

POST FALLS URBAN RENEWAL AGENCY

FINANCIAL AUDIT REPORTS AND STATEMENTS

FOR THE YEAR ENDED
September 30, 2016

Prepared by

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Post Falls, ID

POST FALLS URBAN RENEWAL AGENCY

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Post Falls Urban Renewal Agency, component unit of the City of Post Falls, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Post Falls Urban Renewal Agency, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Agency's share of net pension liability, schedule of Agency's contributions, and budgetary comparison information on pages 3 through 8, 29, and 30 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2016, on our consideration of the Post Falls Urban Renewal Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Post Falls Urban Renewal Agency's internal control over financial reporting and compliance.



Anderson Bros. CPA's, P.A.

Post Falls, Idaho
December 14, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016**

This section of the Post Falls Urban Renewal Agency’s FY 2016 financial report offers readers an overview and analysis of the Agency’s financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the Agency’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total fund balance for the Agency was \$2,587,592
- The Agency’s total net position was \$(5,068,960)

OVERVIEW OF FINANCIAL STATEMENTS

The Agency’s annual report has four parts: this letter providing management’s discussion and analysis (pages 3 to 8); the audited government-wide financial statements (pages 9 to 10); the audited fund financial statements (pages 11 to 13); and the auditor’s notes and required supplemental information (pages 14-28).

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 Position presents all of the Agency’s assets and liabilities, with the difference between the two reported as net position. All changes in net position 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 position totals \$(5,068,960) at September 30, 2016. The decrease in the Agency’s net position is due primarily to proponent payments associated with planned public improvement projects in the East Post Falls and City Center Districts which exceeded tax revenues by \$1,764,457. This shortfall was funded by debt issued by the Agency and payable over the next several years from future tax increment receipts.

Post Falls Urban Renewal Agency’s main assets include (94.4%) cash, short-term investments in the State Investment Pool and Certificates of Deposit.

**STATEMENT OF NET POSITION
September 30, 2016**

	2015	2016
ASSETS		
Cash	\$907,169	\$1,459,952
Investments	739,998	737,761
Restricted Investments	1,302,708	1,000,451
Interest Receivable	3,346	2,771
Accounts Receivable	198,117	184,849
Prepaid Insurance	1,974	2,016
Capital Assets, Net of Depreciation	464	162
TOTAL ASSETS	\$3,153,776	\$3,387,962

DEFERRED OUTFLOWS OF RESOURCES

Pension Plan	-0-	<u>\$38,882</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$3,153,776</u>	<u>\$3,426,844</u>
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LIABILITIES

Accounts payable	\$1,032,623	\$622,100
Accrued Wages	5,318	2,004
Accrued Vacation	4,134	1,842
Accrued Interest	12,033	24,104
Current Portion of Long Term Debt	1,922,522	1,846,607
Long-term Liabilities		
Long Term Debt (net of current portion)	3,427,175	5,901,519
Net Pension Liability	<u>47,448</u>	<u>73,567</u>
Total Liabilities	<u>\$6,451,253</u>	<u>\$8,471,743</u>

DEFERRED INFLOWS OF RESOURCES

Pension Plan	<u>\$7,026</u>	<u>\$24,061</u>
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NET POSITION

Invested in Capital Assets	\$464	162
Restricted for Debt Covenants	1,302,708	1,000,451
Unrestricted	<u>(4,607,675)</u>	<u>(6,069,573)</u>
Total net position	<u>\$(3,304,503)</u>	<u>\$(5,068,960)</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>\$ 3,153,776</u>	<u>\$3,426,844</u>
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In FY 2016, Agency revenues continued to be used to reimburse proponent obligations in the City Center, Center Point, Expo, West Seltice II and the East Post Falls districts. Most districts experienced 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, any additional proponent obligations had not yet been finalized by the end of fiscal year 2016. The Agency anticipates completion on all major construction projects in FY 2017. The Agency also anticipates receiving sufficient funds in future years from incremental property taxes generated by new commercial and industrial development in its districts, to repay all of its existing liabilities and continue its operations. Proponent obligation reimbursement is subject to both existing increment and increment based on new business growth.

The Statement of Changes in Net Position presents information showing how the Agency's net position changed during the most recent fiscal year; however, it is only one indicator of the Agency's financial position. To assess the overall health of the Agency, one needs to consider additional factors, such as changes in the property tax base from 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 Position

	<u>2015</u>	<u>2016</u>
Revenues		
Property taxes, levied for general purposes	\$4,218,735	\$4,081,120
Interest and investment earnings	18,414	19,013
Penalties and late fees	<u>44,800</u>	<u>38,630</u>
 Total revenues	 <u>\$4,281,949</u>	 <u>\$4,138,763</u>
Expenses		
Tax Increment Expense	\$13,407,021	\$5,721,345
General government	164,800	164,195
Public Facilities and Infrastructure Improvements	1,527	3,250
Pension Plan Expense	9,455	14,430
Total expense	<u>13,582,803</u>	<u>5,903,220</u>
 Change in net position	 <u>\$ (9,300,854)</u>	 <u>\$(1,764,457)</u>
 Net position-beginning	 6,052,899	 (3,304,503)
Prior period adjustment	(56,548)	0
Net position-ending	<u>(3,304,503)</u>	<u>(5,068,960)</u>

Government Activity Analysis

The majority of the revenue received by the Post Falls Urban Renewal Agency results from incremental increases in property values 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 reimbursement 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 acquired Private Placement financing of a tax exempt nature from Community 1st Bank for \$1,200,000 to fund the Spokane Street project and from Washington Trust Bank for \$13,000,000 to fund the Greensferry Overpass project and the Spencer Street Extension project.

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 Post Falls City Council.

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 Community 1st Bank and the State of Idaho Local Government Investment Pool (LGIP) as well as 4 CD's. These accounts are as follows:

<u>Community 1st Bank</u>	<u>LGIP</u>	<u>CD's</u>
Checking Account (ACH)	General Fund (ACH)	Columbia Bank
Money Market Account	Capital Improvements (ACH)	Global Credit Union
		Spokane Teachers Credit Union
		Washington Trust Bank

All funds received for deposit, primarily Tax Increment checks, are deposited to a Community 1st Bank checking 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 and/or the LGIP Capital Improvements Fund (ACH) accounts. Funds retained in the LGIP General Fund represent the Agency annual operating budget funds. The balances carried in the Community 1st Bank money market and checking accounts also maintain Agency operating budget balances. The LGIP 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 earnings 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:

	<u>General Fund</u> <u>2015</u>	<u>General Fund</u> <u>2016</u>
REVENUES		
Property Taxes	\$4,235,565	\$4,092,992
Other local revenue	44,800	38,630
Interest Income	18,414	19,013
Total Revenue	<u>\$4,298,779</u>	<u>\$4,150,635</u>
EXPENDITURES		
Tax increment expense	\$13,352,115	\$5,477,903
Public facilities and infrastructure improvements	1,527	3,250
General Government	176,027	174,051
Debt service – principal	924,862	2,136,363
Debt service – interest	<u>42,872</u>	<u>231,371</u>
Total expenditures	<u>\$14,497,403</u>	<u>\$8,022,938</u>
Excess (deficiency) of revenues over expenditures	<u>\$(10,198,624)</u>	<u>\$(3,872,303)</u>
OTHER SOURCES (Uses)		
Other Financing Sources	<u>\$6,274,559</u>	<u>\$4,534,792</u>
Total Other Sources (Uses)	<u>\$6,274,559</u>	<u>\$4,534,792</u>

Net Change in Fund Balance	\$(3,924,065)	\$ 662,489
Fund balances – beginning	<u>\$ 5,849,168</u>	<u>\$ 1,925,103</u>
Fund balances – ending	<u>\$ 1,925,103</u>	<u>\$ 2,587,592</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 14 to 28 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.

Current fund balances are allocated as follows:

Non-spendable:	\$ 2,016	(Prepaid Expenses)
Restricted:	\$ 1,000,000	(Debt Covenants)
Committed:	\$ 2,396	(Center Point, West Seltice)
Assigned:	\$ 1,145,743	(Expo, EPF-S/C, City Center)
Unassigned:	\$ 437,437	(Operating Budget and Discretionary)

At the end of FY 2016, the Agency reported combined ending fund balances of \$2,587,592 an increase of \$662,489 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 \$177,302 or \$35,079 under the budget of \$212,381 primarily due to a decrease in staff.

Overall, the total budget was underspent by \$1,844,657 due to unanticipated property tax revenues and interest income and the timing of payment(s) upon project completion. This variation between the final and actual budget amount will not have a negative impact on future services or liquidity.

CAPITAL ASSETS AND DEBT ADMINISTRATION

During the fiscal year 2016, the Agency had no additions to capital assets.

Long-term Debt

At the end of FY 2016, the Post Falls Urban Renewal Agency had outstanding debt totaling \$7,748,126 which included project financing of \$603,081 from Community 1st Bank and \$7,145,045 from Washington Trust Bank.

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.
- 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 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 planned and approved infrastructure improvement expenses which the Agency is asked to reimburse, 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
- 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 2017 fiscal year. In FY 2016, the Agency transferred \$85,381 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. In the FY 2017 budget, the Agency was able to allocate \$32,610 back to the general fund due primarily to a reduction in its operation 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 Position

September 30, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	56,021
Equity in State Treasurer Investment Pool		1,403,931
Interest Receivable		2,771
Property Taxes Receivable		184,849
Prepaid Insurance		2,016
Total Current Assets		<u>1,649,588</u>

Capital Assets, net of accumulated depreciation 162

Other Assets:

Restricted Investments		1,000,451
Investments		737,761
Total Other Assets		<u>1,738,212</u>

Total Assets \$ 3,387,962

DEFERRED OUTFLOWS OF RESOURCES

Pension plan \$ 38,882

LIABILITIES

Current Liabilities:

Accounts Payable	\$	622,100
Accrued Wages		2,004
Accrued Vacation		1,842
Accrued Interest		24,104
Current Portion of Long Term Debt		1,846,607
Total Current Liabilities		<u>2,496,657</u>

Noncurrent Liabilities:

Long Term Debt (net of current portion)		5,901,519
Net Pension Liability		73,567
Total Noncurrent Liabilities		<u>5,975,086</u>
Total Liabilities	\$	<u>8,471,743</u>

DEFERRED INFLOWS OF RESOURCES

Pension plan \$ 24,061

NET POSITION

Net Investment in Capital Assets		162
Restricted for Debt Covenants		1,000,451
Unrestricted		(6,069,573)
Total Net Position	\$	<u>(5,068,960)</u>

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

POST FALLS URBAN RENEWAL AGENCY
Statement of Activities
Year Ended September 30, 2016

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Total
Governmental Activities						
Tax Increment Expense	\$ 5,721,345	-	-	-	(5,721,345)	(5,721,345)
General Government	167,445	-	-	-	(167,445)	(167,445)
Public Facilities and Infrastructure Improvements	-	-	-	-	-	-
Pension Plan Expense	14,430	-	-	-	(14,430)	(14,430)
Total Governmental Activities	5,903,220	-	-	-	(5,903,220)	(5,903,220)
General Revenues:						
Property Taxes					\$ 4,081,120	4,081,120
Penalties and Late Fees					38,630	38,630
Interest/Investment Income					19,013	19,013
Total general revenues and transfers					4,138,763	4,138,763
Change in Net Position					(1,764,457)	(1,764,457)
Net position-beginning					(3,304,503)	(3,304,503)
Net position-ending					\$ (5,068,960)	(5,068,960)

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

POST FALLS URBAN RENEWAL AGENCY

**Balance Sheet
Governmental Funds
September 30, 2016**

ASSETS

Cash and Cash Equivalents	\$	56,021
Equity in State Treasurer Investment Pool		1,403,931
Restricted Investments		1,000,451
Investments		737,761
Interest Receivable		2,771
Property Tax Receivable		184,849
Prepaid Insurance		2,016
Total Assets	\$	<u>3,387,800</u>

LIABILITIES

Accounts Payable	\$	622,100
Payroll Liabilities		3,846
Total Liabilities	\$	<u>625,946</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable Revenue - property taxes	\$	<u>174,262</u>
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FUND EQUITY

Nonspendable:		
Prepaid Expenses	\$	2,016
Restricted:		
Debt Covenants		1,000,000
Committed:		
Center Point		1,755
West Seltice II		641
Assigned:		
Expo		542,274
East Post Falls - South/Central		438,264
City Center		163,258
Center Point		1,947
Unassigned:		437,437
Total Fund Equity		<u>2,587,592</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$	<u>3,387,800</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION:

Total fund equity reported above	\$	2,587,592
Add capital assets not reported above		2,114
Less accumulated depreciation		(1,952)
Net Capital Assets		<u>162</u>
Add deferred outflows of resources not reported above:		
Deferred inflows - pension		38,882
Less deferred inflows of resources not reported above:		
Deferred inflows - pension		(24,061)
Less liabilities not reported above:		
Accrued interest		(24,104)
Note payable		(7,748,126)
Net pension liability		(73,567)
Add deferred revenues for property taxes receivable		174,262
Net Position	\$	<u>(5,068,960)</u>

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, 2016

Revenues

Property Taxes	\$	4,092,992
Penalties and Late Fees		38,630
Interest and Investment Earning		19,013
		4,150,635
Total Revenues		4,150,635

Expenditures

Tax Increment Expenses		5,477,903
Public Facilities and Infrastructure Improvements		-
General Government		177,301
Debt Service:		
Principal		2,136,363
Interest		231,371
		8,022,938
Total Expenditures		8,022,938
Excess (Deficiency) of Revenues Over Expenditures		(3,872,303)

Other Sources (Uses)

Other Financing Sources		4,534,792
		4,534,792
Total Other Sources (Uses)		4,534,792
Net Change in Fund Balance		662,489
Fund Balance - October 1,		1,925,103
Fund Balance - September 30,	\$	2,587,592

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, 2016

Net change in fund balances - total governmental funds		\$ 662,489
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.		(302)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.		
Debt issuance	(4,534,792)	
Principal payments	<u>2,136,363</u>	(2,398,429)
Because some property taxes will not be collected for several months after the Agency's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.		(11,872)
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The activities consist of:		
Increase in accrued interest	(12,071)	
Increase in pension plan expense	(14,430)	
Decrease in PERSI contributions	<u>10,158</u>	(16,343)
Change in net position of governmental activities		<u>\$ (1,764,457)</u>

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

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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 Position 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.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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.

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 cash equivalents includes cash on hand, amounts due 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.

Investments

Investments are comprised principally of time certificates of deposit. Cost at September 30, 2016 materially approximates fair value. Investments on hand at September 30, 2016 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.

Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowance for uncollectibles for property taxes was \$0 at September 30, 2016.

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.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has one item, pension plan, which is reported in the government-wide statement of net position and qualifies for reporting in this category at this time.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has two items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The other item, pension plan, is reported in the government-wide statement of net position. These amounts are deferred and recognized as inflows of resources in the period that the amounts becomes available.

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.

Accumulated sick leave lapses when employees leave the employ of the government and, upon separation from service, no monetary obligation exists.

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.

In the fund financial statements, long-term debt is recognized as a liability of a governmental fund, when due, or when resources have been accumulated in the general fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is maintained separately and represents a reconciling item between the fund and agency-wide presentation.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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

Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitation on the use of resources through either a committed (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing Agency commission is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes that do not meet the criteria to be classified as committed. The commission may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Fund balances of the governmental funds are classified as follows in the fund financial statements:

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 the Board of Commissioners by resolution.

Assigned—Amounts that are designated by the Board of Commissioners 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.

See independent auditors’ report.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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

Property Tax and Unavailable Property Tax Revenues

Property taxes are levied by taxing agencies 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. The County Treasurer remits the appropriate collected taxes to the Agency on a monthly basis.

Property taxes 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 inflows of resources for unavailable property taxes account and will be recognized as revenue when measurable 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, 2016.

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

General

State statutes authorize the Agency's investments. The Post Falls Urban Renewal Agency is authorized to invest in demand deposits, savings accounts, 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, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred.

Custodial Credit Risk

Custodial credit risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk as it deposits funds in financial institutions that are members of the U.S. Federal Deposit Insurance Corporation (FDIC) and has never experienced such a loss. As of September 30, 2016, the Agency's deposits were exposed to custodial credit risk as follows:

<i>Deposits without exposure to custodial credit risk:</i>	
Amount insured by FDIC or other agencies	\$ 3,199,126
Amount collateralized with securities held in trust, but not in Agency's name	-
Total deposits without exposure to custodial credit risk	\$ 3,199,126
<i>Deposits with exposure to custodial credit risk:</i>	
Amounts uninsured-exposed to custodial credit risk	\$ -
Total bank balance (deposits)	\$ 3,199,126

See independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 2 – CASH AND INVESTMENTS - (CONTINUED)

The carrying amount is displayed as follows in the financial statements:

Statement of net position	
Cash and cash equivalents	\$ 56,021
Restricted cash and cash equivalents	1,000,451
Equity in the state investment pool	1,403,931
Investments	737,761
	\$ 3,198,164
Cash and cash equivalents at September 30, 2016 consist of the following:	
Cash	
Deposits with financial institutions	\$ 11,036
Cash equivalents	
Money market funds and savings	44,985
Restricted cash and cash equivalents at September 30, 2016 consist of the following:	
Cash equivalents	
Certificates of deposit, maturity of 90 days	1,000,451
Equity in state investment pool at September 30, 2016 consist of the following:	
Cash equivalents	
Idaho state investment pool deposits	1,403,931
Investments at September 30, 2016 consist of the following:	
Certificates of deposit, maturity after 90 days	737,761
	\$ 3,198,164

State Investment Pool

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 are 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 amortized cost, which is permitted pursuant to GASB 31, and calculated on a monthly basis. The Agency's portion of the State Investment Pool had an unrealized gain of \$6,318 as of September 30, 2016, which has not been reflected in the financial statements.

State statutes authorize the Agency 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.

See independent auditors' report.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 2 – CASH AND INVESTMENTS - (CONTINUED)

GASB Statement No. 40 requires the Agency to assign risk categories for its investments, except those in which securities are not used as evidence of the investment. Credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. The short term investment pools are not evidenced by securities that exist in physical or book entry form and accordingly, are not categorized for credit risk.

Investments

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.

The following schedule classifies the investments of the Agency as of September 30, 2016, into the above noted categories:

	Category			Carrying Amount
	1	2	3	
Certificates of Deposit	\$ 737,761	-	-	737,761
Total Investments	\$ 737,761	-	-	737,761

NOTE 3 – RECEIVABLES

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

Year	Balance 9/30/15	Assessments Levied	Adjustments & Collections	Balance 9/30/16
2007-2015	\$ 198,117	3,954,510	(3,967,778)	184,849

In accordance with NCGA Interpretation #3, revenue, which is not received within 60 days of the year-end, has been reflected as unavailable revenue - property taxes. The balance as of September 30, 2016 is as follows:

Taxes Due at September 30, 2016	\$ 184,849
Received October 2016	(5,008)
Received November 2016	(5,579)
Total	\$ 174,262

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Office Furniture	\$ 2,114	-	-	\$ 2,114
Less Accumulated Depreciation	1,650	302		1,952
Capital Assets, Net	<u>\$ 464</u>	<u>302</u>	<u>-</u>	<u>\$ 162</u>

Depreciation expense was \$302 for the year ended September 30, 2016.

NOTE 5 – LONG-TERM OBLIGATIONS & COMMITMENTS

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. The initial reimbursement agreement was in the amount of \$4,702,827. Under this Agreement, the Agency will reimburse the approved cost of infrastructure improvements made within the Expo Urban Renewal District. Seven (7) separate cost submittals totaling \$1,649,337 have been approved. In March 2014 financing cost reimbursements totaling \$96,509 were approved and added to the obligation. 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, \$1,745,846 was reimbursed in previous fiscal years.

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, \$870,022 was reimbursed in previous fiscal years, and \$90,076 was reimbursed in fiscal year 2016, leaving a balance of \$1,029,910.

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. During fiscal year 2016 reimbursements totaling \$1,741,887 were approved and added to the obligation. 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, \$1,414,604 was reimbursed in previous fiscal years, and \$348,254 was reimbursed in fiscal year 2016, leaving a balance of \$2,703,056.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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

Tullamore Commons II, LLC (East Post Falls) – During the 2013 fiscal year, the Agency entered into an Owner Participation Agreement with Tullamore Commons II, LLC. Under this agreement, the Agency will reimburse the cost of infrastructure improvements made within the East Post Falls Urban Renewal District in an amount not to exceed \$325,000. The Agency is only obligated to reimburse Tullamore Commons II, LLC if tax increment revenues of the Agency, directly resulting from the project improvements made by Tullamore Commons II, 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, \$48,710 was reimbursed in fiscal year 2016, leaving a balance of \$276,290.

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, \$3,552,954 was approved in fiscal year 2012 for reimbursement, \$3,422,806 was approved in fiscal year 2013 for reimbursement, and \$91,554 was approved in fiscal year 2015 for reimbursement, totaling approved reimbursements of \$7,067,314. Of the total amount the Agency has agreed to reimburse, \$3,650,903 was reimbursed in previous fiscal years, and \$822,134 was reimbursed in fiscal year 2016, leaving a balance of \$2,594,277.

The Agency entered into an operating lease for a copier. The term of the lease is 36 months with monthly payments of \$126. The lease ends in September 2017. Lease expense for the year ended September 30, 2016 was \$1,512.

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, 2016 was \$7,740.

In October 2013, the Post Falls Urban Renewal Agency signed loan documents for a Revenue Allocation Note, Series 2013 (the “Note”) in the amount up to \$13,000,000. The Note is subject to a tax exempt rate of 3.10% per annum from the date of the first draw under the Note through September 23, 2018. On September 24, 2018, the annual interest rate shall be reset. The original terms of the Note were amended on September 18, 2014 wherein the first payment due date was changed to September 1, 2015. The Note shall be payable in semi-annual payments, consisting of principal and accrued interest, commencing on September 1, 2015, continuing thereafter on the 1st day of each March and September until September 1, 2023. Payments made on March 1 will be in the amount of \$1,100,000, and payments on September 1 will be in the amount of \$650,000. The Post Falls Urban Renewal Agency has established and maintains a Reserve Fund in the amount of \$1,000,000 at Washington Trust Bank.

In November 2014, the Post Falls Urban Renewal Agency signed loan documents for financing of the Post Falls City Center Corridor Project (the “Note”) in the amount up to \$1,200,000. The Note is subject to a fixed rate of 3.95% for the four year term of the loan reflecting a tax exempt rate equivalent of 2.70%, fixed for the same period of time. The Note shall be payable in semi-annual payments of \$158,866.42, consisting of principal and accrued interest, commencing on March 1, 2015, continuing thereafter on the 1st day of each September and March until September 1, 2018. The Post Falls Urban Renewal Agency has pledged tax increment revenues from City Center District.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

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

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Long-term liabilities:				
Note payable - Revenue Allocation Note	\$ 4,554,954	4,428,842	1,838,751	\$ 7,145,045
Note payable - City Center Corridor Project	794,743	105,950	297,612	603,081
Total long-term liabilities	\$ 5,349,697	4,534,792	2,136,363	7,748,126
Less current portion of long-term debt				(1,846,607)
Total long-term liabilities, net current portion				<u>\$ 5,901,519</u>

Debt service requirements at September 30, 2016, will be as follows:

	Principal	Interest	Total
2017	1,846,607	221,125	\$ 2,067,732
2018	1,891,554	188,728	2,080,282
2019	1,662,732	158,094	1,820,826
2020	1,705,929	112,442	1,818,371
2021	641,304	87,268	728,572
Thereafter	-	-	-
	<u>\$ 7,748,126</u>	<u>767,657</u>	<u>\$ 8,515,783</u>

Interest Included as Direct Expense

Interest expense of \$243,442 on long-term debt has been included in the direct expenses of individual functions on the government-wide statement of activities. Authorization for general long-term debt is specific to a particular purpose; thus, an objective connection can be made to a specific program. All interest on long-term debt is reported as a direct expense of the program for which borrowing is related. Interest is reported in the following governmental functions as direct expenses on the Statement of Activities:

Governmental Function	District	Interest
Tax Increment Expense	East Post Falls	\$ 223,257
Tax Increment Expense	City Center	20,185
		<u>\$ 243,442</u>

NOTE 6 – 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.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 6 – RISK MANAGEMENT – (CONTINUED)

The Agency's workman's compensation coverage is provided by the Idaho State Insurance Fund. During fiscal year 2015/16, the Agency contributed \$459 for this insurance coverage.

NOTE 7 – PENSION PLAN

Plan Description

The Post Falls Urban Renewal Agency contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2016 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percentage of covered payroll is set by the Retirement Board and was 11.32% general employees and 11.66% for police and firefighters. The Agency's contributions were \$10,158 for the year ended September 30, 2016.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 7 – PENSION PLAN – (CONTINUED)

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the Agency reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the Agency's proportion was 0.0036291 percent.

For the year ended September 30, 2016, the Agency recognized pension expense of \$14,430. At September 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	7,330
Changes in assumptions or other inputs	1,635	-
Net difference between projected and actual earnings on pension plan investments	35,807	16,731
Change in the Agency's proportion and differences between the Agency's contributions and the Agency's proportionate contributions	423	-
Amortized change in prior year's proportionate share	-	-
Agency's contributions subsequent to the measurement date	1,017	-
Total	\$ 38,882	\$ 24,061

\$1,017 reported as deferred outflows of resources related to pensions resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2015 the beginning of the measurement period ended June 30, 2016 is 4.9 and 5.5 for the measurement period June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended September 30:	
2017	75
2018	75
2019	8,535
2020	4,696
2021	-

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 7 – PENSION PLAN – (CONTINUED)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25 - 10.00%
Salary inflation	3.75%
Investment rate of return	7.10% net of investment expenses
Cost-of-living adjustments	1%

Mortality rates were based on the RP - 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 7 – PENSION PLAN – (CONTINUED)

Actuarial Assumptions-(continued)

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	0.90%	0%	0% - 5%
Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

* Expected arithmetic return net of fees and expenses

Actuarial Assumptions

Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.08%
Portfolio Standard Deviation	12.59%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

POST FALLS URBAN RENEWAL AGENCY
Notes to Financial Statements
September 30, 2016

NOTE 7 – PENSION PLAN – (CONTINUED)

Sensitivity of the Agency’s proportionate share of the net pension liability to changes in the discount rate

The following presents the Agency’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Agency’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Agency’s proportionate share of the net pension liability (asset)	\$144,313	\$73,567	\$14,735

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

REQUIRED SUPPLEMENTARY INFORMATION

POST FALLS URBAN RENEWAL AGENCY
SCHEDULE OF AGENCY'S SHARE OF NET PENSION LIABILITY
PERSI - Base Plan
Last 10 - Fiscal Years *

	9/30/2016	9/30/2015
Agency's portion of the net pension liability	0.0036291%	0.0036032%
Agency's proportionate share of the net pension liability	\$ 73,567	\$ 47,448
Agency's covered-employee payroll	\$ 89,739	\$ 101,295
Agency's proportional share of the net pension liability as a percentage of its covered-employee payroll	81.98%	46.84%
Plan fiduciary net position as a percentage of the total pension liability	87.26%	91.38%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Post Falls Urban Renewal Agency will present information for those to use for which information is available.

Data reported is measured as of June 30, 2016

SCHEDULE OF AGENCY'S CONTRIBUTIONS
PERSI - Base Plan
Last 10 - Fiscal Years *

	9/30/2016	9/30/2015
Statutorily required contribution	\$ 10,788	\$ 11,786
Contributions in relation to the statutorily required contribution	\$ (12,180)	\$ (11,575)
Contribution (deficiency) excess	\$ (1,392)	\$ 211
Agency's covered-employee payroll	\$ 89,739	\$ 101,295
Contributions as a percentage of covered-employee payroll	13.57%	11.43%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Post Falls Urban Renewal Agency will present information for those to use for which information is available.

Data reported is measured as of June 30, 2016

See independent auditors' report.

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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	4,032,613	4,032,613	4,092,992	60,379
Penalties and Late Fees	-	-	38,630	38,630
Interest and Investment Earnings	15,000	15,000	19,013	4,013
Total Revenues	4,047,613	4,047,613	4,150,635	103,022
Expenditures				
General Government	212,381	212,381	177,301	35,080
Tax Increment Expense	5,080,514	7,799,600	5,477,903	2,321,697
Public Facilities and Infrastructure Improvements	-	-	-	-
Debt Service:				
Principal	-	2,136,363	2,136,363	-
Interest	-	231,371	231,371	-
Total Expenditures	5,292,895	10,379,715	8,022,938	2,356,777
Excess (Deficiency) of Revenues Over Expenditures	(1,245,282)	(6,332,102)	(3,872,303)	2,459,799
Other Sources (Uses)				
Other Financing Sources	-	5,149,934	4,534,792	(615,142)
Total Other Sources (Uses)	-	5,149,934	4,534,792	(615,142)
Net Change in Fund Balance	(1,245,282)	(1,182,168)	662,489	1,844,657
Fund Balance - Beginning	1,925,103	1,925,103	1,925,103	
Fund Balance - Ending	\$ 679,821	\$ 742,935	2,587,592	

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, 2016

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 2016.

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 GAO



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INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Post Falls Urban Renewal Agency, a component unit of the City of Post Falls, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Post Falls Urban Renewal Agency's basic financial statements and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Post Falls Urban Renewal Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Post Falls Urban Renewal Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Post Falls Urban Renewal Agency's internal control.

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

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

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*.

Purpose of this Report

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



Anderson Bros. CPA's, P.A.

Post Falls, Idaho

December 14, 2016