Financial Statements
September 30, 2013

Caldwell East Urban Renewal Agency

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Members of the Board of Commissioners
Caldwell East Urban Renewal Agency
Caldwell, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund information of Caldwell East Urban Renewal Agency (the Agency), a component unit of the City of Caldwell, Idaho, as of and for the year ended September 30, 2013, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinion.

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Caldwell East Urban Renewal Agency, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated February 03, 2014, 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, 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* in considering Agency's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
February 03, 2014

Commissioners of the Caldwell East Urban Renewal Agency (the Agency), a component unit of the City of Caldwell (the City), offer readers of these financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended September 30, 2013.

It is a privilege for the Caldwell East Urban Renewal Agency to provide you with our Annual Report for fiscal year ended September 30, 2013. This report has been compiled in compliance with Idaho Code Section 50-2006 in which the Agency *"is required to file, with the local governing body, on or before March 31 of each year, a report of its activities for the preceding calendar year. Such report is to include a complete financial statement setting forth its assets, liabilities, income and operating expense as of the end of the calendar year."*

In addition to the above stated requirement of Idaho Urban Law, Sections 50-1010 and 67-450B in the Idaho Code further require the Agency to *"cause a full and complete audit of its financial statements to be made each fiscal year."* In response to this annual fiscal year audit requirement, independent auditor Eide Bailly LLP has completed the 2013 fiscal year audit for the Urban Renewal Agency of the City of Caldwell. This audit is available in the office of the City Clerk, 411 Blaine Street, Caldwell, Idaho.

The results of the 2013 fiscal year audit for the Agency are included within the financial statements, footnotes and audit opinion presented in this annual report.

FINANCIAL HIGHLIGHTS

- The liabilities of the Agency exceeded its assets at September 30, 2013 by $6,668,656. The majority of liabilities resulted from the issuance of $24,800,000 in long-term revenue bonds in 2006, 2008 and 2012 of which $19,785,000 in principal remains outstanding and $7,990,000 of the 2012 bond proceeds remains in the cash construction fund. Bond proceeds for the 2006 and 2008 bonds were transferred to the City of Caldwell sewer fund and used to pay for sewer projects directly related to residential and commercial growth within agency boundaries. Proceeds from the 2012 bonds are held by the trustee and disbursed to pay project costs for the Canyon County Administration Building scheduled to be completed in July 2014. A $6,000,000 note payable to the City of Caldwell for the purchase of the TVCC education building carries an unpaid principal balance of $1,613,141. Cash and cash equivalents of $3,106,373 may be used to meet the Agency's ongoing obligations to citizens and creditors. Restricted cash of $3,058,347 funds bond and note debt service covenants.

- As of September 30, 2013, the Agency's special revenue fund reported ending fund balance of $14,026,899. Of this amount, $2,824,562 is restricted for urban renewal projects, $153,990 is in the non-spendable form of long-term notes receivable, and $11,048,347 is restricted by bond covenants. Unrestricted cash balance for the Special Revenue Fund, excluding the undrawn bond proceeds, was $3,106,373 which represents 48.8% of total fund expenditures and transfers to the City of Caldwell.

- The Agency's total debt obligation is $23,140,379.

BACKGROUND

The Agency was organized and approved by Caldwell City Council on December 21, 1998, under Idaho Code, Title 50; Chapter 20 entitled "Idaho Urban Renewal Agency Law of 1965." The Agency was established to promote development and redevelopment efforts in an undervalued portion of the City and in the City's area of impact within Canyon County. The goals of the Agency include a plan to transform this underdeveloped area into a desirable location for prospective homeowners, small businesses, and corporate development. Letters of support from taxing districts within the urban renewal area were submitted as evidence of support for the organization of the Agency during the public hearing on December 21, 1998. Later in 1999, Canyon County organized a similar Urban Renewal Agency covering lands within the City area of impact that were designated in the City’s Urban Renewal Agency. This action paved the way for communication between the City and County on urban renewal matters in the impact area.

On December 21, 1998, the Caldwell City Council approved the Urban Renewal “Plan.” This Plan described the proposed activities of the Urban Renewal Agency including the adoption of a *revenue allocation (tax increment)* financing provision. With the adoption of this tax increment financing provision, the County Commissioners and County Treasurer allocate incremental increases in tax revenues annually between the Agency and other taxing districts located within the boundaries of the revenue allocation area.

On September 29, 2003, the Agency amended Plan boundaries and the revenue allocation area to include the downtown corridor between 10th St. and 5th St. from the Union Pacific Railroad right-of-way to Dearborn and public and private land within the following boundary: beginning at the intersection of Ustick Road and Florida Avenue “point of beginning”, thence north on Florida Avenue to the Caldwell Highline Canal, thence northwesterly along the Highline Canal to Indiana Avenue, thence south to the southern boundary of Fairoaks Subdivision, thence west along said boundary to Illinois Avenue extended, thence south on Illinois Avenue extended to Ustick Road, thence east on Ustick Road to the point of beginning. These amendments add a project to the scope of the Workable Program/Implementation Plan within the downtown corridor. The project is commonly referred to as the “Indian Creek Day-lighting and Restoration Project”. The amendments also add some detail to Plan provisions dealing with recreational, park and swimming facilities and expand the revenue allocation area so that revenue allocation funding can be used to facilitate financing of the project.

PROPERTY VALUE AND TAX INCREMENT FINANCING

Tax increment financing is the primary source of revenue for the Agency. The amount of revenue received from property taxes is determined by the value of taxable property in excess of the base year, multiplied by the current tax levy rates in effect from the various taxing districts within the urban renewal boundaries. If the market value of property increases, the proceeds from the property tax may increase even with no increase in the tax levy rate.

The net taxable value of properties outside urban renewal boundaries in the City increased $84,533,665 or 8.5%, over the 2012 base of $999,316,030, (2012 base adjusted for county assessor changes). Consistent with this increase, the market value of real and personal properties within the urban renewal boundaries in the City increased $23,061,545 or 9.7%, from the 2012 base of $236,630,138, (2012 base adjusted for county assessor changes). Combined market value increase in the City and Urban Renewal totaled $107,595,210 or 8.7%.

As of January 1, 1998, the base year, market values of taxable property within urban renewal boundaries totaled $60,492,278. The market values within this same area have now been adjusted to a total of $322,820,490. This increase in market values established an incremental value of $262,328,212 at September 30, 2013 and property tax revenue (estimated for the fiscal year 2014) equal to $5,531,525 a decrease of $23,935, or .4% from property taxes levied in 2013.

The total property tax receipts for fiscal year ended September 30, 2013, were $5,652,355 as reported in the audited financial statements.

ACTIVITIES & COMMITMENTS

The Agency remains committed to economic development and residential stability within its geographic boundaries in the City. Some of the specific activities, including accomplishments and board actions, are listed below.

- The Agency funds a Business Incentive Grant to encourage new business developments and existing business expansions. Through the grant, qualifying business are reimbursed 50% of eligible project costs to a maximum of $200,000 over a two year period based on the number of eligible jobs created. A total of four businesses, employing 85 employees, applied for and qualified under the terms of the grant since its inception in 2011.

- The Agency assisted the County with its new Administration Building by issuing $8,500,000 in revenue bonds in 2012. The debt will be paid using the county portion of incremental revenues as the repayment vehicle beginning in 2015. Bonds will be repaid over 8 years at an average interest rate of 2.78%.

- The Agency approved a Business Incentive Grant for 20 new jobs in an aircraft manufacturer that relocated its facilities to the Caldwell Industrial Airport.

FINANCIAL OVERVIEW

Caldwell East Urban Renewal Agency - Net Position

	Governmental Activities	
	2013	2012
Other Assets	$ 20,501,790	$ 12,158,220
Capital Assets	1,913,364	1,132,845
Total Assets	22,415,154	13,291,065
Short-Term Liabilities	7,188,431	7,120,829
Long-Term Liabilities	21,895,379	16,224,086
Total Liabilities	29,083,810	23,344,915
Invested in Capital Assets	1,913,364	1,132,845
Restricted by bond covenants	11,048,347	3,006,342
Unrestricted	(19,630,367)	(14,193,037)
Total Net Position	$ (6,668,656)	$ (10,053,850)

Caldwell East Urban Renewal Agency - Statement of Activities

	Governmental Activities 2013	Governmental Activities 2012
Revenues:		
General Revenues		
Property taxes		
General Purpose	$ 5,622,717	$ 5,624,875
Unrestricted investment earnings	58,002	59,355
Unrestricted unrealized gain on investments	56	-
Miscellaneous	249,702	335,227
Total Revenues	5,930,477	6,019,457
Expenses:		
Urban Renewal Agency	1,737,063	1,493,700
Interest on long-term debt	808,220	898,771
Total Expenses	2,545,283	2,392,471
Net Revenues	$ 3,385,194	$ 3,626,986

On October 5, 2010, the City of Caldwell loaned the Agency $6,000,000 secured by a note payable, to purchase the education building downtown. The principal plus interest will be paid in four (4) annual installments of $1,695,000 on or before October 5th each year. The Agency paid the third installment in September 2013.

Cash and cash equivalents, both restricted and unrestricted, increased $8,331,461 to $14,155,080 over the 2012 balance of $5,823,619. The majority of this increase is remaining bond proceeds totaling $7,990,000 held in a construction fund to provide funding for the County Administration Building in 2014. The $48,412 decrease in taxes receivable resulted from a reduction of approximately $185,000 for school district bond debt service offset by increased assessed values that added approximately $137,000 to receivables. New construction of residential and commercial structures increased in 2013. Comparing January through November, new construction permits in Caldwell rose 46.8% from 205 in 2012 to 301 in 2013. The construction activity level in 2013 should continue throughout 2014. Vouchers payable and internal balances increased $305,780 comprising the September billing for the County Administration Building of $179,188, a reimbursement to the City of Caldwell for Skyway Street of $107,842 and $25,000 for a Business Incentive Grant all payable at September 30, 2013.

The Agency's financial commitment to the Caldwell Family YMCA continued with a $1,000,000 payment made in February 2013, bringing cumulative payments to $9,000,000 as of September 30, 2013. Other financial commitments include quarterly payments of $50,000 to a total of $350,000 payable under the business incentive grant program. Total debt service payments during the calendar year included $3,030,236 in principal and $755,516 in interest made in connection with three (3) revenue allocation bonds, one (1) revenue allocation note and a note payable in connection with the TVCC education building purchase.

BUDGET

The Agency is required to submit and operate under a budget approved by the board. The 2013 budget for the Agency was approved September 4, 2012, in a public meeting and appears in the supplementary information following the footnotes section of the report.

BOARD OF COMMISSIONERS

Title 50, Chapter 20 of Idaho Code requires the Mayor to appoint a Board of Commissioners. Commissioners may be appointed for terms up to five years. By action of Caldwell City Council the number of commissioners was changed from five to seven in March 2009. As of September 30, 2013 six of the seven commissioner positions were filled. The position held by Mayor Nancolas was changed to ex-officio non-voting by council action in October 2010. Commissioner Waite is currently serving as Chairman of the Board of Commissioners, Commissioner Hardin is serving as vice-chairman and Commissioner Fouts is serving as Secretary.

All members of the Board of Commissioners as September 30, 2013:

COMMISSIONER	TERM EXPIRATION
ElJay Waite	January 1, 2015
Theresa Hardin	January 1, 2014
Leona Fouts	January 1, 2014
Rob Hopper	January 1, 2014
Kathy Alder	January 1, 2015
Scott Syme	January 1, 2015
Vacant	N/A

FINANCIAL STATEMENTS

The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

	Special Revenue Fund	Adjustments (Note 2)	Statement of Net Position
Assets			
Cash and cash equivalents	$ 3,106,733	$ -	$ 3,106,733
Receivables			
Taxes	5,839,106	-	5,839,106
Accounts	1,072	-	1,072
Notes	153,990	-	153,990
Restricted cash and cash equivalents	11,048,347	-	11,048,347
Deferred charges, net of amortization	-	352,542	352,542
Land and other assets not depreciated	-	1,913,364	1,913,364
Total assets	$ 20,149,248	$ 2,265,906	$ 22,415,154
Liabilities			
Vouchers and payroll payable	$ 332,030	$ -	$ 332,030
Unearned/unavailable revenue	5,790,319	(279,346)	5,510,973
Interest payable	-	100,428	100,428
Long-term liabilities			
Due within one year	-	1,245,000	1,245,000
Due after one year	-	21,895,379	21,895,379
Total liabilities	6,122,349	22,961,461	29,083,810
Fund Balance/Net Position			
Fund balances			
Nonspendable	153,990	(153,990)	-
Restricted by bond covenants for			
Revenue allocation	9,117,122	(9,117,122)	-
Debt service	373,500	(373,500)	-
Reserve fund	1,557,725	(1,557,725)	-
Restricted for urban renewal projects	2,824,562	(2,824,562)	-
Total fund balance	14,026,899	(14,026,899)	-
	$ 20,149,248		
Net Position			
Net investment in capital assets		1,913,364	1,913,364
Restricted by bond covenants		11,048,347	11,048,347
Unrestricted		(19,630,367)	(19,630,367)
Total net position		(6,668,656)	(6,668,656)
		$ 2,265,906	$ 22,415,154

	Special Revenue Fund	Adjustments (Note 3)	Statement of Activities
Expenditures/Expenses			
Urban renewal	$ 1,690,845	$ 46,218	$ 1,737,063
Capital outlay	780,519	(780,519)	-
Debt service			
Principal	3,030,236	(3,030,236)	-
Interest	755,516	52,704	808,220
Debt issuance costs	108,722	(108,722)	-
Total expenditures/expenses	6,365,838	(3,820,555)	2,545,283
General Revenues			
Property taxes	5,652,355	(29,638)	5,622,717
Interest	9,530	48,472	58,002
Unrealized gain	56	-	56
Miscellaneous	249,702	-	249,702
Total general revenues	5,911,643	18,834	5,930,477
Excess (Deficiency) of Revenues Over (Under) Expenditures	(454,195)	3,839,389	-
Other Financing Sources			
Bond proceeds	8,500,000	(8,500,000)	-
Change in Total Fund Balance	8,045,805	(4,660,611)	-
Change in Net Position	-	-	3,385,194
Fund Balance/Net Position, Beginning of Year	5,981,094	(16,034,944)	(10,053,850)
Fund Balance/Net Position, End of Year	$ 14,026,899	$ (20,695,555)	$ (6,668,656)

Note 1 - Summary of Significant Accounting Policies

The Caldwell East Urban Renewal Agency (the Agency) was organized on December 21, 1998 under the Idaho Urban Renewal Law, Chapter 20, and Title 50 of the Idaho Code. The Agency was established to oversee redevelopment efforts in the Northeastern Caldwell areas, including housing rehabilitation, incentives for development of multi-family affordable housing, beautification of entryways, improvements to City infrastructure, and creation of new parks and a recreation complex. The redevelopment plan will be completed in 16 years, at which time the Agency's assets will revert to City ownership. The Agency under governmental accounting principles is considered a component unit of the City of Caldwell (the City).

The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting and reporting policies of the Agency relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the GASB, the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

Financial Reporting Entity

For financial reporting purposes, in conformity with GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Agency is included as a component unit in the City of Caldwell, Idaho's financial statements. The Agency provides urban renewal services to the City and its citizens. These statements present only the funds of the Agency and are not intended to present the financial position and results of operations of the City of Caldwell, Idaho in conformity with generally accepted accounting principles.

Government-Wide and Fund Financial Statements

The government-wide column of the financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As allowed under GAAP, the Agency is reported as a "Single Program Entity". This allows for the government-wide financial statements to be combined with the fund level financial statements.

Measurement Focus, Basis of Accounting, And Financial Statement Presentation

The government-wide column of the financial statements is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund column of the financial statements is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 to 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

Special Revenue Funds - The Agency is a special revenue fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Agency Sunset

Under the conditions of the 2005 amendment to the Plan of the Urban Renewal Agency of The City of Caldwell, Idaho, the agency will cease projects that require issuing bonds as of December 31, 2014. The 2005 amendment modifies Section 800 “Duration of This Plan” to read as follows:

> “Except for the nondiscrimination and non-segregation provisions which shall run in perpetuity, the provisions of this Plan shall be effective, and the provisions of other documents formulated pursuant to this Plan shall be effective for twenty-four (24) years from the original date of adoption of this plan by the City of Caldwell through December 21, 2022 provided, however, that the revenue from property taxes shall be restricted to collection of taxes assessed for the twenty-three (23) year period commencing with the 1999 assessment through the 2022 assessment, with the condition that the tax increment revenue received after December 31, 2014 will be used only to pay debt service on bonds for urban renewal projects constructed prior to said date and not for any other projects constructed after said date. Any tax increment revenue received after December 31, 2014 exceeding the amount needed for payment of urban renewal bonds issued prior to said date shall be returned to the local taxing districts in order that such entities may reduce their tax levies proportionally.”

Attorneys for the Agency have recommended that increment received after December 31, 2014, that exceeds the amount required to pay bond debt be returned in one of two (2) ways at the discretion of each taxing district. Taxing districts may choose to have the Agency pay the increment for projects within their districts that meet urban renewal statutes or receive increment cash payments from the Agency as revenues are collected.

The Agency’s annual bonded debt after December 31, 2014, is forecasted to be $2,600,000. The increment needed to service the debt will be deducted from the benefiting taxing district before calculating excess increment revenue. Non-benefiting taxing districts will receive 100% of increment revenue received by the Agency as determined by the county tax collector.

Cash and Cash Equivalents

The Agency considers all highly liquid investments, with a maturity of one year or less when purchased, to be cash equivalents. For purposes of efficient cash flow management and the management of temporary investments, the Agency utilizes the Local Government Investment Pool for its cash.

Investments

State statutes authorize the Agency to invest in obligations of the U.S. Treasury and U.S. agencies, commercial paper, corporate bonds, repurchase agreements, City coupons and local improvement district bonds.

Investments are stated at fair value as determined by quoted market prices, except for the certificates of deposit which are non-participating contracts, and are therefore carried at amortized costs. The Agency pools its investible funds to maximize interest income.

Property Taxes Receivable and Unearned Revenue

Property taxes are recognized as revenue when the amount of taxes levied is measurable, and proceeds are available to finance current period expenditures.

Available tax proceeds include property tax receivables expected to be collected within 60 days after year end. Property taxes attach as liens on properties on January 1, and are levied in September of each year. Tax notices are sent to taxpayers during November, with tax payments scheduled to be collected on or before December 20. Taxpayers may pay all or one half of their tax liability on or before December 20, and if one half of the amount is paid, they may pay the remaining balance by the following June 20. Since the Agency is on a September 30 fiscal year-end, property taxes levied during September for the succeeding year’s collection are recorded as unavailable revenue at the Agency’s year-end and recognized as revenue in the following fiscal year. Canyon County bills and collects taxes for the Agency.

Capital Assets

Capital assets, which consist of land and construction in process, are reported in the government-wide column of the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Risk Management

As a component unit of the City of Caldwell, the Agency is exposed to various risks of loss related to theft of, damage to, or destruction of assets. The City, and the Agency as a component unit, participates in a public entity risk pool, Idaho Counties Risk Management Pool (ICRMP), for property and liability insurance. The City's and the Agency's exposure to loss from its participation in ICRMP is limited to the extent of their deductible only.

Budgets

In accordance with Title 50, Chapter 20 of the Idaho State Code, the Agency is required to prepare, approve and adopt an annual budget for filing with the local governing body, for informational purposes. A budget means an annual estimate of revenues and expenses for the following fiscal year of the agency.

Bonded Indebtedness

In the government-wide column of the financial statements, long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. In the fund column of the financial statements, governmental fund types recognize long-term obligations as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Bond premiums and discounts, as well as bond issuance costs, are recognized in the period the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Urban Renewal Agency Revenue Allocation Bonds, Series 2004A were issued to finance, in part, a variety of public and private infrastructure improvements which will improve existing conditions in the project area. Principal and interest on the bonds are payable solely from future tax revenues of the Agency.

Urban Renewal Agency Revenue Allocation Bonds, Series 2006A were issued to finance, in part, a variety of public infrastructure improvements which will expand waste water collection lines and pumping capacity in the project area. Principal and interest on the bonds are payable solely from future tax revenues of the Agency.

Urban Renewal Agency Revenue Allocation Notes, Series 2007 were issued to finance the acquisition of land and related improvements to improve and restore public open space around Indian Creek in the City. Principal and interest on the notes are payable solely from future tax revenues of the Agency.

Urban Renewal Agency Revenue Allocation Notes, Series 2008 were issued to finance the acquisition and construction of a portion of certain sewer treatment facilities and related improvements. Principal and interest on the notes are payable solely from future tax revenues of the Agency.

Urban Renewal Agency Revenue Allocation Notes, Series 2012 were issued to finance the construction of a new Canyon County Administration Building. Principal and interest on the notes are payable solely from future tax revenues of the Agency.

Recently Issued and Adopted Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011, and was implemented in fiscal year 2013. The adoption of GASBS No. 62 did not have any impact on the Agency's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This Statement is effective for periods beginning after December 15, 2011, and was implemented in fiscal year 2013. As a result, the statement of net assets was renamed the statement of net position. There were no other impacts on the Agency's financial statements as a result of implementation.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the Agency's financial statements.

Note 2 - Explanation of Differences Between the Governmental Funds Balance Sheet and the Statement of Net Position

"Total fund balances" of the Agency's governmental fund differs from "net position" of the governmental activities reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

The main components of the differences are described below.

Fund balance – special revenue fund	$ 14,026,899
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,913,364
Costs associated with the issuance of bonds are a use of financial resources and therefore are reported as expenditures in the governmental funds. However, these costs are amortized over the life of the bond on the statement of net position. Accumulated amortization was $318,863.	352,542
Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.	279,346
Long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(23,140,379)
Interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(100,428)
Net position of governmental activities	$ (6,668,656)

Note 3 - Explanation of Differences Between Governmental Fund Operating Statements and the Statement of Activities

The "net change in fund balances" for governmental funds differs from the "change in net position" for governmental activities reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental funds. The effect of the differences is illustrated below.

Net change in fund balances – total governmental funds	$ 8,045,805
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($780,519) exceeded depreciation expense ($0).	780,519
Some property tax revenue in the statement of activities that does not provide current financial resources is not reported as revenues in the funds.	(29,638)
Interest expense accrued but not paid reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.	(52,704)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums and bond issuance costs when the debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.

Repayment of long-term debt	3,030,236	
Proceeds from issuance of long-term debt	(8,500,000)	
Costs incurred on issuance of long-term debt	108,722	
Amortization of issuance costs	(46,218)	
Amortization of bond premium	48,472	(5,358,788)
Change in net position		$ 3,385,194

Note 4 - Cash and Cash Equivalents

	Cost	Fair Value
Cash - unrestricted	$ 2,998,104	$ 2,998,104
Local Government Investment Pool	108,272	108,629
Total cash equivalents - unrestricted	$ 3,106,376	$ 3,106,733
Cash equivalents - restricted		
Undrawn Bond Proceeds	$ 7,990,000	$ 7,990,000
Money Market Funds	3,058,347	3,058,347
Total cash equivalents - restricted	$ 11,048,347	$ 11,048,347

Investment types that are authorized for the Agency by the Idaho Code and the Agency’s investment policy are as follows:

1. Local and State Agency Bonds
2. U. S. Agency Bonds
3. U. S. Agency Securities
4. Certificates of Deposit

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely impact the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Agency manages its exposure to interest rate risk is by purchasing a combination of long and short-term investments. The Agency keeps funds needed for operations in short-term liquid investments while maintaining a stable longer-term investment portfolio with duration matched to expected completion of capital projects. When selecting longer-term maturities, the Agency’s policy requires investments which provide for the stability of income and reasonable liquidity.

			Investment Maturities in Years		
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Local Government Investment Pool	$ 108,629	$ 108,629	$ -	$ -	$ -

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Money Market Funds and U.S. Treasury Notes are AAA rated by Moody's and Standard and Poor. All other investments of the Agency are not rated and the Agency does not have a restrictive policy regarding rated investments.

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The Governmental Accounting Standards Board has adopted a principal that governments should provide note disclosure when five percent of the total entity's investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The Agency has no policy limiting on the amount it may invest in any one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Agency does not have a policy for custodial credit risk outside of the deposit and investment agreements.

The bank ledger balance for unrestricted cash deposits at September 30, 2013, is $3,370,036. This ledger balance includes $500,000 of deposits insured by FDIC and $2,870,036 uninsured and uncollateralized. Restricted cash equivalents totaling $11,048,347 of which $3,058,347 are held by a bond trustee in AAA rated Money Market Funds and U. S. Treasury Notes in accordance with bond documents, which are not insured under FDIC or collateralized. The remaining $7,990,000 remains with the bond trustee as funds not yet drawn for construction.

The Agency minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be identified as to Caldwell East Urban Renewal Agency ownership and be held in the Agency's name. The U.S. Treasury Notes and Money Market Funds are held in custody by Zions Bank in the Agency's name.

The LGIP is managed by the State of Idaho Treasurer's office. The funds of the pool are invested in certificates of deposit, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank.

Note 5 - Restricted Assets

Restricted assets are required to be segregated as to use and are therefore identified as restricted assets. Restricted assets in the Agency are restricted pursuant to the bonds issued to finance, in part, a variety of public and private infrastructure improvements which will improve existing conditions in the project area.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 6 - Fund Equity

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory or long-term notes receivable) or are required to be maintained intact.

- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- Committed fund balance—amounts constrained to specific purposes by the Agency itself, using its highest level of decision-making authority (i.e., Board of Commissioners). To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint.

- Assigned fund balance—amounts the Agency intends to use for a specific purpose. Intent can be expressed by the Agency Commissioners or by an official or body to which the Agency Commissioners delegate the authority.

- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Agency's Board of Commissioners establishes (and modifies or rescinds) fund balance commitments by passage of a resolution or motion. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board of Commissioners through adoption or amendment of the budget as intended for specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Agency considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Commissioners has provided otherwise in its commitment or assignment actions.

Note 7 - Capital Assets

Changes in capital assets are as follows:

	Balance Oct. 1, 2012	Additions	Deletions	Balance Sept. 30, 2013
Governmental activities				
Capital assets, not depreciated				
Land	$ 1,132,845	$ 250,000	$ -	$ 1,382,845
Construction in Process	-	530,519	-	530,519
	$ 1,132,845	$ 780,519	$ -	$ 1,913,364

Note 8 - Long-Term Debt

Long-term debt consisted of the following as of September 30, 2013:

Governmental activities

Revenue Bonds

$3,735,000 Urban Renewal Revenue Allocation Bonds Series 2004A due in annual installments through March 2015 of $355,000 to $715,000, interest from 4.45% to 4.95% due semi-annually. Certificates maturing on or after March 1, 2012, are subject to early redemption in whole or in part (in the order of maturity selected by the Agency and by lot within a maturity in such manner as the Registrar shall determine), on March 1, 2011, or any interest payment due date thereafter, at the redemption price of par, plus accrued interest to the date fixed for redemption.	$ 1,070,000
$8,300,000 Urban Renewal Revenue Allocation Bonds Series 2006A due in annual installments through March 2023 of $140,000 to $720,000, interest from 4.00% to 5.00% due semi-annually, including unamortized bond premium of $412,290. Certificates maturing on or after March 1, 2017, are subject to early redemption in whole or in part (in the order of maturity selected by the Agency and by lot within a maturity in such manner as the Registrar shall determine), on March 1, 2016, or any interest payment date thereafter, at the redemption price of par, plus accrued interest to the date fixed for redemption.	5,642,290
$8,000,000 Urban Renewal Revenue Allocation Bonds Series 2008 due in annual installments through September 2023 of $505,000 to $720,000; interest from 4.00% to 4.25% due semi-annually, including unamortized bond premium of $14,948. Certificates maturing on or after September 1, 2018, are subject to early redemption in whole or in part (in the order of maturity selected by the Agency and by lot within a maturity in such manner as the Registrar shall determine), on September 1, 2017, or any interest payment date thereafter, at the redemption price of par, plus accrued interest to the date fixed for redemption.	6,069,948

$8,500,000 Urban Renewal Revenue Allocation Bonds Series 2012 due in annual installments through September 2022 of $990,000 to $1,157,000; interest from 1.85% to 3.3% due semi-annually. Certificates maturing on or after September 15, 2016, are subject to early redemption in whole or in part (in the order of maturity selected by the Agency and by lot within a maturity in such manner as the Registrar shall determine), on September 15, 2015, or any interest payment date thereafter, at the redemption price of par, plus accrued interest to the date fixed for redemption.	8,500,000
Revenue Notes	
$1,600,000 Revenue Allocation Notes Series 2007 due in semi-annual installments through September 2014 of $245,000, interest at 4.2% due semi-annually.	245,000
Note Payable	
$6,000,000 note payable to the City of Caldwell for the purchase of the education building and contents due in annual installments through October 2014 of $1,695,000, including interest at 5.07%.	1,613,141
	$ 23,140,379

The Urban Renewal Agency of the City of Caldwell, Idaho has pledged a portion of future tax increment revenues to repay $1,600,000 in revenue allocation notes issued in March 2007 to finance construction of the Indian Creek Day-lighting project. The notes are payable solely from incremental tax revenues. Incremental tax revenues were projected to produce 100 percent of the debt service requirements over the life of the notes. Total principal and interest remaining on the notes is $252,796, payable through September 2014. For the current year, principal and interest paid were:	$ 252,804
The Urban Renewal Agency of the City of Caldwell, Idaho has pledged a portion of future tax increment revenues to repay $3,735,000 in revenue allocation bonds issued in July 2004 to finance improvements to the City's waste water treatment plant including a new headwork facility, screening system and digester. The bonds are payable solely from incremental tax revenues. Incremental tax revenues were projected to produce 125 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $1,131,520, payable through March 2015. For the current year, principal and interest paid were:	394,961

The Urban Renewal Agency of the City of Caldwell, Idaho has pledged a portion of future tax increment revenues to repay $8,300,000 in revenue allocation bonds and $724,294 in re-offering premium issued in December 2006 to finance improvements to the City's waste water treatment plant including collection lines and related facilities. The bonds are payable solely from incremental tax revenues. Incremental tax revenues were projected to produce 125 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $7,363,050, payable through March 2023. For the current year, principal and interest paid were:	737,713
The Urban Renewal Agency of the City of Caldwell, Idaho has pledged a portion of future tax increment revenues to repay $8,000,000 in revenue allocation bonds and $37,047 in premium issued in February 2008 to finance improvements to the City's waste water treatment plant including a new aeration basin and related facilities. The bonds are payable solely from incremental tax revenues. Incremental tax revenues were projected to produce 125 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $7,513,773, payable through September 2023. For the current year, principal and interest paid were:	705,275
The Urban Renewal Agency of the City of Caldwell, Idaho has pledged a portion of future tax increment revenues to repay $8,500,000 in revenue allocation bonds issued in December 2012 to finance the construction of the County Courthouse. The bonds are payable solely from incremental tax revenues. Incremental tax revenues were projected to produce 125 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $9,562,611, payable through September 2022. For the current year, principal and interest paid were:	-
Total principal and interest paid in the current year	$ 2,090,753
Total incremental tax revenues collected in the current year	$ 5,652,355

The annual requirements to amortize all debt outstanding at September 30, 2013, are as follows:

	Governmental Activities	
	Principal	Interest
2014	$ 1,245,000	$ 975,154
2015	4,099,141	931,132
2016	2,055,000	629,124
2017	2,117,000	564,839
2018	2,184,000	497,469
2019-2023	11,440,238	1,207,891
	$ 23,140,379	$ 4,805,609

Total interest cost incurred during 2013 was $808,220.

The following is a summary of changes in long-term debt of the Agency for the year ended September 30, 2013:

	Long-Term Debt At Oct. 1, 2012	Debt Issued	Debt Retired	Long-Term Debt at Sept. 30, 2013	Due Within One Year
Governmental activities					
Revenue Allocation Bonds 2004A	$ 1,405,000	$ -	$ (335,000)	$ 1,070,000	$ 355,000
Revenue Allocation Bonds 2006A	5,715,000	-	(485,000)	5,230,000	140,000
Revenue Allocation Notes 2007	480,000	-	(235,000)	245,000	245,000
Revenue Allocation Bonds 2008	6,495,000	-	(440,000)	6,055,000	505,000
Revenue Allocation Bonds 2012	-	8,500,000	-	8,500,000	-
Bond Premium	475,709	-	(48,471)	427,238	-
TVCC Building Purchase	3,148,377	-	(1,535,236)	1,613,141	-
Governmental activities long-term liabilities	$17,719,086	$8,500,000	$ (3,078,707)	$23,140,379	$1,245,000

Note 9 - Other Commitments

The Agency will contribute $1,000,000 to the capital construction fund for the Caldwell Family YMCA in February 2014.

The Agency will contribute up to $200,000 for business development incentives in the form of grants or loans in 2014.

The Agency will contribute $60,000 to Treasure Valley Community College for the construction of an electronic reader board at the entrance of the college.

Note 10 - Related Party Transactions

In 2011, the City of Caldwell purchased the urban renewal education building project from the developer and entered into a purchase and sale agreement to sell the building to the Caldwell Urban Renewal Agency. The City authorized $6,000,000 for the purchase of the building and contents. By Resolution #108-10 adopted October 4, 2010, funds were transferred to the general fund from street $1,000,000, cemetery $900,000, water $800,000 and sewer $3,300,000. The Agency agreed to purchase the building, pay all closing costs and pay the City $1,695,000 annually for four years beginning October 5, 2011. The four installments total $6,780,000. The City funds will earn approximately five percent on this transaction over the term of this agreement. The agreement calls for early repayment of funds if requested by the City.

Note 11 - Subsequent Event

Subsequent to September 30, 2013, the Agency purchased approximately 39 acres of fully developed industrial land adjacent to industrial land owned by the Agency for $2,300,000 and incurring debt of $1,150,000 due in full on or before February 15, 2014. The Agency now owns approximately 60 acres of fully developed industrial land and is actively marketing it to potential industrial users.

Required Supplementary Information
September 30, 2013

Caldwell East Urban Renewal Agency

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Property taxes	$ 5,000,000	$ 5,000,000	$ 5,652,355	$ 652,355
Interest	10,000	10,000	9,530	(470)
Unrealized gain on investments	-	-	56	56
Miscellaneous	242,000	242,000	249,702	7,702
Total revenues	5,252,000	5,252,000	5,911,643	659,643
Expenditures				
Current				
Urban Renewal Agency	1,816,000	1,816,000	1,690,845	125,155
Capital outlay	-	-	780,519	(780,519)
Debt service				
Principal	3,030,236	3,030,236	3,030,236	-
Interest	755,516	755,516	755,516	-
Debt issuance costs	-	-	108,722	(108,722)
Total expenditures	5,601,752	5,601,752	6,365,838	(764,086)
Deficiency of Revenues Under Expenditures	(349,752)	(349,752)	(454,195)	(104,443)
Other Financing Sources				
Bond proceeds	-	-	8,500,000	8,500,000
Total Other Financing Sources	-	-	8,500,000	8,500,000
Net Change in Fund Balances	$ (349,752)	$ (349,752)	8,045,805	$ (104,443)
Fund Balance, Beginning of Year			5,981,094	
Fund Balance, End of Year			$ 14,026,899	

Note 1 - Budgets and Budgetary Accounting

In accordance with Title 50, Chapter 20 of the Idaho State Code, the Agency is required to prepare, approve and adopt an annual budget for filing with the local governing body, for informational purposes. A budget means an annual estimate of revenues and expenses for the following fiscal year of the Agency.

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Commissioners prepares a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public workshops are conducted at City Hall to obtain taxpayer comments.
- The budget is passed by resolution no later than the first Tuesday of each year.

Budgets are adopted on a basis consistent with generally accepted accounting principles for the special revenue funds. All annual appropriations lapse at fiscal year-end. Revisions that alter the total expenditure appropriation must be approved by the Board of Commissioners. State law does not allow fund expenditures to exceed fund appropriations.

Other Supplementary Information
September 30, 2013

Caldwell East Urban Renewal Agency

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*

Members of the Board of Commissioners
Caldwell East Urban Renewal Agency
Caldwell, 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 the major fund information of Caldwell East Urban Renewal Agency (the Agency), a component unit of the City of Caldwell, Idaho, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated February 03, 2014.

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 opinions 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2013-A, that we consider to be a significant deficiency.

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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*.

Agency's Response to Findings
The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Eide Bailly LLP

Boise, Idaho
February 03, 2014

Significant Deficiency

2013-A

Criteria:
Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes the ability to prepare the statements of net position and governmental fund balance sheet, statements of activities and governmental fund revenues, expenditures and changes in fund balance. It also includes the ability to prepare the footnote disclosures required by GASB.

Condition:
The Agency does not have an internal control system designed to provide for the preparation of the full financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes and proposed audit adjustments that were not identified as a result of the Agency's existing internal controls. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with report preparation internally or by the auditors because of cost or other considerations. However, lack of documented review of financials is considered a contributing factor resulting in misstatements of the Agency's unaudited financial statements.

Effect:
Management must rely on the auditing firm to report financial data in accordance with generally accepted accounting principles.

Cause:
The size of the Agency and the limited number of accounting personnel made it difficult to fully implement this level of internal control in the current year due to certain external events that put additional pressure on accounting capacity.

Recommendation:
Management should develop a review process to ensure proper financial close of the financial information prior to the audit. Management and those charged with governance must decide annually whether to accept the degree of risk associated with report preparation because of cost or other considerations.

Management's Response:
Management accepts the degree of risk associated with report preparation because of cost and other reasons. Management believes that the addition of a fourth staff position by the City will aid in the review process to ensure proper classification of financial information prior to the audit.

Corrective Action Plan (CAP)

Action Planned in Response to Finding:
Management intends to hire another staff position and separate financial accounting duties into "revenue reporting and cash management" and "expense reporting and fixed assets". This change will provide additional staff time to complete financial reporting and year-end closing activities.

Explanation of Disagreement:
None

Planned Completion for Corrective Action:
Management intends to complete corrective action before the end of the fiscal year. The decision to have the auditors complete the financial statements will be addressed on an annual basis.

Plan to Monitor Completion of Corrective Action:
Management will monitor the training and redistribution of duties between the two positions and prepare staff in year-end closing activities and audit schedule preparation.