

KETCHUM URBAN RENEWAL AGENCY

KETCHUM, IDAHO

**Financial Statements
at September 30, 2012**

**KETCHUM URBAN RENEWAL AGENCY
KETCHUM, IDAHO**

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

INDEPENDENT AUDITOR'S REPORT

November 6, 2012

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, 2012, 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, 2012, 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 6, 2012, 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. Our opinion on the basic financial statements is not affected by this missing information.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Budgetary Comparison Schedule on page 11 and Bond Future Principal and Interest Schedule on page 12 are presented for purposes of additional analysis and are not required parts 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.

A handwritten signature in black ink that reads "Dennis R. Brown". The signature is written in a cursive, flowing style.

DENNIS R. BROWN
Certified Public Accountant

KETCHUM URBAN RENEWAL AGENCY

Statement of Net Assets at September 30, 2012

	<u>Total Primary Government</u>	<u>Total Reporting Entity</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 682,862	\$ 682,862
Restricted Cash and Deposits	549,440	549,440
Accounts and Property Tax Receivable	10,231	10,231
Unamortized Bond Discounts	159,700	159,700
Unamortized Pre-Issuance Bond Costs	74,622	74,622
Total	<u>1,476,855</u>	<u>1,476,855</u>
Capital Assets:		
Land, Buildings and Improvements	5,635,845	5,635,845
Fourth Street Corridor Improvements	1,000,000	1,000,000
Less Accumulated Depreciation	(85,644)	(85,644)
Total Capital Assets	<u>6,550,201</u>	<u>6,550,201</u>
Total Assets	<u>8,027,056</u>	<u>8,027,056</u>
<u>LIABILITIES</u>		
Accrued Interest Payable	147,265	147,265
Long-term Liabilities:		
Portion due or payable within one year:		
Bonds Payable	65,000	65,000
Portion due or payable after one year:		
Bonds Payable	<u>6,325,000</u>	<u>6,325,000</u>
Total Liabilities	<u>6,537,265</u>	<u>6,537,265</u>
<u>NET ASSETS</u>		
Invested in Capital Assets - net of related debt	160,201	160,201
Restricted For:		
Capital Projects	0	0
Debt Service	549,440	549,440
Affordable Housing	780,150	780,150
Unrestricted	<u>0</u>	<u>0</u>
Total Net Assets	<u>\$ 1,489,791</u>	<u>\$ 1,489,791</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, 2012

Operating Revenues:

Tax Levy Revenues	\$ 631,188
Earnings on Investments	1,328
Rent Revenue	48,000
Miscellaneous Revenue	598
Penalty and Interest on Taxes	<u>3,749</u>

Total Operating Revenue: \$ 684,863

Operating Expenses:

Labor and Taxes	51,897
Labor Benefits	14,776
Professional Fees	38,566
Advertising/Publications	468
Insurance	2,495
Utilities	18,768
Administrative Expenses	36,670
Interest Expense	321,347
Repairs	20,159
Office Expense	1,022
Depreciation	45,644
Amortization	10,188
Miscellaneous	<u>0</u>

Total Operating Expenses 562,000

Operating Income 122,863

Total Net Assets - Beginning 1,366,928

Total Net Assets - Ending \$ 1,489,791

The accompanying notes are a part of these financial statements.

KETCHUM URBAN RENEWAL AGENCY
Statement of Cash Flows
for the year ended September 30, 2012

Cash Flows From Operating Activities:

Receipts from other governments	\$	631,745
Receipts from customers		48,000
Payments to suppliers and vendors		(118,148)
Payments to employees and volunteers		(66,673)
Other receipts		<u>598</u>

Net cash provided (used) by operations \$ 495,522

Cash Flows From Capital Related Financing Activities:

Payment of Debts		(50,000)
Interest Paid		<u>(321,347)</u>

Net cash provided by capital and related financing activities (371,347)

Cash Flows From Investing Activities:

Purchase of Capital Assets		(106,557)
Interest Income		<u>1,328</u>

Net cash used by investing activities (105,229)

Net Increase (Decrease) in Cash and Equivalents 18,946

Balances - Beginning of the year 1,213,356

Balances - Ending of the year \$ 1,232,302

Displayed as:

Cash and Deposits		682,862
Restricted Cash and Deposits		<u>549,440</u>

Balances - Ending of the year \$ 1,232,302

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating Income		122,863
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Net Interest Earnings/Expense		320,889
Add back depreciation and amortization		55,832
Change in assets and liabilities:		
Accounts Receivable		<u>(2,734)</u>

Net Cash Provided (Used) by Operating Activities: \$ 496,850

The accompanying notes are a part of these financial statements.

**KETCHUM URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

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 States 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.

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.

**KETCHUM URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

Continued—

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.

The Agency currently owns property held for future development. No depreciation is recorded.

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.

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. The Agency further restricts certain resources for affordable housing within the boundaries of the City of Ketchum.

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.

**KETCHUM URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

Continued—

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 DEPOSITS

Deposits: Custodial credit risk, in the case of deposits, is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Agency has no deposit policy for custodial credit risk. At year end, \$250,000 of the Agency's bank balance was not exposed to custodial credit risk because it was insured by the FDIC and the remaining \$304,440 was exposed to custodial credit risk.

Investments: Custodial credit risk, in the case of investments, is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Agency held the following investments:

Investment Type

Idaho State Local Government Investment Pool \$ 686,470.

These investments are unrated external investment pools sponsored by the Idaho State Treasurer's Office. They are classified as "Investments in an External Investment Pool" and are exempt from custodial credit risk and concentration of credit risk reporting. Interest rate risk is summarized as follows: Asset-backed securities are reported using weighted average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

The elected Idaho State Treasurer, following Idaho Code, Section 67-2328, is authorized to sponsor an investment pool in which the City voluntarily participates. The Pool is not registered with the Securities and Exchange Commission or any other regulatory body - oversight is with the State Treasurer, and Idaho Code defines allowable investments. All investments are entirely insured or collateralized with securities held by the Pool or by its agent in the Pool's name. And the fair value of the Agency's position in the external investment pool is the same as the value of the pool shares.

Credit Risk: The Agency's policy is to comply with Idaho State statutes which authorize the Agency to invest in obligations of the United States, obligations of the State or any taxing district in the State, obligations issued by the Farm Credit System, obligations of public corporations of the State of Idaho, repurchase agreements, tax anticipation notes of the State or taxing district in the State, time deposits, savings deposits, revenue bonds of institutions of higher education, and the State Treasurer's Pool.

Interest rate risk and concentration of credit risk: The Agency has no policy regarding these two investment risk categories.

The Agency maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is presented on the combined balance sheet as "Cash and Deposits".

Cash and Deposits are comprised of the following at the financial statement date:

Cash on Hand	\$	0
Deposits with financial institutions:		
Demand deposits		545,832
State of Idaho Investment Pool		<u>686,470</u>
Total		<u>\$1,232,302</u>

**KETCHUM URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

Continued—

4. RESTRICTED ASSETS AND BOND DISCOUNTS

On August 19, 2010 the Agency created restricted cash deposits for bond contingencies. (See Note 6) Additionally the bonds were sold at a discount that will be amortized with bond originating costs over the life of the bonds.

In fiscal year ended September 30, 2007, the URA purchased real property formerly known as the Dollhouse located at 1st & Washington in Ketchum in the sum of \$2.25 million. The down payment for the purchase of the 1st & Washington property of \$707,914 was obtained by the URA as a transfer from the City Of Ketchum's restricted In Lieu Affordable Housing Fund. Since that time, the City Of Ketchum's restricted In Lieu Affordable Housing Fund has transferred to the URA an additional \$147,916 to pay interest on the debt associated with the 1st & Washington property as well as to make necessary repairs to the 1st & Washington property. On April 12, 2011, \$640,000 of restricted fund value was transferred to the 1st & Washington property from the Mountain West Bank Building. Accordingly, \$1,495,830 of the value of the 1st & Washington property continues to be restricted to future affordable housing purposes.

In fiscal year ended September 30, 2008, the URA purchased real property formerly known as the Mountain West Bank building located at Sun Valley Rd. and East Ave. in Ketchum in the sum of \$3.2 million. The down payment for the purchase of the Mountain West Bank building property of \$640,000 was obtained by the URA as a transfer from the City Of Ketchum's restricted In Lieu Affordable Housing Fund. \$640,000 of the value of the Mountain West Bank building property was restricted to future affordable housing purposes. This \$640,000 of restricted fund value was transferred to the 1st & Washington property on April 12, 2011. There is no further restriction on the value of the Mountain West Bank Building.

5. GENERAL FIXED ASSETS

Capital asset activity for the year ended September 30, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being Depreciated:				
Land				
Sun Valley Road	\$ 1,200,000	\$ --	\$ --	\$ 1,200,000
Land				
Second & Washington Fourth Street Corridor	2,294,746			2,294,746
Improvements	<u>1,000,000</u>			<u>1,000,000</u>
Total capital assets, not Being depreciated	<u>\$ 4,494,746</u>	\$ --	\$ --	<u>\$ 4,494,746</u>

**KETCHUM URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

Note 5 - Continued

Capital assets being depreciated:

Building

Sun Valley Road	\$ 2,000,000	\$ --	\$ --	\$ 2,000,000
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Capital Improvements

Sun Valley Road	34,542	106,557	--	141,099
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Accumulated Depreciation

	(40,000)		(45,644)	(85,644)
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Total capital assets

Being depreciated	<u>\$ 1,994,542</u>	<u>\$ 106,557</u>	<u>(45,644)</u>	<u>\$ 2,055,455</u>
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6. LONG-TERM DEBT

On August 19, 2010 the Agency sold \$ 6,440,000 of Revenue Allocation (Tax Increment) Refinancing Bonds, Series 2010. The proceeds from this bond issuance paid three notes held previously in the Agency. The bond servicing agent is U.S. Bank N.A. A summary of future payments of principle and interest follows the notes to these financial statements. The bond ordinance created restricted cash for a reserve in the amount of \$ 549,625 for payments of principle and interest in the event of default by the agency.

Long-term debt at September 30, 2012 is as follows:

	<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Balance</u>
Bonds payable	Var. 2 – 5.5%	2012-2035	\$ 6,390,000

The following is a summary of the principal due over the next four and subsequent five year increments:

2013	\$	65,000
2014		80,000
2015		95,000
2016		110,000
2020		600,000
2025		1,305,000
2030		1,800,000
2035		<u>2,335,000</u>
Total	\$	<u>6,390,000</u>

**KETCHUM URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

Continued—

7. 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 reimburses the City of Ketchum, Idaho for the use of City employee time in the performance of Agency administration. This reimbursement includes the following payment to PERSI.

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, 2012, 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 \$ 5,037, \$ 5,046, and \$ 4,592 for the years ended September 30, 2012, 2011 and 2010.

8. LITIGATION

The Agency, at the financial statement date, is not involved in any material disputes as either plaintiff or defendant.

9. RISK MANAGEMENT

The Agency is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; injuries to the general public; and natural disasters. The Agency carries commercial insurance coverage for these risks to the extent deemed prudent by the board of commissioners.

KETCHUM URBAN RENEWAL AGENCY
Budgetary Comparison Schedule
General Fund
for the year ended September 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Budget Positive (Negative)</u>
REVENUES:			
Property taxes - Tax Increment Revenues	\$ 575,782	\$ 631,188	\$ 55,406
Penalty and Interest on Taxes	2,000	3,749	1,749
Rent Revenue	44,000	48,000	4,000
Miscellaneous Revenue	0	598	598
Earnings on investments	<u>0</u>	<u>1,328</u>	<u>1,328</u>
Total revenues	<u>621,782</u>	<u>684,863</u>	<u>63,081</u>
EXPENDITURES:			
Labor and Taxes	51,554	51,897	(343)
Labor Benefits	17,750	14,776	2,974
Professional Fees	51,500	38,566	12,934
Advertising/Publications	1,000	468	532
Insurance	2,800	2,495	305
Utilities	19,500	18,768	732
Administrative Expenses	32,953	36,670	(3,717)
Interest Expense	321,805	321,347	458
Repairs	13,515	20,159	(6,644)
Office Expense	1,500	1,022	478
Payment on Principle Debt/Depreciation	50,000	50,000	0
Amortization	0	10,188	(10,188)
Capital Outlay	<u>140,000</u>	<u>106,557</u>	<u>33,443</u>
Total expenditures	<u>703,877</u>	<u>672,913</u>	<u>30,964</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(82,095)</u>	<u>11,950</u>	<u>94,045</u>
OTHER FINANCING SOURCES (USES):			
Difference in Depreciation, Capital Outlay and Debt Service		<u>110,913</u>	<u>110,913</u>
NET CHANGE IN FUND BALANCE	(82,095)	122,863	\$ <u><u>204,958</u></u>
NET ASSETS - BEGINNING	<u>1,366,928</u>	<u>1,366,928</u>	
NET ASSETS - ENDING	\$ <u><u>1,284,833</u></u>	\$ <u><u>1,489,791</u></u>	

The accompanying notes are a part of these financial statements.

KETCHUM URBAN RENEWAL AGENCY
Bond-Future Principal and Interest Requirements
at September 30, 2012

				Annual Payment		
	Interest Rate	Fiscal Year	Principal Payment	Interest Payment		
\$6,440,000 Revenue Allocation Refinancing Bonds, Series 2010 2.0% - 5.5%						
	2.25%	2013	\$ 65,000	\$ 320,574		
	2.50%	2014	80,000	318,843		
	2.75%	2015	95,000	316,536		
	3.25%	2016	110,000	313,443		
	3.50%	2017	120,000	309,555		
	4.00%	2018	140,000	304,655		
	4.25%	2019	160,000	298,455		
	4.50%	2020	180,000	291,005		
	4.50%	2021	200,000	282,455		
	4.75%	2022	240,000	272,255		
	4.80%	2023	260,000	260,315		
	5.00%	2024	295,000	246,700		
	5.00%	2025	310,000	231,575		
	5.30%	2026	325,000	215,212		
	5.30%	2027	340,000	197,590		
	5.30%	2028	360,000	179,040		
	5.30%	2029	375,000	159,562		
	5.30%	2030	400,000	139,025		
	5.50%	2031	420,000	116,875		
	5.50%	2032	440,000	93,225		
	5.50%	2033	465,000	68,338		
	5.50%	2034	490,000	42,075		
	5.50%	2035	520,000	14,300		
			\$ 6,390,000	\$ 4,991,608		

The accompanying notes are a part of these financial statements.



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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 6, 2012

To the Board of Commissioners
Ketchum Urban Renewal Agency

I have audited the basic financial statements of the Ketchum Urban Renewal Agency, as of and for the year ended September 30, 2012 and have issued my report thereon dated November 6, 2012. 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 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I identified no deficiencies in internal control over financial reporting that I consider to be material weaknesses.

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 Agency'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, I 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 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*.

This report is intended solely for the information and use of management, city council, 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.

A handwritten signature in black ink, appearing to read "Dennis R. Brown". The signature is fluid and cursive, written in a professional style.

DENNIS R. BROWN
Certified Public Accountant