Sandpoint Urban Renewal Agency

Financial Report
September 30, 2011

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Report of Independent Auditor

Board of Commissioners
Sandpoint Urban Renewal Agency
Sandpoint, Idaho

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandpoint Urban Renewal Agency ("the Agency") as of and for the year ended September 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sandpoint Urban Renewal Agency, as of September 30, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2012, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis that 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 Governmental Accounting Standards Board, 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 opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules on pages 21 and 22 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, 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.

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

January 12, 2012

Sandpoint Urban Renewal Agency
Statement of Net Assets - Entity-Wide
September 30, 2011

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents (Note 6)	$ 1,097,622
Restricted cash and cash equivalents (Notes 6 and 11)	1,917,208
Receivables (Note 7)	27,872
Note issuance costs, to be amortized within one year (Note 11)	3,076
Total current assets	3,045,778
Noncurrent assets:	
Note issuance costs, to be amortized after one year (Note 11)	26,146
Total noncurrent assets	26,146
Total assets	3,071,924
LIABILITIES	
Current liabilities:	
Accounts payable	54,971
Note payable, due within one year (Note 11)	173,002
Total current liabilities	227,973
Noncurrent liabilities:	
Note payable, due after one year (Note 11)	1,826,998
Total noncurrent liabilities	1,826,998
Total liabilities	2,054,971
Commitments and contingencies (Notes 12 and 14)	
NET ASSETS	
Restricted for Downtown District	292,712
Restricted for Northern District	724,241
Total net assets	$ 1,016,953

The accompanying notes are an integral part of the financial statements.

Sandpoint Urban Renewal Agency
Statement of Activities - Entity-Wide
Year Ended September 30, 2011

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Community development	$ 1,206,187	$ -	$ -	$ (1,206,187)
Total governmental activities	$ 1,206,187	$ -	$ -	(1,206,187)
	General revenue:			
	Property taxes, general purposes			734,137
	Penalties and interest			4,906
	Other local sources			192
			Total general revenue	739,235
			Change in net assets	(466,952)
	Total net assets, beginning of year			1,483,905
			Total net assets, end of year	$ 1,016,953

The accompanying notes are an integral part of the financial statements.

Sandpoint Urban Renewal Agency
Balance Sheet - Governmental Funds
September 30, 2011

	Downtown District	Northern District	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 380,885	$ 716,737	$ 1,097,622
Restricted cash and cash equivalents	1,917,208	-	1,917,208
Receivables	19,918	7,954	27,872
Total assets	$ 2,318,011	$ 724,691	$ 3,042,702
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 54,521	$ 450	$ 54,971
Deferred revenue	5,504	7,655	13,159
Total liabilities	60,025	8,105	68,130
Fund balances:			
Restricted for:			
Debt service	200,062	-	200,062
Current and future projects	2,306,406	-	2,306,406
Committed for:			
Public art	23,472	4,964	28,436
Unassigned	(271,954)	711,622	439,668
Total fund balances	2,257,986	716,586	2,974,572
Total liabilities and fund balances	$ 2,318,011	$ 724,691	$ 3,042,702

The accompanying notes are an integral part of the financial statements.

Sandpoint Urban Renewal Agency
Reconciliation of the Balance Sheet - Governmental Funds
with the Statement of Net Assets - Entity-Wide
September 30, 2011

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

Total fund balance - Governmental Funds		$ 2,974,572
The Agency issued a $2,000,000 revenue allocation note. As part of this transaction, the following assets are included in the Statement of Net Assets - Entity-Wide, but not in the governmental funds:		
Note issuance costs, to be amortized within one year	$ 3,076	
Note issuance costs, to be amortized after one year	26,146	
		29,222
Property taxes receivable will be collected, but are not available soon enough to pay for current period liabilities, and are therefore reported as deferred revenue in the governmental funds.		13,159
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:		
Note payable, due within one year	(173,002)	
Note payable, due after one year	(1,826,998)	
		(2,000,000)
Total net assets - Entity-Wide		$ 1,016,953

Sandpoint Urban Renewal Agency
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended September 30, 2011

	Downtown District	Northern District	Total Governmental Funds
Revenues:			
Property taxes	$ 480,627	$ 265,353	$ 745,980
Penalties and interest	3,138	1,768	4,906
Other local sources	-	192	192
Total revenues	483,765	267,313	751,078
Expenditures:			
Public improvements	1,196,022	-	1,196,022
Professional services	32,800	2,428	35,228
Public art	-	2,032	2,032
Advertising	1,008	1,007	2,015
Miscellaneous	112	-	112
Dues and subscriptions	-	-	-
Office supplies	-	-	-
Travel and meetings	-	-	-
Utilities and telephone	-	-	-
Capital expenditure	-	-	-
Total expenditures	1,229,942	5,467	1,235,409
Excess (deficiency) of revenues over (under) expenditures	(746,177)	261,846	(484,331)
Special items:			
Proceeds from note issuance	2,000,000	-	2,000,000
Net changes in fund balances	1,253,823	261,846	1,515,669
Total fund balances, beginning of year	1,004,163	454,740	1,458,903
Total fund balances, end of year	$ 2,257,986	$ 716,586	$ 2,974,572

The accompanying notes are an integral part of the financial statements.

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, 2011

Amounts reported for governmental activities in the Statement of Activities - Entity-Wide are different because:	
Net changes in fund balances - Governmental Funds	$ 1,515,669
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 tax revenues. They are however, recorded as revenue in the Statement of Activities - Entity-Wide. The increase in deferred tax revenues on the Balance Sheet - Governmental Funds during 2011 is an adjustment.	(11,843)
In the governmental funds, proceeds from the issuance of notes are recognized as revenues. However, theses borrowings increase liabilities in the Statement of Net Assets - Entity-Wide.	(2,000,000)
In 2011, the Agency issued a $2,000,000 revenue allocation note. As part of this transaction, the Agency incurred costs related to the issuance of the note. In the governmental funds, these issuance costs are recorded as expenses. However, in the Statement of Net Assets - Entity-Wide, these costs are recognized as assets, which will be amortized over the life of the note.	29,222
Change in net assets - Entity-Wide	$ (466,952)

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.

Under the Idaho Code, 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 five-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. These powers of the City meet the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), for having financial accountability for the Agency. Based on the above, 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 is 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 Assets – Entity-Wide and the Statement of Activities – Entity-Wide, report information on all of the non-fiduciary activities of the Agency. These statements report 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.

2. Entity-Wide and Fund Financial Statements, Continued

Entity-Wide Financial Statements, Continued

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. 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.

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 original 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.

3. 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 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 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 assets will be distributed according to Idaho Statute.

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 assets 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.
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, 2011, 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 Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and standards. The Agency follows Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The more significant accounting policies of the Agency are described below.

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.

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, 2011 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.

5. Summary of Significant Accounting Policies, Continued

Net Assets

Net assets represent the difference between assets and liabilities, and are classified in the following three components.

Invested in capital assets, net of related debt. This component of net assets 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 assets. This component of net assets consists of net assets 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.

Unrestricted net assets. This component of net assets consists of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

Use of Restricted Resources

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Agency's policy to apply those expenses to restricted net assets to the extent they are available and then to unrestricted net assets.

Fund Balances

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54, which became effective for fiscal years beginning after June 15, 2010, requires the fund balance amounts to be properly reported within one of the following fund balance classifications (also, 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);

5. Summary of Significant Accounting Policies, Continued

Fund Balances, Continued

Assigned: The portion of fund balance that is intended to be used by the Agency for specific purposes, but do 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 for the non-general funds 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, 2011, there were no significant encumbrances.

Property Taxes and Deferred Revenue

The Agency receives a portion of the property taxes generated by the taxing entities within Bonner County, Idaho ("the County"). These property taxes are collected on behalf of the Agency by the County each November, based on the assessed value of property within the Agency's Districts as of the previous December tax rolls. Assessed values are an approximation of market value and are established by the County Assessor. Property tax payments are due in one-half installments the following December and June. Property taxes attach as an enforceable lien on property as of January 1 of the following year.

5. Summary of Significant Accounting Policies, Continued

Property Taxes and Deferred Revenue, Continued

Because the Agency is not a taxing entity, property taxes that are collected on the Agency's behalf by the County are recorded as receivables. In the governmental funds financial statements, property taxes are recorded as revenue in the period in which the taxes are levied, to the extent that they are collected and received by the Agency within 60 days after the financial statement date. Property taxes receivable which are collectible subsequent to 60 days after the financial statement date are reflected in the fund financial statements as deferred revenues. In the entity-wide financial statements, all property taxes receivable, regardless of when they are collected, are recorded as revenue in the period in which the taxes are levied.

Donated Services

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. 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 12, 2012, the date as of which these financial statements are issued. No material subsequent events have occurred since September 30, 2011 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, 2011, the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

6. Cash and Cash Equivalents, Continued

Both the carrying amount of cash and cash equivalents on the Agency's books, and bank balances at September 30, 2011, totaled $3,014,830 (including restricted cash and cash equivalents). A summary of the total insured and uninsured bank balances at September 30, 2011 is as follows:

Total bank balances	$ 3,014,830
Portion insured by FDIC	(250,000)
Uninsured bank balances	$ 2,764,830

7. Receivables

Receivables at September 30, 2011 are summarized as follows:

Property taxes receivable	$ 14,013
Delinquent property taxes receivable	13,159
Other receivables	700
	$ 27,872

Taxes Receivable

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 in the 2011 fiscal year.

Delinquent property taxes receivable consist of property taxes levied, but not collected as of September 30, 2011, or within 60 days after September 30, 2011. These amounts have been offset by deferred revenue in the governmental funds financial statements.

Other Receivables

Other receivables consist of amounts due from property owners for contributions to the cost of improvements, as a result of the benefit received for the estimated increase in value of the owners' properties.

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, 2011.

9. Interfund Transfers

Interfund transfers are made as a method of allocating the cost of program operations to their respective funds. The Agency had no interfund transfers during the year ended September 30, 2011.

10. Short-Term Borrowings

The Agency had no short-term borrowings at September 30, 2011, nor were there any short-term borrowings or repayments for the year then ended.

11. Long-Term Obligations

Revenue Allocation Note 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 requires payments of $125,435, payable in semi-annual installments beginning March 15, 2012, and matures on March 15, 2021.

In connection with this transaction, the Agency recognized deferred expenses, totaling $29,222, for the costs of issuance. These amounts are being amortized over the life of the note, beginning in the fiscal year ending September 30, 2012. During 2011, no amortization for deferred expenses was recognized.

At September 30, 2011, the Agency had restricted cash of $1,917,208. The restricted cash is represented by the unexpended proceeds of the revenue allocation note and a separate debt service payment account, totaling $1,717,146 and $200,062, respectively. The use of this cash is restricted to paying for the acquisition, construction and installation of public improvements within the Downtown District, and to pay the semi-annual installments on the note.

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

Year Ending September 30,	Principal	Interest	Total
2012	$ 173,002	$ 77,869	$ 250,871
2013	187,707	63,164	250,871
2014	194,427	56,444	250,871
2015	201,388	49,483	250,871
2016	208,474	42,397	250,871
2017	216,061	34,810	250,871
2018	223,796	27,075	250,871
2019	231,808	19,063	250,871
2020	240,071	10,800	250,871
2021	123,266	2,169	125,435
	$ 2,000,000	$ 383,274	$ 2,383,274

11. Long-Term Obligations, Continued

A summary of changes in long-term obligations of the Agency for the year ended September 30, 2011 is as follows:

	Long-Term Obligations September 30, 2010	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations September 30, 2011	Due Within One Year
Revenue allocation note	$ --	$ 2,000,000	$ --	$ 2,000,000	$ 173,002

12. Commitments and Contingencies

As of September 30, 2011, the Agency was working with several interested parties on future urban development projects. At September 30, 2011, none of these projects had been formalized and the Agency had not entered into any agreements to provide funding for these projects. It is anticipated that such projects will be funded through the Agency and tax increment financing in the future.

During 2011, the Agency entered into an agreement with the Panida Theater in Sandpoint, Idaho related to the repair and restoration of the historic building. The agreement calls for the Agency to provide funding of $450,000 over a five-year period, in maximum annual installments of $90,000, as work is completed. Any funding below the $90,000 annual commitment may be assigned to the following year's commitment on the project. As of September 30, 2011, the Agency had provided funding-to-date totaling $39,489 related to this project. The remaining commitment on this project as of September 30, 2011 was $410,511.

During 2011, the Agency entered into an agreement with the City of Sandpoint, Idaho related to the improvements and developments for the Sand Creek Boat Dock and Boardwalk. The agreement calls for the Agency to provide funding of up to $250,000, as work is completed. As of September 30, 2011, the Agency had provided funding-to-date totaling $13,399 related to this project. The remaining commitment on this project as of September 30, 2011 was $236,601.

During 2011, the Agency entered into an agreement with the City of Sandpoint, Idaho related to the improvements and developments for the Dock Street and Windbag Marina. The agreement calls for the Agency to provide funding of up to $461,700, as work is completed. As of September 30, 2011, the Agency had provided funding-to-date totaling $424,823 related to this project. The remaining commitment on this project as of September 30, 2011 was $36,877.

12. Commitments and Contingencies, Continued

During 2011, the Agency entered into an agreement with the Downtown Sandpoint Business Administration (DSBA) to provide funding for approved economic vitalization projects. The agreement calls for the Agency to provide funding of up to $44,250, as work is completed. As of September 30, 2011, the Agency had provided funding-to-date totaling $15,009 related to these projects. The remaining commitment on this project as of September 30, 2011 was $29,241.

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, 2011, amounts reported as Committed Fund Balance represent funds segregated for the purchase of public art.

Assigned: The Agency's Assigned Fund Balance is fund balance reporting occurring by the Board administration authority. At September 30, 2011, there were no portions of fund balance reported as assigned.

Restrictions of net assets reported in the entity-wide financial statements are established to either (1) satisfy legal covenants that require that 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 any net assets are restricted for urban development within each of the Agency's two Districts, all net assets, are reported as restricted within the corresponding District.

14. Risk Management

Insurance Coverage

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, 2011. Because the Agency does not own any physical property and the operating activities are minimal, the Agency's Board believes there is no significant risk of loss related to general liability and property claims. Therefore, the Agency has no reserve established for the payment of uninsured claims. Expenditures are recognized when amounts are paid.

14. Risk Management, Continued

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, 2011. 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, 2011, the Agency used banking services from 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, 2011

	Budgeted Amounts		Actual Modified Accrual Basis	Variances Positive/(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Property taxes	$ 489,680	$ 489,680	$ 480,627	$ -	$ (9,053)
Penalties and interest	3,453	3,453	3,138	-	(315)
Other local sources	-	-	-	-	-
Total revenues	493,133	493,133	483,765	-	(9,368)
Expenditures:					
Public improvements	1,260,000	1,260,000	1,196,022	-	63,978
Professional services	7,937	7,937	32,800	-	(24,863)
Public art	14,963	14,963	-	-	14,963
Advertising	1,500	1,500	1,008	-	492
Miscellaneous	-	-	112	-	(112)
Total expenditures	1,284,400	1,284,400	1,229,942	-	54,458
Excess (deficiency) of revenues over (under) expenditures	(791,267)	(791,267)	(746,177)	-	45,090
Special items:					
Proceeds from note issuance	2,000,000	2,000,000	2,000,000	-	-
Net changes in fund balance	1,208,733	1,208,733	1,253,823	-	45,090
Total fund balance, beginning of year	1,004,163	1,004,163	1,004,163	-	-
Total fund balance, end of year	$ 2,212,896	$ 2,212,896	$ 2,257,986	$ -	$ 45,090

See accompanying Report of Independent Auditor and Notes to Budgetary Comparison Schedules.

Sandpoint Urban Renewal Agency
Budgetary Comparison Schedule - Northern District
Year Ended September 30, 2011

	Budgeted Amounts		Actual Modified Accrual Basis	Variances Positive/(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Property taxes	$ 211,360	$ 211,360	$ 265,353	$ -	$ 53,993
Penalties and interest	1,628	1,628	1,768	-	140
Other local sources	-	-	192	-	192
Total revenues	212,988	212,988	267,313	-	54,325
Expenditures:					
Public improvements	-	-	-	-	-
Professional services	3,938	3,938	2,428	-	1,510
Public art	6,642	6,642	2,032	-	4,610
Advertising	1,500	1,500	1,007	-	493
Miscellaneous	-	-	-	-	-
Total expenditures	12,080	12,080	5,467	-	6,613
Excess (deficiency) of revenues over (under) expenditures	200,908	200,908	261,846	-	60,938
Special items:					
Proceeds from note issuance	-	-	-	-	-
Net changes in fund balance	200,908	200,908	261,846	-	60,938
Total fund balance, beginning of year	454,740	454,740	454,740	-	-
Total fund balance, end of year	$ 655,648	$ 655,648	$ 716,586	$ -	$ 60,938

See accompanying Report of Independent Auditor and Notes to Budgetary Comparison Schedules.

Sandpoint Urban Renewal Agency
Notes to Budgetary Comparison Schedules
September 30, 2011

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. As a result, the budgetary comparison schedules at pages 21 and 22 disclose two instances in which actual expenditures exceeded budgeted expenditures. In fact, there were no instances in which actual expenditures exceeded budgeted expenditures at the functional levels required by Idaho Statutes.

Compliance Report

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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandpoint Urban Renewal Agency ("the Agency"), as of and for the year ended September 30, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated January 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 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 11-1 through 11-3 to be, in the aggregate, 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 11-1 through 11-3 to be significant deficiencies in internal control over financial reporting.

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 identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

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

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

January 12, 2012

Sandpoint Urban Renewal Agency
Schedule of Findings and Responses
Year Ended September 30, 2011

Section I – Summary of Auditor's Results

Financial Statements

The report of independent auditor expressed an unqualified opinion on the basic financial statements of the Sandpoint Urban Renewal Agency.

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

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

The audit disclosed no compliance findings material to the financial statements of the 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 11-1

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.
Criteria	An effective system of internal control 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 adequate segregation of duties.
Recommendation	Although the Agency is not large enough to permit a sufficient segregation of duties for an effective system of internal accounting control, 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, 2011

Finding 11-2

Condition	The Agency's records lack the necessary support for the entity-wide financial statement amounts.
Criteria	Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB No. 34) established financial reporting requirements and a reporting model for the annual financial reports of state and local governments. The financial information required by GASB No. 34 includes entity-wide financial statements, including the Statement of Net Assets – Entity-Wide and the Statement of Activities – Entity-Wide. These statements are similar to the financial statements of traditional, for-profit entities, and include noncurrent assets such as capital assets (e.g., buildings, equipment, etc.) and noncurrent liabilities such as compensated absences and capital lease obligations.
Effect	The adoption of GASB No. 34 created the need for additional record keeping that the Agency is not fully performing at this time.
Cause	The financial statements of state and local governments did not previously include these noncurrent assets and liabilities. GASB No. 34 has imposed additional recordkeeping requirements on the Agency that have not heretofore been performed.
Recommendation	We strongly recommend that the Agency continue to develop the recordkeeping capabilities to comply with the reporting requirements of GASB No. 34.
Management's Response	The Agency will continue to improve its implementation of the necessary recordkeeping procedures that will allow it to generate the amounts needed for financial reporting under GASB No. 34.

Sandpoint Urban Renewal Agency
Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Finding 11-3

Condition	Due in part to the organization'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 includes periodically reconciling each general ledger account, and adjusting the recorded balances if necessary.
Effect	In connection with performing our audit testing, we proposed 10 audit adjustments to correct account balances. Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS No. 115), 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 organization 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, 2011

The Agency's financial statements for the year ended September 30, 2010 were not audited. Accordingly, there were no findings in the prior year.