>13,755</u>	<u>63</u>
Total Expenditures	<u>3,870,181</u>	<u>2,390,082</u>	<u>1,480,099</u>
Excess of Revenues Over Expenditures	<u>\$</u>	<u>2,319,556</u>	<u>\$ 2,319,556</u>
Fund Balances - Beginning		<u>2,410,732</u>	
Fund Balances - Ending		<u>\$ 4,730,288</u>	

SUPPLEMENTAL INFORMATION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Post Falls Urban Renewal Agency
Post Falls, Idaho

We have audited the basic financial statements of Post Falls Urban Renewal Agency as of and for the year ended September 30, 2010 and have issued our report thereon dated January 13, 2011. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Post Falls Urban Renewal Agency'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 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*.

This report is intended solely for the information and use of the Board of Commissioners, others within the entity, and Federal or state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Anderson, McNelis & Co.

CLARK, ANDERSON, MCNELIS & CO., P.A.

Coeur d'Alene, Idaho
January 13, 2011