

**Sandpoint Urban Renewal Agency**

*Financial Report*  
**September 30, 2019**

**Sandpoint Urban Renewal Agency**  
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## **Report of Independent Auditor**

Board of Commissioners  
Sandpoint Urban Renewal Agency  
Sandpoint, Idaho

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Sandpoint Urban Renewal Agency (“the Agency”), as of and for the year ended September 30, 2019, 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 financial position of the governmental activities and each major fund of Sandpoint Urban Renewal Agency, as of September 30, 2019, and the respective changes in financial position thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 18 and 19 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 (GASB), which 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.

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued a separate report dated January 6, 2020, on our consideration of the 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* in considering the Agency's internal control over financial reporting and compliance.

*DeCoria, Maichel & Teague, P.S.*

DeCoria, Maichel & Teague, P.S.  
Spokane, Washington

January 6, 2020

## **Basic Financial Statements**

**Sandpoint Urban Renewal Agency**  
**Statement of Net Position - Entity-Wide**  
**September 30, 2019**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents (Note 6)	\$ 2,606,463
Restricted cash and cash equivalents (Notes 6 and 11)	128,182
Property taxes receivable (Note 7)	<u>1,162,491</u>
Total assets	<u>3,897,136</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	40
Unearned property taxes (Note 4)	1,109,695
Notes payable, due within one year (Note 11)	<u>355,311</u>
Total current liabilities	<u>1,465,046</u>
Noncurrent liabilities:	
Notes payable, due after one year (Note 11)	<u>1,395,659</u>
Total liabilities	<u>2,860,705</u>
Commitments and contingencies (Notes 12 and 14)	
<b>NET POSITION</b>	
Restricted (deficit) for Downtown District	(1,137,839)
Restricted for Northern District	<u>2,174,270</u>
Total net position	<u>\$ 1,036,431</u>

**Sandpoint Urban Renewal Agency  
Statement of Activities - Entity-Wide  
Year Ended September 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental activities:</b>				
Community development	\$ 436,349	\$ -	\$ -	\$ (436,349)
Interest expense	71,650	-	-	(71,650)
Total governmental activities	<u>\$ 507,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(507,999)</u>
<b>General revenue:</b>				
				1,138,522
				13,507
			Total general revenue	<u>1,152,029</u>
			Change in net position	644,030
			Total net position, beginning of year	<u>392,401</u>
			Total net position, end of year	<u>\$ 1,036,431</u>

**Sandpoint Urban Renewal Agency**  
**Balance Sheet - Governmental Funds**  
**September 30, 2019**

	Downtown District	Northern District	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Assets:			
Cash and cash equivalents	\$ 443,796	\$ 2,162,667	\$ 2,606,463
Restricted cash and cash equivalents	128,182	-	128,182
Property taxes receivable	663,749	498,742	1,162,491
Total assets	<u>\$ 1,235,727</u>	<u>\$ 2,661,409</u>	<u>\$ 3,897,136</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 20	\$ 20	\$ 40
Unearned property taxes	622,576	487,119	1,109,695
Total liabilities	<u>622,596</u>	<u>487,139</u>	<u>1,109,735</u>
Deferred inflows of resources:			
Deferred property taxes	38,594	10,251	48,845
Total deferred inflows of resources	<u>38,594</u>	<u>10,251</u>	<u>48,845</u>
Fund balances			
Restricted for:			
Debt service	125,900	-	125,900
Public art	100,922	96,706	197,628
Current and future projects	347,715	2,067,313	2,415,028
Total fund balances	<u>574,537</u>	<u>2,164,019</u>	<u>2,738,556</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,235,727</u>	<u>\$ 2,661,409</u>	<u>\$ 3,897,136</u>

**Sandpoint Urban Renewal Agency**  
**Reconciliation of the Balance Sheet - Governmental Funds**  
**with the Statement of Net Position - Entity-Wide**  
**September 30, 2019**

**Amounts reported for governmental activities in the Statement of Net Position - Entity-Wide are different because:**

Total fund balances - governmental funds		\$ 2,738,556
Property taxes receivable will be collected, but are not available soon enough to pay for current period liabilities, and are therefore reported as deferred inflows of resources in the governmental funds.		48,845
Noncurrent liabilities, including notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds:		
Notes payable, due within one year	\$ (355,311)	
Notes payable, due after one year	<u>(1,395,659)</u>	
		<u>(1,750,970)</u>
Total net position - entity-wide		<u><u>\$ 1,036,431</u></u>

**Sandpoint Urban Renewal Agency**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**Year Ended September 30, 2019**

	<u>Downtown District</u>	<u>Northern District</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 569,532	\$ 545,767	\$ 1,115,299
Penalties and interest	3,639	9,868	13,507
Total revenues	<u>573,171</u>	<u>555,635</u>	<u>1,128,806</u>
<b>Expenditures:</b>			
Public improvements	400,000	-	400,000
Professional services	3,045	3,044	6,089
Public art	1,675	27,475	29,150
Dues and subscriptions	525	525	1,050
Miscellaneous	30	30	60
Debt service	415,054	-	415,054
Total expenditures	<u>820,329</u>	<u>31,074</u>	<u>851,403</u>
Net changes in fund balances	(247,158)	524,561	277,403
Total fund balances, beginning of year	<u>821,695</u>	<u>1,639,458</u>	<u>2,461,153</u>
Total fund balances, end of year	<u><u>\$ 574,537</u></u>	<u><u>\$ 2,164,019</u></u>	<u><u>\$ 2,738,556</u></u>

**Sandpoint Urban Renewal Agency**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Governmental Funds with the Statement of Activities - Entity-Wide**  
**Year Ended September 30, 2019**

**Amounts reported for governmental activities in the Statement of Activities - Entity-Wide**  
**are different because:**

Net changes in fund balances - governmental funds	\$ 277,403
Some property taxes will not be collected until several months after the Agency's fiscal year end, and therefore will not be available to pay liabilities of the current period. Accordingly, they are recorded as deferred inflows of resources. They are however, recorded as revenue in the Statement of Activities - Entity-Wide. The increase in deferred inflows of resources on the Balance Sheet - Governmental Funds during 2019 is an adjustment.	23,223
Repayment of notes payable principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the Statement of Net Position - Entity-Wide.	<u>343,404</u>
Change in net position - entity-wide	<u><u>\$ 644,030</u></u>

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements**  
**September 30, 2019**

**1. Organization**

Sandpoint Urban Renewal Agency (“the 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.

In 2005, the City of Sandpoint, Idaho (“the City”) City Council passed an ordinance that created the Sandpoint Urban Renewal Agency, a legally separate entity from the City. The Agency was established to promote urban development and improvement in deteriorated areas within the Agency’s boundaries. The Agency is governed by a seven-member Board of Commissioners (“the Board”) appointed by the Mayor of the City and confirmed by the City Council. The City Council has the ability to appoint, reassign or dismiss the board members of the Agency. Because the Agency is fiscally dependent on the City and the Agency’s governing board is appointed by the City, the Agency is considered to be a component unit of the City.

**2. Entity-Wide and Fund Financial Statements**

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments* (GASB No. 34) defines the financial reporting requirements and the reporting model for the annual financial reports of state and local governments. The financial information required by GASB No. 34 includes:

Management’s Discussion and Analysis

The management’s discussion and analysis introduces the basic financial statements and provides an analytical overview of the Agency’s financial activities in a narrative format. An analysis of the Agency’s overall financial position and results of operations should be included to assist users in assessing whether the financial position has improved or deteriorated as a result of the year’s activities.

Entity-Wide Financial Statements

The entity-wide financial statements, including the Statement of Net Position – Entity-Wide and the Statement of Activities – Entity-Wide, report information on all of the *governmental activities* of the Agency. Governmental transactions are generally financed through taxes, intergovernmental revenues, and other nonexchange transactions. In general, the effect of interfund transactions, if any, has been eliminated from the entity-wide financial statements.

The Statement of Activities – Entity-Wide presents a comparison between direct expenses and program revenues for each function of the Agency’s governmental activities. Direct expenses are those that are specifically associated with a program or function. The Agency does not charge indirect expenses to programs or functions. Under the reporting model prescribed by GASB No. 34, program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**2. Entity-Wide and Fund Financial Statements, Continued**

Fund Financial Statements

The fund financial statements provide information on the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed separately.

Budgetary Comparison Schedules

The budgetary comparison schedules are presented as required supplementary information to demonstrate whether resources were obtained and used in accordance with the Agency's legally adopted budgets (see Note 4). The Agency may revise the original budgets over the course of the year for various reasons. Under the reporting model prescribed by GASB No. 34, budgetary information is provided, and includes comparisons of the Agency's originally adopted budgets to the final budgets and actual results.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The entity-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and contributions. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and contributions is recognized in the fiscal year in which all eligibility requirements stipulated by the provider have been met and satisfied.

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 measurable when the amount of the transaction can be determined and available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers tax revenues to be available if they are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, judgments, compensated absences and early retirement liabilities, if any, which are recognized to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

The Agency reports the following governmental funds:

*Downtown District:* This fund is used to account for all financial resources of the Downtown District. The Downtown District is a separate and legally distinct district under the umbrella of the Agency. This District will expire in 2029 and the net position will be distributed according to Idaho Statute; and

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued**

*Northern District:* This fund is used to account for all financial resources of the Northern District. The Northern District is a separate and legally distinct district under the umbrella of the Agency. This District will expire in 2029 and the net position will be distributed according to Idaho Statute.

**4. Budgetary Information**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the Downtown and Northern Districts. All annual appropriations lapse at year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- a) The Agency publishes a proposed budget for public review before it is adopted;
- b) Prior to October 1, the budget is adopted by resolution of the Board of Commissioners and published; and
- c) The final budget is then filed with the State of Idaho. Expenditures may not legally exceed budgeted appropriations at the functional level. The legal level of budgetary control is the functional level at which the Board must approve any over-expenditures of appropriations or transfers of appropriated amounts.

During the fiscal year ended September 30, 2019, there were no budget amendments.

**5. Summary of Significant Accounting Policies**

Accounting Principles Generally Accepted in the United States of America

The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and standards. The Agency has adopted and applied all applicable GASB pronouncements, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Cash and Cash Equivalents

The Agency considers all short-term deposits and highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**5. Summary of Significant Accounting Policies, Continued**

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts based on its assessment of the current status of individual receivables from grants, contracts and others. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Management expects all September 30, 2019 receivables to be collectible, and therefore no allowance for doubtful accounts has been provided as of that date.

Liabilities

Liabilities shown on the governmental funds financial statements are those that have become due and payable at the end of the fiscal year, which are expected to be paid during the upcoming fiscal year, and are reported as an expenditure and fund liability of the governmental fund that will pay it. On the entity-wide financial statements, liabilities that become due and payable within one year after the financial statement date are included in current liabilities, while liabilities that become due and payable after that time are shown as noncurrent liabilities.

Net Position

Net position represents the difference between assets plus deferred outflows, and liabilities plus deferred inflows. Net position is comprised of the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following components.

*Net investment in capital assets:* This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets;

*Restricted net position:* This component of net position consists of amounts subject to constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation; and

*Unrestricted net position:* This component of net position consists of amounts that do not meet the definition of “net investment in capital assets” or “restricted net position.”

Because all of the Agency’s net position is restricted for urban development within one of the Agency’s two Districts, all net position is reported as restricted within the corresponding District.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**5. Summary of Significant Accounting Policies, Continued**

Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB No. 54), defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB No. 54 requires the fund balance amounts to be properly reported within one of the following fund balance classifications (see Note 13):

*Nonspendable*: The portion of fund balance that is not expected to be converted to cash, such as inventories and prepaid expenses, if any;

*Restricted*: The portion of fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation;

*Committed*: The portion of fund balance that can be used only for the specific purposes determined by a formal action of the Agency's Board of Commissioners (the Agency's highest level of decision-making authority);

*Assigned*: The portion of fund balance that is intended to be used by the Agency for specific purposes, but does not meet the criteria to be classified as restricted or committed; and

*Unassigned*: The residual portion of fund balance for the Agency's two Districts and includes all spendable amounts not included in the other classifications.

Fund Balance Spending Policy

The Agency's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then, restricted fund balances for specific purposes are determined (not including nonspendable amounts). Then, any remaining fund balance amounts are classified as restricted fund balance.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in each of the Agency's two Districts. Encumbrances outstanding at fiscal year-end are reported as fund balance since they do not constitute expenditures or liabilities. An appropriation equal to the outstanding year-end encumbrance is made in the succeeding year. Unspent appropriations lapse at year-end.

The Agency's encumbrance policy is for fiscal year-end individual encumbrances exceeding \$50,000 to be considered significant encumbrances. Encumbrances outstanding at year-end, if any, are reported either as committed fund balance or assigned fund balance in the Agency's two Districts (see Note 13). At September 30, 2019, there were no significant encumbrances.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**5. Summary of Significant Accounting Policies, Continued**

Property Taxes

In accordance with Idaho State Law, an ad valorem property tax is levied in September for each calendar year. Taxes are recorded by the Agency using the modified accrual basis of accounting. Levies are made on the second Monday of September. All of the personal property taxes are due on or before June 20 of the following year. One-half of the real property taxes and personal property taxes are due on or before December 20 of the current year and June 20 of the following year. Unpaid property taxes attach as an enforceable lien on property as of January 1 of the following year. Notice of foreclosure is filed with the County Clerk on property three years from the date of delinquency. The property tax revenue is budgeted for the ensuing fiscal year. Bonner County acts as an agent for the Agency in both the assessment and collection of property taxes. The County remits tax revenues to the Agency monthly, with the majority of the collections being remitted in January and July.

Donated Services

Donated services are recognized as contributions if the services either create or enhance non-financial assets or require specialized skills, which are performed by people with those skills, and would otherwise be purchased by the Agency. Some members of the Board have donated significant amounts of their time in furthering the Agency's programs and objectives. No amounts have been included in the financial statements for donated services since they do not meet the criteria for recognition under professional accounting standards.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

Subsequent Events

The Agency has evaluated subsequent events through January 6, 2020, the date on which these financial statements were available to be issued. No material subsequent events have occurred since September 30, 2019 that required recognition or disclosure in these financial statements.

**6. Cash and Cash Equivalents**

Cash and cash equivalents consist of deposits held in checking and money market accounts with a local bank. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At September 30, 2019, the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**6. Cash and Cash Equivalents, Continued**

Both the carrying amount of cash and cash equivalents on the Agency's books (including restricted cash and cash equivalents), and bank balances at September 30, 2019, totaled \$2,734,645. A summary of the total insured and uninsured bank balances at September 30, 2019 is as follows:

Total bank balances	\$ 2,734,645
Portion insured by FDIC	<u>(250,000)</u>
Uninsured bank balances	<u>\$ 2,484,645</u>

**7. Property Taxes Receivable**

Property taxes receivable at September 30, 2019 are summarized as follows:

Unearned property taxes receivable	\$ 1,109,695
Property taxes receivable	3,951
Delinquent property taxes receivable	<u>48,845</u>
	<u>\$ 1,162,491</u>

Unearned property taxes receivable consist of property taxes levied for collection in the next fiscal year. These amounts have been offset by unearned property tax revenue in the entity-wide and governmental funds financial statements.

Property taxes receivable consist of property taxes received within the first 60 days after the end of the Agency's fiscal year end that relate to taxes levied for the current or prior fiscal years.

Delinquent property taxes receivable consist of property taxes levied for the current and prior fiscal years, which were not collected within the current period or within 60 days after the end of the Agency's fiscal year. These amounts have been offset by a deferred inflow of resources in the governmental funds financial statements.

**8. Interfund Receivables and Payables**

Interfund receivables and payables arise primarily from one fund making payments on behalf of another fund. The Agency had no interfund receivables and payables at September 30, 2019.

**9. Interfund Transfers**

Interfund transfers are made as a method of allocating the cost of program operations to the respective funds. The Agency had no interfund transfers during the year ended September 30, 2019.

**10. Short-Term Borrowings**

The Agency had no short-term borrowings at September 30, 2019, nor were there any short-term borrowings or repayments during the year then ended.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**11. Long-Term Obligations**

Revenue Allocation Notes Payable

On August 8, 2011, the Agency issued a \$2,000,000 revenue allocation note, with an interest rate of 3.50% per annum. The purpose of the note is for the acquisition, construction and installation of public improvements within the Downtown District. The note, which originally required semi-annual payments of approximately \$125,435 including interest, required an initial payment beginning on March 15, 2012, and matures on March 15, 2021. During 2016, the interest rate on the note was adjusted to 3.11%, and the semi-annual payments were adjusted to \$124,149 including interest.

In addition, on September 7, 2018, the Agency issued a \$1,500,000 revenue allocation note, with an interest rate of 3.63% per annum. The purpose of the note is for the acquisition, construction and installation of public improvements within the Downtown District. The note, which requires semi-annual payments of approximately \$83,378 including interest, required an initial payment beginning on March 15, 2019, and matures on September 15, 2029.

At September 30, 2019, the Agency had restricted cash of \$128,182, which is held in a separate debt service payment account. The use of this cash is restricted to paying the semi-annual installments on the note.

The annual requirements to pay the above revenue allocation notes are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 355,311	\$ 59,743	\$ 415,054
2021	245,391	47,618	293,009
2022	125,579	41,177	166,756
2023	130,243	36,513	166,756
2024	134,989	31,767	166,756
2025-2029	<u>759,457</u>	<u>79,337</u>	<u>838,794</u>
	<u>\$ 1,750,970</u>	<u>\$ 296,155</u>	<u>\$ 2,047,125</u>

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2019 is as follows:

	<u>Long-Term Obligations September 30, 2018</u>	<u>Long-Term Obligations Incurred</u>	<u>Long-Term Obligations Paid</u>	<u>Long-Term Obligations September 30, 2019</u>	<u>Due Within One Year</u>
Revenue allocation notes	<u>\$ 2,094,374</u>	<u>\$ -</u>	<u>\$ (343,404)</u>	<u>\$ 1,750,970</u>	<u>\$ 355,311</u>

**12. Commitments and Contingencies**

As of September 30, 2019, the Agency was involved in discussions with several interested parties on future urban development projects, although none of these projects had been formalized and the Agency had not entered into any agreements to provide funding for the projects. It is anticipated that any approved projects will be funded through the Agency and tax increment financing in the future.

**Sandpoint Urban Renewal Agency**  
**Notes to Financial Statements, Continued**  
**September 30, 2019**

**12. Commitments and Contingencies, Continued**

During 2018, the Agency entered into an agreement with the City to provide funding for Phase II of the downtown street improvements. The agreement called for the Agency's Downtown District to provide funding of up to \$400,000, as work is completed. During 2019, the Agency provided funding of \$400,000 related to the project, resulting in zero remaining commitment on the project at September 30, 2019.

**13. Fund Equity**

GASB 54 requires the fund balance amounts to be properly reported within one of five categories (see Note 5). Specific amounts reported as committed and assigned are summarized below:

Committed: The Agency's Committed Fund Balance is fund balance reporting required by the Agency's Board of Commissioners, either because of a Board policy or because of motions that passed at Board meetings. At September 30, 2019 there were no portions of fund balance reported as committed; and

Assigned: The Agency's Assigned Fund Balance is fund balance reporting occurring by the Board administration authority. At September 30, 2019, there were no portions of fund balance reported as assigned.

Restrictions of net position reported in the entity-wide financial statements are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Because all of the Agency's net position is restricted for urban development within one of the Agency's two Districts, all net position is reported as restricted within the corresponding District.

**14. Risk Management**

Insurance Coverage

The Agency's Board believes there is no significant risk of loss related to general liability and property claims because the Agency does not own any physical property and the operating activities are minimal. Accordingly, the Agency currently does not purchase general liability and property insurance. The Agency's Board is not aware of any pending claims against the Agency as of September 30, 2019, nor were there any settled claims in any of the past three years. Therefore, the Agency has not established a reserve for the payment of uninsured claims. Generally, expenditures are recognized when amounts are paid.

Litigation

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries and natural disasters. The Agency is not aware of any pending claims against the Agency as of September 30, 2019. The Agency has no reserve established for the payment of uninsured claims. Expenditures are recognized when amounts are paid.

**15. Related Party Transactions**

During the year ended September 30, 2019, the Agency used banking services provided by a financial institution that is the employer of a Board Commissioner.

**Required Supplementary Information**

**Sandpoint Urban Renewal Agency  
 Budgetary Comparison Schedule - Downtown District  
 Year Ended September 30, 2019**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances</b>	
	<b>Original</b>	<b>Final</b>	<b>Modified</b>	<b>Positive/(Negative)</b>	
	<b>Original</b>	<b>Final</b>	<b>Accrual</b>	<b>Original</b>	<b>Final</b>
	<b>Basis</b>	<b>to Final</b>	<b>to Actual</b>		
<b>Revenues:</b>					
Property taxes	\$ 615,825	\$ 615,825	\$ 569,532	\$ -	\$ (46,293)
Penalties and interest	750	750	3,639	-	2,889
Total revenues	616,575	616,575	573,171	-	(43,404)
<b>Expenditures:</b>					
Public improvements	765,000	765,000	400,000	-	365,000
Professional services	23,600	23,600	3,045	-	20,555
Public art	98,998	98,998	1,675	-	97,323
Dues and subscriptions	1,750	1,750	525	-	1,225
Miscellaneous	200	200	30	-	170
Debt service	415,155	415,155	415,054	-	101
Total expenditures	1,304,703	1,304,703	820,329	-	484,374
Net changes in fund balance	(688,128)	(688,128)	(247,158)	-	440,970
Total fund balance, beginning of year	821,695	821,695	821,695	-	-
Total fund balance, end of year	\$ 133,567	\$ 133,567	\$ 574,537	\$ -	\$ 440,970

**Sandpoint Urban Renewal Agency  
 Budgetary Comparison Schedule - Northern District  
 Year Ended September 30, 2019**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances</b>	
	<b>Original</b>	<b>Final</b>	<b>Modified</b>	<b>Positive/(Negative)</b>	
	<b>Original</b>	<b>Final</b>	<b>Accrual</b>	<b>Original</b>	<b>Final</b>
	<b>Basis</b>	<b>to Final</b>	<b>to Actual</b>		
<b>Revenues:</b>					
Property taxes	\$ 600,780	\$ 600,780	\$ 545,767	\$ -	\$ (55,013)
Penalties and interest	1,500	1,500	9,868	-	8,368
Total revenues	602,280	602,280	555,635	-	(46,645)
<b>Expenditures:</b>					
Public improvements	1,786,766	1,786,766	-	-	1,786,766
Professional services	23,600	23,600	3,044	-	20,556
Public art	146,847	146,847	27,475	-	119,372
Dues and subscriptions	1,750	1,750	525	-	1,225
Miscellaneous	200	200	30	-	170
Office supplies	-	-	-	-	-
Total expenditures	1,959,163	1,959,163	31,074	-	1,928,089
Net changes in fund balance	(1,356,883)	(1,356,883)	524,561	-	1,881,444
Total fund balance, beginning of year	1,639,458	1,639,458	1,639,458	-	-
Total fund balance, end of year	\$ 282,575	\$ 282,575	\$ 2,164,019	\$ -	\$ 1,881,444

**Sandpoint Urban Renewal Agency**  
**Notes to Budgetary Comparison Schedules**  
**September 30, 2019**

**1. Basis of Presentation**

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting, which is the same basis of accounting used in the governmental funds financial statements.

**2. Expenditures in Excess of Budgeted Amounts**

As disclosed in Note 1 above, the budgetary comparison schedules have been prepared in conformance with the presentation used in the preparation of the governmental funds financial statements. This presentation differs from the account groupings required by Idaho Statutes for Board of Commissioners' budgetary control at the functional level. Under the modified accrual basis of accounting, the budgetary comparison schedules at pages 18 and 19 disclose no instances in which actual expenditures exceeded total budgeted expenditures of the District.

## **Compliance Report**



## **Independent Auditor’s 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  
Sandpoint Urban Renewal Agency  
Sandpoint, Idaho

We have audited, 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, the financial statements of the governmental activities and each major fund of Sandpoint Urban Renewal Agency (“the Agency”), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated January 6, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies, which were considered to be, in the aggregate, a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2019-001 and 2019-002, in the aggregate, to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2019-001 and 2019-002 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

## **The Agency's Responses to the Findings**

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The sole purpose of this report is 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.

*DeCoria, Maichel & Teague, P.S.*

DeCoria, Maichel & Teague, P.S.  
Spokane, Washington

January 6, 2020

**Sandpoint Urban Renewal Agency  
Schedule of Findings and Responses  
Year Ended September 30, 2019**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

The report of independent auditor expressed unmodified opinions on the basic financial statements of Sandpoint Urban Renewal Agency.

The audit of the financial statements of Sandpoint Urban Renewal Agency disclosed two significant deficiencies in internal control over financial reporting.

The significant deficiencies in internal control over financial reporting were considered to be, in the aggregate, a material weakness.

The audit disclosed no compliance findings material to the financial statements of Sandpoint Urban Renewal Agency.

**Section II – Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**Finding 2019-001**

Condition	The size of the Agency’s staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting.
Criteria	An effective system of internal control over financial reporting requires that closely related duties be segregated.
Effect	The concentration of closely related duties and responsibilities by a small staff makes it difficult to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.
Cause	The Agency’s staff is too small to allow an adequate segregation of duties.
Recommendation	Although the Agency’s staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting, we recommend that officials be aware that the condition does exist.
Management’s Response	Management and the Agency’s Board of Commissioners are aware of this condition and have made a conscious decision to accept the resulting degree of risk because of cost or other considerations.

**Sandpoint Urban Renewal Agency  
Schedule of Findings and Responses, Continued  
Year Ended September 30, 2019**

**Finding 2019-002**

Condition	Due in part to the Agency's size and limited resources, year-end closing procedures are not fully formalized and documented for certain accounts.
Criteria	An effective system of internal control over financial reporting includes periodically reconciling each general ledger account and adjusting the recorded balances if necessary.
Effect	In connection with performing our audit testing, we proposed 4 audit adjustments to correct account balances. Clarified Statements on Auditing Standards Section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (AU-C 265), indicates that identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control should at least be regarded as a significant deficiency and should be considered as a strong indicator of a material weakness in internal control.
Cause	The Agency does not have fully formalized, documented procedures for periodically reviewing and reconciling each general ledger account.
Recommendation	We recommend that year-end closing procedures be further developed, documented and implemented for each general ledger account. The implementation of increased procedures should reduce or eliminate the need for audit adjustments.
Management's Response	The Agency will continue to develop and implement documented procedures for reconciling and adjusting account balances for each general ledger account in an effort to eliminate audit adjustments.

**Sandpoint Urban Renewal Agency  
Status of Prior Year Findings  
Year Ended September 30, 2019**

**Finding 2018-001**

Condition: The size of the Agency's staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting.

Status: This condition still exists at September 30, 2019. See Finding 2019-001.

**Finding 2018-002**

Condition: Due in part to the Agency's size and limited resources, year-end closing procedures are not fully formalized and documented for certain accounts.

Status: This condition still exists at September 30, 2019. See Finding 2019-002.