

**KETCHUM URBAN RENEWAL AGENCY**

**KETCHUM, IDAHO**

**Financial Statements  
at September 30, 2009**

**KETCHUM URBAN RENEWAL AGENCY  
KETCHUM, IDAHO**

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**DB DENNIS R. BROWN**  
**Certified Public Accountant**

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INDEPENDENT AUDITOR'S REPORT

November 3, 2009

Board of Commissioners  
Ketchum Urban Renewal Agency  
Ketchum, Idaho

I have audited the basic financial statements of the Ketchum Urban Renewal Agency, a component unit of the City of Ketchum, Idaho at September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Ketchum Urban Renewal Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.


I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Ketchum Urban Renewal Agency, as of September 30, 2009, and the changes in financial position, and cash flows 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*, I have also issued a report dated November 3, 2009, on my consideration of the Ketchum Urban Renewal Agency's internal control over financial reporting and my tests of its compliance with certain provisions of laws, and regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Ketchum Urban Renewal Agency has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Budgetary Comparison Schedules on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Ketchum Urban Renewal Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
DENNIS R. BROWN  
Certified Public Accountant

**KETCHUM URBAN RENEWAL AGENCY**

**Statement of Net Assets  
at September 30, 2009**

	<u>Total Primary Government</u>	<u>Total Reporting Entity</u>
<b><u>ASSETS</u></b>		
Cash and Cash Equivalents	\$ 11	\$ 11
Cash Invested - State Investment Pooled Cash	<u>258,536</u>	<u>258,536</u>
Capital Assets:	<u>258,547</u>	<u>258,547</u>
Land, Buildings and Improvements - net	5,494,746	5,494,746
Fourth Street Corridor Improvements - net	<u>1,000,000</u>	<u>1,000,000</u>
Total Capital Assets	<u>6,494,746</u>	<u>6,494,746</u>
<b>Total Assets</b>	<u>6,753,293</u>	<u>6,753,293</u>
<b><u>LIABILITIES</u></b>		
Accounts Payable		
Due to the City of Ketchum		
Long-term Liabilities:		
Portion due or payable within one year:		
Loans Payable		
Portion due or payable after one year:		
Loans Payable	<u>5,560,000</u>	<u>5,560,000</u>
<b>Total Liabilities</b>	<u>5,560,000</u>	<u>5,560,000</u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - net of related debt	934,746	934,746
Restricted For:		
Capital Projects		
Debt Service		
Other Purposes		
Unrestricted	<u>258,547</u>	<u>258,547</u>
<b>Total Net Assets</b>	<u>\$ 1,193,293</u>	<u>\$ 1,193,293</u>

The accompanying notes are a part of these financial statements.

**KETCHUM URBAN RENEWAL AGENCY**  
**Statement of Revenue, Expenses,**  
**and Changes in Net Assets**  
**for the year ended September 30, 2009**

<b>Operating Revenues:</b>		
Tax Levy Revenues	\$ 460,357	
State of Idaho		
Earnings on Investments	10,745	
Penalty and Interest on Taxes	<u>477</u>	
Total Operating Revenue:		471,579
<b>Operating Expenses:</b>		
Labor and Taxes	72,897	
Labor Benefits	16,303	
Professional Fees	24,008	
Administrative Expenses	17,043	
Insurance	2,403	
Utilities	9,448	
Repairs and Maintenance	37,706	
Other Purchased Services	150	
Interest Expense	<u>236,901</u>	
Total Operating Expenses		<u>416,859</u>
<b>Operating Income</b>		<u>54,720</u>
<b>Total Net Assets - Beginning</b>		<u>1,138,573</u>
<b>Total Net Assets - Ending</b>		<u>\$ 1,193,293</u>

The accompanying notes are a part of these financial statements.

**KETCHUM URBAN RENEWAL AGENCY**  
**Statement of Cash Flows**  
**for the year ended September 30, 2009**

**Cash Flows From Operating Activities:**

Receipts from other governments and customers	\$ 460,834
Payments to suppliers and vendors	(91,302)
Payments to employees and volunteers	(89,200)
Other receipts	<u>0</u>

Net cash provided (used) by operations 280,332

**Cash Flows From Capital Related Financing Activities:**

Purchase and construction of capital assets	(350,000)
Reimbursed City of Ketchum for advances	(291,945)
Interest Paid on Agency Debt	<u>(236,901)</u>

Net cash used by capital and related financing activities (878,846)

**Cash Flows From Investing Activities:**

Interest Income	<u>10,745</u>
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**Net Increase (Decrease) in Cash and Equivalents** **(587,769)**

**Balances - Beginning of the year** 846,316

**Balances - Ending of the year** **\$ 258,547**

Displayed as:

Cash	11
Investments	<u>258,536</u>

**Balances - Ending of the year** **\$ 258,547**

**Reconciliation of Operating Income to Net Cash**

**Provided (Used) by Operating Activities:**

Operating Income	54,720
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Net Interest Earnings/Expense	226,156
Change in assets and liabilities:	
Accounts Payable	(544)
Due to the City of Ketchum	<u>          </u>

**Net Cash Provided (Used) by Operating Activities:** **\$ 280,332**

The accompanying notes are a part of these financial statements.

KETCHUM URBAN RENEWAL AGENCY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The Ketchum Urban Renewal Agency (the Agency) was created for the purpose of redeveloping and rehabilitating certain deteriorating areas in the City of Ketchum, Idaho, and was established by a resolution from the Ketchum City Council dated April 3, 2006. The Agency is authorized under provisions of the Idaho Urban Renewal Law of 1965 (Chapter 20, Title 50, Idaho Code).

The Agency is a component unit, as defined by generally accepted accounting principles, of the City of Ketchum, Idaho, because of its operational and financial responsibility with the City. The City of Ketchum appoints the governing body of the Agency.

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Agency.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Agency's activities and general administrative services are classified as governmental activities. The Agency has no business-type activities.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statement. 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.

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 the Agency receives cash.

The Agency reports the following major governmental fund:

- The *general fund* is the Agency's primary operating fund. It accounts for all financial resources of the Agency.

KETCHUM URBAN RENEWAL AGENCY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

Budgetary Policy

The Agency prepares a budget for its general fund operations. The statement of revenues and expenditures and changes in fund balances and actual-general fund presents comparison of the legally adopted budget with the actual data on a budgetary basis.

Under Idaho Code, the Agency's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, except as allowed by the Code for certain events.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Agency because it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Capital Assets

Capital Assets, which include land, building and improvements, and furniture and equipment, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the Agency are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Furniture	10
Equipment	10
Computer Equipment	5

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



KETCHUM URBAN RENEWAL AGENCY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

2. PROPERTY TAXES

Property taxes are billed and collected within the same period in which the taxes are levied. The Agency does not levy property taxes; however, it is entitled to the taxes levied on the increase in assessed valuation of real and personal property within its jurisdiction that occur after January 1, 2006.

In accordance with Idaho law, property taxes are levied in September for each calendar year. All personal taxes and one-half of real property taxes are due by December 20. The second half of the real property taxes is due by June 20. Tax levies on such assessed values are certified to the County prior to the commencement of the fiscal year.

Taxes are collected by Blaine County and remitted to the Agency primarily in January and July of the fiscal year. The Agency defers recognition of property taxes assessed but not collected within 60 days of the fiscal year-end. Such amounts will be recognized as revenues in the fiscal year they become available.

3. CASH AND INVESTMENTS

The Agency maintains a primary checking account and shares an allocated checking account with the City of Ketchum at local financial institutions. The Agency pools cash with the State of Idaho Investment Pool.

The Agency's cash in bank accounts are insured through the Federal Deposit Insurance Corporation up to \$100,000 per depository. The cash pooled with the State of Idaho is collateralized with US Government Securities.

1. Deposits – At September 30, 2009, the carrying amount of the Agency's deposits was \$11 and the respective bank balances totaled \$11. Of the bank balances, \$11 were insured or collateralized with pooled securities held by the pledging financial institution in the name of the Agency.
2. Custodial Credit Risk, Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2009, all of the Agency's total deposits of \$11 were covered by federal depository insurance, and thus were not exposed to custodial credit risk.
3. Cash invested with the State of Idaho Investment Pool amount to \$ 258,536.

KETCHUM URBAN RENEWAL AGENCY  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2009

4. GENERAL FIXED ASSETS

Capital asset activity for the year ended September 30, 2009 is as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities: Capital assets, not being depreciated				
Land & Building				
Sun Valley Road	\$ 3,200,000	\$	\$ --	\$ 3,200,000
Land				
Second & Washington	2,294,746			2,294,746
Fourth Street Corridor				
Improvements	<u>650,000</u>	<u>350,000</u>		<u>1,000,000</u>
Total capital assets, not Being depreciated	<u>\$ 6,144,746</u>	<u>\$ 350,000</u>	\$ --	<u>\$ 6,494,746</u>

5. LONG-TERM DEBT

Long-term debt at September 30, 2009 is as follows:

	<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Balance</u>
Note payable Idaho Housing and Finance Association	4.0%	2009	\$ 2,000,000
Note Payable Steve Safran	4.5%	2009	1,000,000
Note Payable Mountain West Bank	4.85%	2009	2,560,000

The Agency purchased real property with the proceeds of these loans. These loans are payable interest only for the first 3-5 years with the balance of principal and interest due at that time. The following is a summary of the principal due over the next several years:

2010	\$ 0
2011	2,000,000
2012	1,000,000
2013	2,560,000
2014	<u>0</u>
Total	<u>\$ 5,560,000</u>

KETCHUM URBAN RENEWAL AGENCY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

6. RETIREMENT PLAN

The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and city employees, the legislature provided for political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited services, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% Police/Firefighter) of the average monthly salary for the highest consecutive 42 months.

The Ketchum Urban Renewal Agency remits its required PERSI contributions with the City of Ketchum, Idaho's required contributions.

The contribution requirement of the Agency and its employees are established and amended by the PERSI Board of Trustees. For the year ended September 30, 2009, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.65% for Police/Firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for Police/Firefighter members. Ketchum Urban Renewal Agency contributions required and paid were \$ 7,096, \$ 2,334 and \$3,354 for the years ended September 30, 2009, 2008 and 2007.

**KETCHUM URBAN RENEWAL AGENCY**  
**Budgetary Comparison Schedule**  
**General Fund**  
**for the year ended September 30, 2009**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Budget Positive (Negative)</u>
<b>REVENUES:</b>			
Property taxes - Tax Increment Revenues	\$ 414,112	\$ 460,357	\$ 46,245
Penalty and Interest on Taxes	0	477	477
Rental Revenues	16,000		(16,000)
Earnings on Investments	30,000	10,745	(19,255)
	<u>460,112</u>	<u>471,579</u>	<u>11,467</u>
<b>EXPENDITURES:</b>			
Labor and Taxes	70,920	72,897	(1,977)
Labor Benefits	7,293	16,303	(9,010)
Professional Fees	25,855	24,008	1,847
Advertising/Publications	1,700		1,700
Insurance	2,188	2,403	(215)
Utilities	11,044	9,448	1,596
Administrative Expenses	10,700	17,043	(6,343)
Repairs and Maintenance	36,000	37,706	(1,706)
Downtown Activities	7,500		7,500
Other Purchased Services	0	150	(150)
Interest Expense	260,271	236,901	23,370
Miscellaneous	0	0	0
	<u>433,471</u>	<u>416,859</u>	<u>16,612</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>26,641</u>	<u>54,720</u>	<u>28,079</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers (to) from other funds			<u>0</u>
<b>NET CHANGE IN FUND BALANCE</b>	26,641	54,720	<u>\$ 28,079</u>
<b>FUND BALANCE - BEGINNING</b>	<u>1,138,573</u>	<u>1,138,573</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 1,165,214</u>	<u>\$ 1,193,293</u>	

The accompanying notes are a part of these financial statements.

**DB DENNIS R. BROWN**  
**Certified Public Accountant**

828 Blue Lakes Boulevard North • P.O. Box 2367 • Twin Falls, Idaho 83303 • (208) 733-1161 • Fax: (208) 733-6100

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*

November 3, 2009

Board of Commissioners  
Ketchum Urban Renewal Agency  
Ketchum, Idaho

I have audited the financial statements of the Ketchum Urban Renewal Agency, as of and for the year ended September 30, 2009, and have issued my report thereon dated November 3, 2009. I conducted my 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 my audit, I considered the Ketchum Urban Renewal Agency's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion 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, I do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. I consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

Continued—

deficiencies that are also considered to be material weaknesses. However, I consider the significant deficiency described in item 2009-1 of the accompanying schedule of findings and responses to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Ketchum Urban Renewal Agency's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency's response to the findings identified in my audit is described in the accompanying schedule of findings. I did not audit the Agency's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the Board of Commissioners, management, others within the organization, and state and federal government oversight authorities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



DENNIS R. BROWN  
Certified Public Accountant

**KETCHUM URBAN RENEWAL AGENCY**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2009**

**Finding 2009-1: Lack of ability to independently prepare financial statements and related footnote disclosures.**

**Condition:** The Agency does not have the resources to independently prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

**Criteria:** Inherent in an adequate internal control structure is the ability to independently prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

**Effect:** The lack of this ability may result in more than a remote likelihood that a misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

**Recommendation:** It is suggested the Agency budget for sufficient training of accounting personnel in order to provide them with the expertise necessary to prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles. Alternatively, the Agency could contract with an individual or firm other than the audit firm to prepare the financial statements and related footnote disclosures.

**Response:** We, the management of the Ketchum Urban Renewal Agency, understand the circumstances that we and many small governmental units nationwide inevitably find ourselves in because of budget constraints. We acknowledge the fact that we do not have the necessary funding to staff additional accounting personnel to enable us to keep current with all accounting and auditing pronouncements and provisions to independently prepare financial statements and footnote disclosures. We believe the benefits of allocating such resources would be outweighed by the cost of maintaining or training our own accounting personnel and or contracting with another individual or firm to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles. We have requested that the auditors assist in drafting the financial statements and related footnote disclosures during the course of the audit. We have reviewed, approved and accepted responsibility for those financial statements prior to their issuance. We did not perform a detailed review of the financial statements, however, we are satisfied that our review was sufficient to allow us to accept responsibility for them.