POST FALLS URBAN RENEWAL AGENCY

FINANCIAL STATEMENTS AND

INDEPENDENT AUDITORS' REPORT

Year Ended September 30, 2012

Prepared by

Anderson Bros. CPA's, P.A.

Post Falls, ID

POST FALLS URBAN RENEWAL AGENCY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Post Falls Urban Renewal Agency, component unit of the City of Post Falls, as of and for the year ended September 30, 2012, which collectively 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 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, each major fund, and the aggregate remaining fund information of the Post Falls Urban Renewal Agency, as of September 30, 2012, and the respective changes in financial position, 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 November 2, 2012, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 20 through 21 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 financing 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 Station of America, which consisted of inquiries of management about the methods preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Anderson Bros

Anderson Bros. CPA's, P.A.
Post Falls, ID
November 2, 2012

Post Falls Urban Renewal Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

This section of the Post Falls Urban Renewal Agency's FY 2012 financial report offers readers an overview and analysis of the Agency's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total fund balance for the Agency was $4,654,676
- The Agency's total net assets were $5,175,712

OVERVIEW OF FINANCIAL STATEMENTS

This annual report has four parts: management's discussion and analysis; government-wide financial statements; fund financial statements; 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 periods).

The Post Falls Urban Renewal Agency's net assets total $5,175,712 at September 30, 2012. The decrease in the Agency's net assets is due primarily to proponent payments exceeding property tax revenues by $968,082.

Post Falls Urban Renewal Agency's main assets include (89.2%) cash, short-term investments in the State Investment Pool and Certificates of Deposit.

STATEMENT OF NET ASSETS
September 30, 2012

	2011	**2012**
ASSETS		
Cash	$ 4,644,215	$ 3,907,020
Investments	1,229,825	739,871
Interest Receivable	1,922	2,695
Accounts receivable	368,013	554,469
Prepaid Insurance	1,697	1,663
Capital Assets, Net of Depreciation	1,672	1,370
TOTAL ASSETS	$ 6,247,344	$ 5,207,088
LIABILITIES		
Accounts payable	28,618	19,847
Accrued bonus payable	3,000	0
Due to Proponents	1,907	11,529
Long-term liabilities	0	0
Total liabilities	33,525	31,376

Net Assets		
Invested in Capital Assets	1,672	1,370
Unrestricted	6,212,147	5,174,342
Total net assets	6,213,819	5,175,712
TOTAL LIABILITIES AND NET ASSETS	$ 6,247,344	$ 5,207,088

In FY 2011, Agency revenues continued to be used to reimburse proponent obligations in the City Center, Riverbend, Center Point, Expo, West Seltice II 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 2012. 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.

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

	2011	**2012**
Revenues		
Property taxes, levied for general purposes	$4,696,331	4,785,951
Interest and investment earnings	29,234	39,643
Penalties and late fees	66,478	46,279
Total revenues	4,792,043	4,871,873
Expenses		
Tax Increment Expense	3,095,312	5,754,033
General government	144,555	152,239
Public facilities and infrastructure improvements	10,533	3,406
Interest on long-term debt	4,247	0
Total expenses	3,254,647	5,909,678
Change in net assets	$ 1,537,396	(1,038,107)
Net Assets – beginning	$ 4,730,288	$ 6,213,819
Net Assets – ending	$ 5,883,258	$ 5,175,712

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 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 2012, 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 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 4 CD's and a savings account at Potlatch Federal Credit Union. These accounts are as follows:

INB	**LGIP**	**CD's**
Money Market Account (ACH)	General Fund (ACH)	Community 1st Bank
Checking Account	Capital Improvements	Panhandle State Bank
		Global Credit Union
		Spokane Teachers Credit Union

Savings
Potlatch Federal Credit Union

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 monies 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 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 reimbursement is made on a monthly as-billed project basis.

In order to attain a higher interest rate, the Agency continues to renew Certificates of Deposit as they mature, keeping all monies within the FDIC insurance limit of $250,000.

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

	General Fund 2011	**General Fund 2012**
REVENUES		
Property Taxes	$ 4,587,556	$ 4,595,175
Other local revenue	66,478	46,278
Interest Income	29,234	39,643
Total Revenue	$ 4,683,268	$ 4,681,096

EXPENDITURES		
Tax increment expense	$ 3,095,312	$ 5,754,033
Public facilities and infrastructure improvements	10,533	3,406
General Government	144,252	152,239
Debt service – principal	273,900	0
Debt service – interest	6,301	0
Total expenditures	3,530,298	5,909,678
Excess (deficiency) of revenues over (under) expenditures	$ 1,152,970	$ 1,228,582
Fund balances – beginning	$ 4,730,288	$ 5,883,258
Fund balances – ending	$ 5,883,258	$ 4,654,676

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 12 to 19 of this report.

Financial Analysis of the Agency's Funds

As noted earlier, the Post Falls Urban Renewal Agency uses fund accounting to demonstrate and ensure 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.

In the past year, the Government Accounts Standards Board passed GASB-54 (Fund Balance Reporting and Governmental Fund Type Definitions) which changed fund balance classifications. In prior years, the classification was either Reserved or Unreserved fund balances. A brief description of the new balance classifications is as follows:

Nonspendable: funds that cannot be spent, ie., inventory or prepaid expenses
Restricted: legally enforceable specific funds
Committed: not legally enforceable but for specific purposes determined by Commission action
Assigned: constrained only with intent for use
Unassigned: typically residual general fund amounts

Current fund balances are allocated as follows:

Nonspendable:	$ 1,663	(Prepaid Expenses)
Restricted:	None	
Committed:	$ 218,606	(Riverbend, The Pointe and Expo)
Assigned:	$3,826,505	(City Center, East Post Falls)
Unassigned:	$ 607,902	(Operating Budget and Discretionary)

At the end of FY 2012, the Agency reported combined ending fund balances of $4,654,676, a decrease of $ 1,228,585 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 Agency provided a rebate of surplus increment from the East Post Falls Urban Renewal District, to the affected taxing districts in the amount of $3,274,616. This action resulted in amending the annual budget to add $1,784,308 from prior year unexpended funds. This significant variation between the original and final budget will not have a significant impact on future services or liquidity.

The total operating expenses for the fiscal year were $152,239, or $25,441 under the budget of $177,680. This variation between the final and actual operating budget amount will not have a negative impact on future services or liquidity. Additional budgetary information can be found on page 20.

CAPITAL ASSETS AND DEBT ADMINISTRATION

During the fiscal year 2012, the Agency had no additions to capital assets.

Long-term Debt

At the end of FY 2012, the Post Falls Urban Renewal Agency had no outstanding debt.

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 have come in include:
    1. Love's Travel Stop in the Expo District
    2. Numerous other industrial and commercial businesses locating in Post Falls' Urban Renewal Districts.

- **Expansion of revenue from incremental property taxes resulting from new industrial and commercial development in renewal districts:** Tax increment resulting from investments in several Urban Renewal districts is expanding as new buildings are being built, and should enable the Agency to continue to aggressively reduce proponent obligations, providing the opportunity to close-out some renewal districts 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. In 2012, an Annual Agency Budget Policy and Allocation of Administrative and Legal Costs Policy were adopted. The Orders of Approval Policy was updated. Bylaws of the Post Falls Urban Renewal Agency were revised and approved on February 16, 2012.

- **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.

All of these factors were considered in preparing the Post Falls Urban Renewal Agency's budget for the 2013 fiscal year. Due to closure of the Riverbend District, the Agency transferred $12,523 from the general fund in order 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 office is located on the second floor of the Post Falls Chamber of Commerce building at 201 E. 4th Ave.

BASIC FINANCIAL STATEMENTS

POST FALLS URBAN RENEWAL AGENCY
Statement of Net Assets
September 30, 2012

A S S E T S		
Current Assets:		
Cash and Cash Equivalents	$	499,125
Equity in State Treasurer Investment Pool		3,407,895
Interest Receivable		2,695
Property Taxes Receivable		554,469
Prepaid Insurance		1,663
Total Current Assets		4,465,847
Capital Assets, net of depreciation		1,370
Other Assets:		
Investments		739,871
Total Other Assets		739,871
Total Assets	$	5,207,088
L I A B I L I T I E S		
Current Liabilities:		
Accounts Payable	$	19,847
Due to Proponents		11,529
Total Liabilities		31,376
N E T A S S E T S		
Invested in Capital Assets, net of related debt		1,370
Unrestricted		5,174,342
Total Net Assets	$	5,175,712

See accompanying notes to financial statements and independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Statement of Activities
Year Ended September 30, 2012

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Total
Governmental Activities						
Tax Increment Expense	$ 5,754,033	-	-	-	(5,754,033)	(5,754,033)
General Government	152,541	-	-	-	(152,541)	(152,541)
Public Facilities and Infrastructure Improvements	3,406	-	-	-	(3,406)	(3,406)
Total Governmental Activities	5,909,980	-	-	-	(5,909,980)	(5,909,980)
General Revenues:						
Property Taxes					$ 4,785,951	4,785,951
Penalties and Late Fees					46,279	46,279
Interest/Investment Income					39,643	39,643
Total general revenues and transfers					4,871,873	4,871,873
Change in Net Assets					(1,038,107)	(1,038,107)
Net assets-beginning					6,213,819	6,213,819
Net assets-ending					$ 5,175,712	5,175,712

See accompanying notes to financial statements and independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Balance Sheet
Governmental Funds
September 30, 2012

A S S E T S		
Cash and Cash Equivalents	$	499,125
Equity in State Treasurer Investment Pool		3,407,895
Interest Receivable		2,695
Property Tax Receivable		554,469
Prepaid Insurance		1,663
Investments		739,871
Total Assets	$	5,205,718
L I A B I L I T I E S		
Accounts Payable	$	19,847
Due to Proponents		11,529
Deferred Revenue		519,666
Total Liabilities		551,042
F U N D E Q U I T Y		
Nonspendable:		
Prepaid Expenses		1,663
Committed:		
Center Point District		8,494
Expo		3,035
Riverbend		207,077
Assigned:		
East Post Falls District		3,300,864
City Center District		525,641
Unassigned:		607,902
Total Fund Equity		4,654,676
Total Liabilities and Fund Equity	$	5,205,718
RECONCILIATION TO THE STATEMENT OF NET ASSETS:		
Total fund equity reported above	$	4,654,676
Add Capital Assets not reported above		2,114
Less Accumulated Depreciation		(744)
Net Capital Assets		1,370
Deferred revenues for property taxes receivable		519,666
Net Assets	$	5,175,712

See accompanying notes to financial statements and independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types
Year Ended September 30, 2012

Revenues		
Property Taxes	$	4,595,175
Penalties and Late Fees		46,278
Interest and Investement Earning		39,643
Total Revenues		4,681,096
Expenditures		
Tax Increment Expenses		5,754,033
Public Facilities and Infrastructure Improvements		3,406
General Government		152,239
Total Expenditures		5,909,678
Excess (Deficiency) of Revenues Over Expenditures		(1,228,582)
Other Sources (Uses)		
Other Financing Sources		-
Total Other Sources (Uses)		-
Net Change in Fund Balance		(1,228,582)
Fund Balance - October 1,		5,883,258
Fund Balance - September 30,	$	4,654,676

See accompanying notes to financial statements and independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Reconciliation of the
Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2012

Changes in fund balances as reported on the governmental funds statements		$ (1,228,582)
Decrease in current property taxes not reflected in revenue on the governmental funds statements		190,777
Amounts reported as expenditures on the governmental funds statements not included as expenses on the government-wide statements:		
Capital Expenditures	-	
		-
Expenses on the government-wide statement of activity not included on the governmental funds statements:		
Depreciation	(302)	
		(302)
Change in net assets on the government-wide statements		$ (1,038,107)

See accompanying notes to financial statements and independent auditors' report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Post Falls Urban Renewal Agency (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.

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.

The Board of Commissioners is the decision-making authority that determines by formal vote whether funds are to be restricted, committed, or assigned and only the Board can determine any change in fund status by the same type of formal vote.

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 financial statements and the fund financial statements is also presented.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation- (continued)

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.

The Agency's general spending prioritization policy is to consider restricted resources to have been used first, followed by committed, assigned, and unassigned or unrestricted amounts when expenditures have been incurred for which resources in more than one classification could be used.

Cash and Cash Equivalents

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 from banks, Idaho State Pooled investments, 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.

Investments

Investments are comprised principally of time certificates of deposit. Cost at September 30, 2012 materially approximates fair value. Investments on hand at September 30, 2012 meet the guidelines as set by regulations of the State of Idaho. These guidelines include certificates of deposit placed with commercial banks and savings and loans.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than $5,000. 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.

Capital assets are depreciated using a straight-line depreciation method over a 5 to 7 year life.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Compensated Absences

The Agency has a policy for vacation pay. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Agency will compensate the employees for the benefits through paid time off or some other means. The Agency records a liability for accumulated unused vacation time when earned for all employees who qualify. These benefits fall on the employee's anniversary date of hire.

Sick leave benefits are not paid upon termination; therefore, no liability is accrued.

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 governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources.

In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

Property Tax and Deferred Tax Revenues

The Agency's property taxes are levied each November on the assessed value listed as of the previous December tax rolls. Assessed values are an approximation of market value. Assessed values are established by the County Assessor.

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 measureable and available.

Extraordinary and Special Items

Extraordinary items are transactions that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transactions occurred during the fiscal year ended September 30, 2012.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Use of 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 – CASH AND INVESTMENTS

The Agency maintains its cash balances in one financial institution. The Agency also holds four certificates of deposit at four different financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. As of September 30, 2012, the Agency had uninsured balances totaling $2,104. The certificates of deposit mature on dates ranging from December 2012 to March 2017. The carrying mount of the Agency's deposits and investments as of September 30, 2012 is $4,637,376 and the bank balance is $4,638,362, categorized as follows:

Idaho State Investment Pool	$ 3,398,379
Amount insured by the FDIC or other agencies	1,237,879
Amount uninsured by the FDIC or other agencies	2,104
Total	$ 4,638,362

State statutes authorize the Agency's investments. The Agency is authorized to invest in U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, government pools, and money market funds consisting of any of these securities listed. No unauthorized investment transactions were carried out by the Agency during the year.

Investments in 2a7-like pools are valued based upon the value of pool shares. The Agency invests in one 2a7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool is duly chartered and administered by the State Treasurer's Office and consists of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements. GASB 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 is any balances insured by the Federal Deposit Insurance Corporation. Financial reports are available from the Idaho State Treasurer's Office upon request

The balances above that the Agency has in the State Investment Pool are carried at fair market value pursuant to GASB 31. The Agency's portion of the State Investment Pool had an unrealized gain of $9,515 as of September 30, 2012.

The Agency's investments have been classified into the following three categories of credit risk:

(1) Insured or registered, or securities held by the Agency or its agent in the Agency's name.
(2) Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Agency's name.
(3) Uninsured and unregistered, with securities held by the counter party or by the counter party's trust department or agent, but not in the Agency's name.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2012

NOTE 2 – CASH AND INVESTMENTS – (CONTINUED)

The following schedule classifies the investments of the Agency as of September 30, 2012, into the above noted categories:

	Category 1	Category 2	Category 3	Carrying Amount
Certificates of Deposit	$ 987,838	-	-	987,838
Total Investments	$ 987,838	-	-	987,838

NOTE 3 – RECEIVABLES

The following is a schedule of property taxes assessed for the year, collected and remaining to be received.

Year	Balance 9/30/11	Levy	Adjustments & Collections	Balance 9/30/12
2004-2011	$ 368,013	4,791,335	(4,604,879)	554,469

In accordance with NCGA Interpretation #3, revenue, which is not received within 60 days of the year-end, has been reflected as deferred revenue. The balance as of September 30, 2012 is as follows:

Taxes Due at September 30, 2012	$ 554,469
Received October 2012	(17,243)
Received November 2012	(17,560)
Total	$ 519,666

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Office Furniture	$ 2,114	-	-	$ 2,114
Less Accumulated Depreciation	442	302		744
Capital Assets, Net	$ 1,672	302	-	$ 1,370

Depreciation expense was $302 for the year ended September 30, 2012.

See independent auditors' report.

NOTE 5 – LONG-TERM OBLIGATIONS & COMMITMENTS

Stateline Business Park, LLC (Center Point) – 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, $371,834 was reimbursed in fiscal year 2010, and $188,642 was reimbursed in fiscal year 2011.

Watson and Associates (Expo) – 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. Seven (7) separate costs submittals totaling $1,649,337 have been approved. 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 from tax increment revenues of the Agency generated within the district. 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, $972,160 was reimbursed in previous fiscal years, and $216,667 was reimbursed in fiscal year 2012, leaving a balance of $460,510.

Greenstone-Kootenai, Inc. (West Seltice II) – In July 2007, 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, $407,448 was reimbursed in previous fiscal years, and $115,783 was reimbursed in fiscal year 2012, leaving a balance of $1,466,777.

Jacklin Land Company (Riverbend) – 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, $2,201,909 was reimbursed in previous fiscal years, and $567,567 was reimbursed in fiscal year 2012, leaving a balance of $0.

Tullamore Properties, LLC (East Post Falls) – 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, $385,623 was reimbursed in previous fiscal years, and $233,045 was reimbursed in fiscal year 2012, leaving a balance of $2,105,359.

NOTE 5 – LONG-TERM OBLIGATIONS & COMMITMENTS – (CONTINUED)

The Point, LLC (Center Point) – During the 2012 fiscal year, the Agency entered into an Owner Participation Agreement with The Point, LLC. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the Center Point Urban Renewal District. The Agency is only obligated to reimburse The Point, LLC if tax increment revenues of the Agency, directly resulting from the project improvements made by The Point, 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 initial reimbursement request totaling $6,800,701, the amount of $3,552,954 was approved for payment, with the balance of $3,247,745 subject to further review and approval. Of the total amount the Agency has agreed to reimburse, $1,022,246 was reimbursed in fiscal year 2012, leaving a balance of $2,530,708.

The Agency entered into an operating lease for a copier. The term of the lease is 48 months with monthly payments of $119. The lease ends in January 2015. Lease expense for the year ended September 30, 2012 was $1,432.

The Agency also leases its office space. The term of the lease is 12 months with annual payments of $7,740. Rent expense for the year ended September 30, 2012 was $7,740.

NOTE 6 – FUND BALANCE

The Agency has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of the state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by Board of Commissioner's resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the executive director for a specific purpose but are not spendable until a budget resolution is passed by the Board of Commissioners.

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 9). Restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the Board of Commissioners or the Assignment has been changed by the Board of Commissioners. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order. The Agency reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

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, Idaho Counties Risk Management Program (ICRMP), for property insurance 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.

NOTE 7 – RISK MANAGEMENT – (CONTINUED)

The Agency's workman's compensation coverage is provided by the Idaho State Insurance Fund. During fiscal year 2011/12, the Agency contributed $386 for this insurance coverage.

NOTE 8 – CONTRIBUTIONS TO PENSION PLAN

Public Employee Retirement System of Idaho (PERSI) – 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. 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% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of Post Falls Urban Renewal Agency and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2012, the required contribution rate as a percentage of covered payroll for members was 6.23% for general members and 7.69% for police/firefighter members. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The Agency's contributions required and paid were $1,433, $0, and $0 for the three years ended September 30, 2012, 2011, and 2010, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

POST FALLS URBAN RENEWAL AGENCY
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual - All Governmental Fund Types
Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	4,335,354	4,335,354	4,595,175	259,821
Penalties and Late Fees	-	-	46,278	46,278
Interest and Investment Earnings	41,131	41,131	39,643	(1,488)
Carryover	-	1,784,308	1,784,308	-
Total Revenues	4,376,485	6,160,793	6,465,404	304,611
Expenditures				
General Government	162,680	162,680	152,239	10,441
Tax Increment Expense	4,198,805	5,983,113	5,754,033	229,080
Public Facilities and Infrastructure Improvements	15,000	15,000	3,406	11,594
Total Expenditures	4,376,485	6,160,793	5,909,678	251,115
Excess (Deficiency) of Revenues Over Expenditures	-	-	555,726	555,726
Other Sources (Uses)				
Other Financing Sources	-	-	-	-
Total Other Sources (Uses)	-	-	-	-
Net Change in Fund Balance	-	-	555,726	555,726
Fund Balance - October 1,	5,883,258	5,883,258	5,883,258	
Fund Balance - September 30,	$ 5,883,258	5,883,258	6,438,984	
Adjustments to conform with GAAP:				
Carryover			(1,784,308)	
Fund Balance, end of year (GAAP Basis)			4,654,676	

See accompanying notes to the budget and actual schedule and independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Notes to the Budget and Actual Schedule
Year Ended September 30, 2012

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.

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 was one amendment to the budget during the fiscal year 2012.

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.

REPORT REQUIRED BY THE GAO

1810 E Schneidmiller Ave. Ste. 310
Post Falls, Idaho 83854
208-777-1099 (phone) 208-773-5108 (fax)

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

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

We have audited the financial statements of the governmental activities of Post Falls Urban Renewal Agency as of and for the year ended September 30, 2012, which collectively comprise Post Falls Urban Renewal Agency's basic financial statements and have issued our report thereon dated November 2, 2012. 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

Management of Post Falls Urban Renewal Agency is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Post Falls Urban Renewal Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

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.*

We noted certain matters that we reported to management of Post Falls Urban Renewal Agency in a separate letter dated November 2, 2012.

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

Anderson Bros

Anderson Bros. CPA's, P.A.

Post Falls, Idaho
November 2, 2012