

JEROME URBAN RENEWAL AGENCY

A COMPONENT UNIT OF THE CITY OF JEROME, IDAHO

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

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March 21, 2019

Independent Auditors' Report

Board of Commissioners
Jerome Urban Renewal Agency
Jerome, Idaho 83338

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Jerome Urban Renewal Agency (Agency), a component unit of the City of Jerome, Idaho, as of and for the year ended September 30, 2018, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Jerome Urban Renewal Agency as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 and the Notes to Required Supplementary Information 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 our report dated March 21, 2019, on our consideration of internal control over financial reporting of the Jerome Urban Renewal Agency and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Retroat, Harberd & Assoc., P.A.

JEROME URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For Year Ended September 30, 2018

I. Background.

The City of Jerome Urban Renewal Agency offers readers an overview of its financial activities in a narrative form called the "Management's Discussion and Analysis." This report highlights the general fiscal health of the Agency, outlines key financial decisions that were initiated by the Agency's leadership and identifies future financial priorities and activities. In order to fully understand the financial statements included in the Agency's Audit, residents should first read the Management's Discussion and Analysis document. It is our goal that through its reading, our citizens will be better informed and involved.

II. Understanding this Report.

This Management's Discussion and Analysis report is broken into three major components that include Government-wide financial statements which provide information for the Agency as a whole; fund financial statements which provide detailed information for the Agency's significant funds; and notes to the financial statements which provide additional information that is essential to understanding the government-wide and fund statements. This report covers the Fiscal Year that began on October 1, 2017 and ended on September 30, 2018. It provides financial comparisons and analyzes financial trends, designed to provide the reader with better understanding of the Agency's overall financial health.

The Agency's financial statements are broken into two categories: Government-Wide Financial Statements and Fund Financial Statements.

a. *Government-Wide Financial Statements.* Government-wide financial statements, presented on pages 9-10 of the financial statements, are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business. The statement of net position presents information on all of the City of Jerome Urban Renewal Agency's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating. In other words, it will help to show how solvent the Agency is.

The statement of activities presents information showing how the government's net position and liabilities changed during the most recent fiscal year. All changes in net position are reported as they occur, regardless of the timing of related cash flows. This is accrual accounting and thus, revenues and expenditures are reported in this statement for some items that might not reflect actual cash flows until future fiscal periods.

The government-wide financial statements include all of the Agency's services, which are primarily supported by property taxes (tax increment revenue) and interest income. The Agency has no business-type activities.

The governmental activities of the City of Jerome Urban Renewal Agency include general government administration and operations.

JEROME URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For Year Ended September 30, 2018

b. *Fund Financial Statements.* A fund is a grouping of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives.

(1) Government Funds. Government funds are used to account for essentially the same activities as previously identified under governmental activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements, presented on pages 11-12 of the financial statements, focus on near-term inflows and outflows of Agency liquid resources as well as balances of liquid resources at the end of the fiscal year. Such information is helpful when determining the Agency's near-term financing requirements and health.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for both as readers may better understand the long-term impact of the government's near-term financing decisions.

The City of Jerome Urban Renewal Agency currently maintains three (3) governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for this major fund.

The Agency adopts an annual budget. Budgetary comparison statements for Area 2 and Area 3, also known as the Southeast Industrial Project Area and the Downtown Improvements Project (respectively) are found on Pages 22 and 23. Expenditures exceeded revenues by \$778,085 for Area 2 and revenues exceeded expenditures by \$57,000 for area 3.

If the reader comes upon "Notes to the Financial Statements" or "Other Information," these sections are to provide additional narrative and required supplementary information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

III. Health of the Agency – Financial Statements Overview

a. *Government-Wide Financial Analysis.* One important question to ask about the Agency's finances is, "Is the Agency better or worse off as a result of the previous year's activities?" The information in the government-wide financial statement helps answer this question because it captures all agency assets and liabilities using the accrual basis of accounting. In this way, all of the Agency's financial transactions both in revenues and expenditures are captured for the long-term and the near-term and one can see the true financial health of the Agency.

JEROME URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For Year Ended September 30, 2018

For the City of Jerome Urban Renewal Agency for the Fiscal Year 2018, changes in governmental assets and liabilities were as follows:

Table 3.1 Net Position				
	Governmental Activities FY 2017	Governmental Activities FY 2018	Total FY 2017	Total FY 2018
Current Assets				
Cash and Investments	\$2,042,426	\$1,842,328	\$2,042,426	\$1,842,328
Restricted Assets	\$431,367	\$438,559	\$431,367	\$438,559
Deferred Charges	\$5,775	\$4,267	\$5,775	\$4,267
Total Assets	\$2,479,568	\$2,285,154	\$2,479,568	\$2,285,154
Current Liabilities	\$299,916	\$2,106,675	\$299,916	\$2,106,675
Non-Current Liabilities	\$5,106,162	\$2,533,844	\$5,106,162	\$2,533,844
Total Liabilities	\$5,406,078	\$4,640,519	\$5,406,078	\$4,640,519
Net Position:				
Invested in Capital Assets				
Committed	\$431,367	\$438,559	\$431,367	\$438,559
Unrestricted	(\$3,357,877)	(\$2,793,924)	(\$3,357,877)	(\$2,793,924)
Total Net Position:	(\$2,926,510)	(\$2,355,365)	(\$2,926,510)	(\$2,355,365)

As indicated in Table 3.1, for the year ended September 30, 2018, cash and investments made up 81% of the Agency assets. The Agency has no capital assets. When the Agency purchases capital assets, they are donated to the City of Jerome. The \$2,355,365 deficit in net position at September 30, 2018 represents the future taxes the Agency is expected to receive over the next several years.

When looking at the Agency's net position, the other area to look at is the restricted and unrestricted totals. The \$438,559 in the restricted column represents amounts that are subject to external restrictions on how they may be used. These assets are related to debt service required for the issuance of revenue related debt.

At the end of the fiscal year, the City of Jerome Urban Renewal Agency reports a negative balance in its net position.

JEROME URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For Year Ended September 30, 2018

Table 3.2 Change in Net Position				
	Governmental Activities FY 2017	Governmental Activities FY 2018	Total FY 2017	Total FY 2018
Revenues				
Program Revenues:				
Charges for Service				
General Revenues:				
Property Taxes	\$1,601,610	\$1,660,893	\$1,601,610	\$1,660,893
Other Governmental	\$0	\$0	\$0	\$0
Investment Earnings	\$15,285	\$27,881	\$15,285	\$27,881
Total Revenues	\$1,616,895	\$1,688,774	\$1,616,895	\$1,688,774
Expenses				
Urban Renewal Projects				
South Lincoln Area 1	\$0	\$0	\$0	\$0
Southeast Industrial Area 2	\$724,259	\$1,023,949	\$724,259	\$1,023,949
Support Services	\$87,477	\$93,680	\$87,477	\$93,680
Total Expenses	\$811,736	\$1,117,629	\$811,736	\$1,117,629
Change in Net Position	\$805,159	\$571,145	\$805,159	\$571,145
Net Position - beginning as reported	(\$3,713,044)	(\$2,976,391)	(\$3,713,044)	(\$2,976,391)
Prior Period adjustment	(\$18,625)	\$49,881	(\$18,625)	\$49,881
Net Position - beginning as corrected	(\$3,731,669)	(\$2,926,510)	(\$3,731,669)	(\$2,926,510)
Net Position - ending	(\$2,926,510)	(\$2,355,365)	(\$2,926,510)	(\$2,355,365)

Table 3.2, Change in Net Position, reflects the overall change in net position for the City of Jerome Urban Renewal Agency. For the fiscal year, the Agency's total revenues were \$1,688,774 while total expenses were \$1,117,629. The Agency reports a \$571,145 increase in assets. A more detailed accounting of the fund activities can be found on page 12 of the audit.

b. *Fund Financial Analysis.* As noted earlier, the City of Jerome Urban Renewal Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

(1) Government Funds. The focus of the Agency's governmental fund reporting is to provide information on near-term inflows, outflows, and balances of spendable resources. Perhaps the key area to look at in government fund balance sheets is the final unrestricted fund balance as they indicate resources available for spending at the end of the fiscal year.

At the end of this last fiscal year, the Agency reported a positive fund equity balance of \$1,746,588 of which \$1,308,029 is committed for spending by the Agency. The remainder of the fund balance of \$438,559 is restricted to indicate that it is not available for new spending because it has already been reserved to pay for debt service.

In summary, the City of Jerome Urban Renewal Agency is financially healthy with a combined total of \$1,746,588 in restricted and committed assets.

JEROME URBAN RENEWAL AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For Year Ended September 30, 2018

IV. Capital Assets and Debt Management Administration

- a. *Capital Assets.* Capital Assets such as streets, street improvements, water, sewer, and other capital improvements, which the Agency pays for, are most-often donated to the City of Jerome, Idaho.

Major Assets paid for by the Agency and donated to the City of Jerome for the year were:

1. South Tiger Drive Improvements \$ 615,687

- b. *Debt Management and Administration.* As of September 30, 2018, the Agency had total debt of \$3,907,939. This amount reflects revenue bond debt and loan proceeds to pay the cost of acquisition and construction of various urban renewal projects.

The table of long-term debt is as follows:

Table 4.2 Long-Term Debt				
	Balance 1-Oct-17	Additions	Payment Adjustments	Balance 30-Sep-18
Governmental Activities:				
Bonds Payable	\$3,849,839	\$0	(\$1,005,005)	\$2,844,834
N.S. Develop/S. Jackson	\$1,550,119	\$0	(\$482,747)	\$1,067,372
Total	\$5,399,958	\$0	(\$1,487,752)	\$3,912,206

The City of Jerome Urban Renewal Agency pledges the incremental tax revenues and all funds in the bond fund and the debt service reserve fund for the payment of the bonds.

JEROME URBAN RENEWAL AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For Year Ended September 30, 2018

V. Fiscal Year 2019 Fiscal Priorities

In August of 2018, the City of Jerome Urban Renewal Agency Commissioners and City Staff developed the Fiscal Year 2019 spending priorities to help focus the efforts of the Agency's resources in the current fiscal year that began on October 1, 2018 and ends on September 30, 2019. Those priorities and their associated dollar amounts are as follows:

Table 5.1 2019 Fiscal Priorities			
Item	Area	Projected Cost	Explanation
Infrastructure	Area 2	\$563,447	Projects to be determined
Total Projects		\$563,447	

As an urban renewal agency operating in the State of Idaho, the Agency's revenue flexibility is quite limited, but conversely, quite stable. Property tax resources flow to the agency through the tax increment process of "revenue allocation" as it is termed in Idaho law.

The City of Jerome Urban Renewal Agency currently has three separate revenue allocation areas. Area 2 is commonly referred to as the "Southeast Industrial Project Area". Area 3 is called the "Downtown Improvement Project Area and Area 4 has not yet been assigned a project name. Previously, the Agency had an additional revenue allocation area. Area 1 was commonly referred to as the "South Lincoln Project Area". The Agency filed the South Lincoln Area termination ordinance with the Office of the Jerome County Recorder, County Assessor and Idaho State Tax Commissioner on October 11, 2012. Prior to September 30, 2014 existing surplus was remitted to the County Treasurer for distribution to the taxing entities within the revenue allocation area.

Conclusion. This financial report is designed to provide a general overview of the City of Jerome Urban Renewal Agency's finances for all those with an interest in the government's finances and activities. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mike Williams, Executive Director, 152 East Avenue A, Jerome, Idaho 83338.



Mike Williams
 Executive Director
 City of Jerome Urban Renewal Agency

JEROME URBAN RENEWAL AGENCY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

<u>ASSETS:</u>	<u>Governmental Activities</u>
Cash and Investments	\$ 1,842,328
Deferred charges	4,267
Restricted assets:	
Cash and investments	438,559
Total Assets	<u>2,285,154</u>
<u>LIABILITIES:</u>	
Accounts payable - trade	728,313
Long-term liabilities:	
Current portion	1,378,362
Noncurrent portion	2,533,844
Total Liabilities	<u>4,640,519</u>
<u>NET POSITION</u>	
Restricted for debt repayment	438,559
Unrestricted	(2,793,924)
Total Net Position	<u><u>\$ (2,355,365)</u></u>

The accompanying notes are an integral part of the financial statements

JEROME URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		Charges for	Operating Grants and	Governmental
		<u>Services</u>	<u>Contributions</u>	<u>Activities</u>
Governmental Activities:				
Urban renewal projects	\$ 1,023,949	\$ -	\$ -	\$ (1,023,949)
Support services	93,680	-	-	(93,680)
Total governmental activities	<u>\$ 1,117,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,117,629)</u>
General Revenues:				
Property taxes				1,660,893
Unrestricted investment earnings				27,881
Other income				-
Total general revenues and special items				<u>1,688,774</u>
Change in net position				571,145
Net position:				
Net position beginning of year, as reported				(2,976,391)
Prior period adjustment to record deferred charge for imputed interest on note payable				49,881
Net position-beginning of year, as corrected				<u>(2,926,510)</u>
Net position-end of year				<u>\$ (2,355,365)</u>

The accompanying notes are an integral part of the financial statements

JEROME URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	Southeast Industrial Project Area 2	Downtown Improvements Project Area 3	Area 4	Total Governmental
<u>ASSETS:</u>				
Pooled cash and investments	\$ 1,768,655	\$ 73,669	\$ 4	\$ 1,842,328
Restricted cash	438,559	-	-	438,559
Due from Area 3	24,574	-	-	24,574
Due from Area 4	12,618	-	-	12,618
<u>TOTAL ASSETS</u>	<u>\$ 2,244,406</u>	<u>\$ 73,669</u>	<u>\$ 4</u>	<u>\$ 2,318,079</u>
<u>LIABILITIES:</u>				
Accounts payable - trade	\$ 534,299	\$ -	\$ -	\$ 534,299
Due to Southeast Industrial Area 2	-	24,574	12,618	37,192
<u>TOTAL LIABILITIES</u>	<u>534,299</u>	<u>24,574</u>	<u>12,618</u>	<u>571,491</u>
<u>FUND BALANCES:</u>				
Restricted for debt repayment	438,559	-	-	438,559
Committed	1,271,548	49,095	(12,614)	1,308,029
<u>TOTAL FUND BALANCES</u>	<u>1,710,107</u>	<u>49,095</u>	<u>(12,614)</u>	<u>1,746,588</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 2,244,406</u>	<u>\$ 73,669</u>	<u>\$ 4</u>	<u>\$ 2,318,079</u>
<u>Reconciliation to the Statement of Net Position:</u>				
Total fund equity				\$ 1,746,588
Deferred charges and related amortization are recognized in full in the year incurred and are not capitalized and amortized in the funds				4,267
Payables expected to be paid in the next year but not soon enough to use the current period's revenues are not included in the funds				(194,014)
Long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the funds				(3,912,206)
<u>Total Net Position</u>				<u>\$ (2,355,365)</u>

The accompanying notes are an integral part of the financial statements

JEROME URBAN RENEWAL AGENCY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2018

	Southeast Industrial Project Area 2	Downtown Improvements Project Area 3	Area 4	Total Governmental
<u>REVENUE:</u>				
Property Taxes	\$ 1,594,707	\$ 66,186	\$ -	\$ 1,660,893
Interest Earned	27,881	-	-	27,881
Other	-	-	-	-
	<u>1,622,588</u>	<u>66,186</u>	<u>-</u>	<u>1,688,774</u>
<u>EXPENDITURES:</u>				
Current:				
Office supplies and postage	-	-	-	-
Operating supplies	-	-	-	-
Professional services	14,798	6,666	-	21,464
Advertising and publishing	418	-	-	418
Insurance and bonds	1,286	-	-	1,286
Dues and subscriptions	1,350	-	-	1,350
Personnel training	1,544	-	-	1,544
Administration expense	7,421	2,520	-	9,941
Economic development support	25,000	-	-	25,000
Inside engineering expense	19,199	-	-	19,199
Miscellaneous expense	-	-	-	-
Area 3 expense	-	-	-	-
Area 4 expense	-	-	-	-
Area 5 expense	13,478	-	-	13,478
Capital Outlay:				
To City of Jerome	615,687	-	-	615,687
Debt service	1,700,492	-	-	1,700,492
	<u>2,400,673</u>	<u>9,186</u>	<u>-</u>	<u>2,409,859</u>
<u>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</u>	(778,085)	57,000	-	(721,085)
<u>FUND BALANCE OCTOBER 1, 2017</u>	2,488,192	(7,905)	(12,614)	2,467,673
<u>FUND BALANCE SEPTEMBER 30, 2018</u>	<u>\$ 1,710,107</u>	<u>\$ 49,095</u>	<u>\$ (12,614)</u>	<u>\$ 1,746,588</u>
<u>Reconciliation to the Statement of Activities:</u>				
Total net change in fund balances				\$ (721,085)
Repayment of note principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets				1,505,005
Expenditures in the Statement of Activities that do not provide or use current financial resources are not reported as expenditures in the funds				(194,014)
Amortization of deferred charges is recognized in the Statement of Activities, but not in the Fund Financial Statement				(18,761)
<u>Change in Net Position</u>				<u>\$ 571,145</u>

The accompanying notes are an integral part of the financial statements

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Note 1 - Summary of Significant Accounting Policies

A) Basis of Presentation

The financial statements of the Jerome Urban Renewal Agency (Agency) are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. GASB is responsible for establishing generally accepted accounting principles (GAAP) for state and local governments through its pronouncements.

B) Financial Reporting Entity

The Jerome Urban Renewal Agency (Agency) was organized in 1994 under the Idaho Urban Renewal Law of 1965. The Agency is governed by a five-person Board of Commissioners appointed by the Mayor of the City of Jerome with the advice and consent of the City Council.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no entities which would be component units of the Agency.

For financial reporting purposes, in conformity with governmental accounting standards, the Agency is included as a component unit of the City of Jerome, 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 Jerome, Idaho in conformity with generally accepted accounting principles.

C) Government-Wide and Fund Financial Statements

The Agency's financial statements include the activities of the Agency. The Agency's *government-wide financial statements* provide both short-term and long-term information about the Agency's overall financial status. *Fund financial statements* focus on the individual activities of the Agency, reporting the Agency's operations in more detail than the government-wide financial statements.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances in a manner similar to a private-sector business. The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Agency accompanied by a total column. Fiduciary activities of the Agency are not included in these statements. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting.

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

The Statement of Net Position presents information on all of the Agency's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, with the difference between the two presented as net position (deficit). Net position is divided into three components:

- a. Invested in capital assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted net position - consists of balances that are restricted by the Agency's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the Agency).
- c. Unrestricted - all other balances are reported in this category.

The Statement of Activities presents information showing how the net position changed during the most recent year. All changes in net position are reported as soon as the underlying event gives rise to the change that occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Amounts reported as program revenues on the government-wide financial statements include (a) charges for services - amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the Agency, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Fund Financial Statements - The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements use a current financial resources measurement focus and the modified accrual basis of accounting, focusing on the near-term inflows and outflows of spendable resources, and balances of spendable resources available at fiscal year-end.

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collected within the current period or expected to be collected soon enough thereafter (usually 60 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources. Property taxes are susceptible to accrual. Other receipts become measurable and available when the cash is received by the government and are recognized as revenue at that time.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The Agency has presented all major funds that met those qualifications. In addition, the Agency has presented certain funds as major funds because the Agency believes the financial position and activities of these funds are significant to the Agency as a whole. The Agency reports the following major governmental funds:

- a. Southeast Industrial Project Area - a special revenue fund used to account for and report property taxes (tax increment revenue) restricted or committed for the operation and maintenance of the Southeast Industrial Project revenue allocation area.
- b. Downtown Improvement Project Area - a special revenue fund used to account for and report property taxes (tax increment revenue) restricted or committed for the operation and maintenance of the Downtown Improvement Project revenue allocation area.
- c. Area 4 - a special revenue fund used to account for and report property taxes (tax increment revenue) restricted or committed for the operation and maintenance of the Area 4 revenue allocation area.

D) Use of Restricted Funds

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.

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

E) Long-term Debt Obligations

In the government-wide financial statements long-term debt is reported as a liability. Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest rate method. Bond premiums/discounts are presented as an addition to/reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and other financing uses, respectively.

F) Property Tax Calendar

Property taxes for each year are levied in September of that year with the first half of real property taxes and all personal property and mobile home taxes due on December 20th. Taxes not paid on or before December 20th are considered to be delinquent. The second half of the real property taxes is due June 20th of the following year and is considered to be delinquent on June 21st. An initial late penalty of 2% of tax plus 1% per month interest charge is assessed on all delinquent taxes. A tax lien is filed for property whose taxes become three years delinquent. Taxes collected by the County are remitted to the Agency on a monthly basis. Property tax revenue is recognized when it becomes available. Available means when due, or past due and receivable within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, which period is not to exceed 60 days.

G) Interfund Activity

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

H) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

Cash balances of the Agency's funds are pooled for investment purposes. The individual funds' portions of the pool's cash and investments are reported as "pooled cash and investments." Investments are stated at fair value (quoted market price or the best available estimate). The Agency does not have a written investment policy.

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. At September 30, 2018, the carrying amount of the Agency's deposits with financial institutions (after considering outstanding and other reconciling items) was \$196,961 and the bank balance was \$196,961, all of which was insured or collateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments that are in the possession of an outside party. The elected State Treasurer, following Idaho Code Section 67-2328, is authorized to sponsor an investment pool in which the Agency 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. The fund was assigned an AAf fund credit quality rating and S1+ volatility rating by Standard & Poor's Rating Service in 2009. The Agency's investment in the State of Idaho Local Government Investment Pool as of September 30, 2018, was \$2,083,926.

The Agency receives peak net cash inflows during the first quarter of the fiscal year. Cash and investments meeting the criteria as uninsured may, at times during the fiscal year, significantly exceed the uninsured balance at the September 30th fiscal year-end.

All of the Agency's restricted assets are reserved for debt repayment.

Reconciliation of carrying amount to cash numbers on the financial statements:

Sources of cash:	
Deposits with financial institutions	\$ 196,961
Local Government Investment Pool, at fair value	<u>2,083,926</u>
	<u>\$2,280,887</u>
Cash on financial statements:	
Pooled cash and investments	\$1,842,328
Restricted assets	<u>438,559</u>
	<u>\$2,280,887</u>

Note 3 - Changes in Long Term Liabilities

As of September 30, 2018, the Agency had incurred other obligations which were payable in future fiscal periods. Since payment of these obligations is outside of the Agency's current operating cycle, they did not require current appropriation and expenditure of governmental fund-type resources. These obligations are as follows:

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Bonds Payable - Series 2008

The Agency issued a note to provide financing to pay the cost of construction of an Urban Renewal Project. The interest rate is 4.6% for Series A and 6.55% for Series B with semi-annual interest payments due each April 1st and October 1st and annual principal payments of varying principal amounts due each April 1st. Additional principal payments of \$238,536 for Series A and \$472,673 for Series B were also made during the year ended September 30, 2018. The principal balance as of September 30, 2018, is \$2,844,834.

Miscellaneous Payable - North Side Development/Scott Jackson

The Agency has an unsecured note to provide financing to pay the cost of construction of an Urban Renewal Project. The Agency entered into a reimbursement and termination agreement with A. Scott Jackson Trucking, Inc. on March 22, 2018. The total agreed reimbursement amount is \$1,600,000. A Payment of \$500,000 was made on March 22, 2018. Subsequent payments are required on or before December 31, 2018 and on or before September 30, 2019 in the amounts of \$500,000 and \$600,000, respectively. The principal balance as of September 30, 2018 is \$1,067,372 which is reduced by the amortized discount of \$32,628.

Long-term liability activity for the year ended September 30, 2018, was as follows:

	<u>Balance</u> <u>October</u> <u>1, 2017</u>	<u>Addi-</u> <u>tional</u> <u>Debt</u>	<u>Payments</u>	<u>Balance</u> <u>September</u> <u>30, 2018</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Bonds payable -					
Series 2008	\$3,849,839	\$...	\$1,005,005	\$2,844,834	\$ 310,990
North Side Development/ S. Jackson (including amortized discount)	<u>1,550,119</u>	<u>... ..</u>	<u>482,747</u>	<u>1,067,372</u>	<u>1,067,372</u>
	<u>\$5,399,958</u>	<u>\$</u>	<u>\$1,487,752</u>	<u>\$3,912,206</u>	<u>\$1,378,362</u>

As of September 30, 2018, debt service requirements to maturity for principal and interest, for general long-term debt obligations, are as follows:

<u>Year</u> <u>Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,378,362	\$ 200,359	\$ 1,578,721
2020	329,216	149,505	478,721
2021	348,536	130,184	478,720
2022	369,020	109,701	478,721
2023	390,736	87,984	478,721
2024-2026	<u>1,096,336</u>	<u>120,148</u>	<u>1,216,485</u>
	<u>\$ 3,912,206</u>	<u>\$ 797,883</u>	<u>\$ 4,710,089</u>

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Note 4 - Risk

The Jerome Urban Renewal Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Commercial insurance is purchased to cover these risks.

Note 5 - Pledge for Payment of the Bonds

The Jerome Urban Renewal Agency pledges the incremental tax revenues and all funds in the debt reserve fund and the debt service reserve fund for the payment of the bonds and the note.

Note 6 - Fund Balances

In accordance with GASB Statement No. 54, fund balances are classified as follows:

- *Nonspendable* - amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of the Board of Commissioners. The Board of Commissioners is the highest level of decision-making authority for the Agency. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Commissioners.
- *Assigned* - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent can be expressed by the Agency Commissioners or by an official or body to which the Agency delegates the authority.
- *Unassigned* - all other spendable amounts.

As required by GASB 54, the Agency's establishment, modification, and rescinding of a committed fund balance is decided upon by passage of an annual appropriations resolution by the Agency Commissioners, acting as the highest level of decision-making authority.

When expenditures are incurred for which both restricted and unrestricted fund balance are available, the Agency considers restricted to have been spent first. In the case of an expenditure being incurred for purposes for which amounts in any of the unrestricted fund balances could be used, the Agency does not have a formal policy, but defaults to the order as follows: first against committed, then assigned and finally unassigned fund balances as considered to have been spent.

As of September 30, 2018, fund balances are composed of the following:

	Southeast Industrial <u>Area 2</u>	Downtown Improvement <u>Area 3</u>	<u>Area 4</u>	<u>Total</u>
Restricted Fund Balances:				
Debt payment from bond proceeds	\$ 438,559	\$ -	\$ -	\$ 438,559
Committed Fund Balances:				
Operations	1,271,548	49,095	(12,614)	1,308,029
Total Fund Balance	<u>\$ 1,710,107</u>	<u>\$ 49,095</u>	<u>\$ (12,614)</u>	<u>\$ 1,746,588</u>

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Note 7 - Interest Expense

Interest Expense in the following amounts is included under direct expenses on the Statement of Activities:

Southeast Industrial Area Project	\$ 212,740
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Note 8 - Area 3 & 4 Interfund Transactions

Ordinance No. 1135 was adopted approving the Urban Renewal Plan for the Area 3 Urban Renewal Project which includes revenue allocation financing provisions. The Agency incurred expenditures in prior years related to Area 3 which are intended to be repaid to Area 2 (Southeast Industrial Project Area) when revenues become available and are sufficient to make the repayment. There were no payments made to Area 2 in the current fiscal year and no payments are expected to be made to Area 2 within one year.

Ordinance No. 1134 was adopted approving the Urban Renewal Plan for the Area 4 Urban Renewal Project which includes revenue allocation financing provisions. The agency incurred expenditures in current and prior years related to Area 4 which are intended to be repaid to Area 2 (Southeast Industrial Project Area) when revenues become available and are sufficient to make the repayment. Area 4 borrowed \$0 in the current fiscal year from Area 2. None of the prior balance was repaid in the current fiscal year and no payments are expected to be made to Area 2 within one year.

The composition of these interfund balances as of September 30, 2018 are as follows:

Receivable Fund	Payable Fund	
Southeast Industrial Project Area 2	Downtown Improvements Project Area 3	\$ 24,574
	Area 4	<u>12,618</u>
		<u>\$ 37,192</u>

Note 9 - Creation of Area 5

After the Agency's fiscal year ended on September 30, 2018, the Jerome City Council adopted an ordinance creating a new project and revenue allocation area on December 4, 2018. Ordinance No. 1172 was adopted approving the Urban Renewal Plan for the Area 5 Urban Renewal Project, which plan includes revenue allocation financing provisions. The Agency incurred expenses for professional services in the current year in the amount of \$13,478 related to the creation of Area 5 and for which the Agency intends to repay Area 2 (Southeast Industrial Project Area) when revenues become available and are sufficient to make the repayment.

Note 10 - Commercial Creamery Agreement

After the Agency's fiscal year ended on September 30, 2018, the Urban Renewal Agency of the City of Jerome entered into a reimbursement participation agreement with Commercial Creamery on December 18, 2018. Agency shall disburse a portion of the revenue allocation for actual eligible costs not to exceed \$300,000. These disbursements shall occur starting March 2019.

Note 11 - Individual Fund Deficits

The Area 2 Fund showed an excess of expenditures over revenues. Area 4 showed a deficit fund balance for the year ended September 30, 2018.

JEROME URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Note 12 - Restatement of Prior Year Net Position

Beginning net position for Governmental Activities has been restated to correct errors in the prior year. An error was made in the prior year in reporting the correct deferred charges. A reconciliation of the prior period ending net position to the current year beginning net position for the Governmental Activities follows:

Beginning net position	(\$ 2,976,391)
Adjustment to correct deferred charges on long-term debt	<u>49,881</u>
Beginning net position, as restated	<u>(\$ 2,926,510)</u>

The above adjustment did not affect the change in net position for the prior year.

JEROME URBAN RENEWAL AGENCY
BUDGETARY COMPARISON SCHEDULE
SOUTHEAST INDUSTRIAL PROJECT AREA FUND
YEAR ENDED SEPTEMBER 30, 2018

<u>REVENUE:</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Property Taxes	\$ 1,560,751	\$ 1,560,751	\$ 1,594,707	\$ 33,956
Interest Earned	4,000	4,000	27,881	23,881
Total Revenue	<u>1,564,751</u>	<u>1,564,751</u>	<u>1,622,588</u>	<u>57,837</u>
<u>EXPENDITURES:</u>				
Current:				
Office supplies and postage	50	50	-	(50)
Operating supplies	150	150	-	(150)
Professional services	14,500	14,500	14,798	298
Advertising and publishing	400	400	418	18
Insurance and bonds	1,266	1,266	1,286	20
Dues and subscriptions	1,250	1,250	1,350	100
Personnel training	2,500	2,500	1,544	(956)
Administration expense	9,250	9,250	7,421	(1,829)
Economic Development support	25,000	25,000	25,000	-
Inside Engineering expense	5,250	5,250	19,199	13,949
Area 4 expense	3,000	3,000	-	(3,000)
Area 5 expense	-	-	13,478	13,478
Miscellaneous	100	100	-	(100)
Capital Outlay - Construction	2,702,515	2,702,515	615,687	(2,086,828)
Debt Service	1,020,654	1,020,654	1,700,492	679,838
Total expenditures	<u>3,785,885</u>	<u>3,785,885</u>	<u>2,400,673</u>	<u>(1,385,212)</u>
<u>EXCESS OF REVENUE AND OTHER SOURCES OVER</u>				
<u>(UNDER) EXPENDITURES AND OTHER USES</u>	<u>\$(2,221,134)</u>	<u>\$(2,221,134)</u>	<u>\$(778,085)</u>	<u>\$1,443,049</u>

JEROME URBAN RENEWAL AGENCY
BUDGETARY COMPARISON SCHEDULE
DOWNTOWN IMPROVEMENT AREA FUND
YEAR ENDED SEPTEMBER 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<u>REVENUE:</u>				
Property Taxes	\$ 40,000	\$ 40,000	\$ 66,186	\$ 26,186
Total Revenue	<u>40,000</u>	<u>40,000</u>	<u>66,186</u>	<u>26,186</u>
<u>EXPENDITURES:</u>				
Current:				
Office Supplies and Postage	50	50	-	(50)
Professional services	30,000	30,000	6,666	(23,334)
Advertising and publishing	400	400	-	(400)
Administration Expense	3,053	3,053	2,520	(533)
Capital Outlay - Construction	<u>21,497</u>	<u>21,497</u>	<u>-</u>	<u>(21,497)</u>
Total expenditures	<u>55,000</u>	<u>55,000</u>	<u>9,186</u>	<u>(45,814)</u>
<u>EXCESS OF REVENUE AND OTHER SOURCES OVER</u>				
<u>(UNDER) EXPENDITURES AND OTHER USES</u>	<u>\$ (15,000)</u>	<u>\$ (15,000)</u>	<u>\$ 57,000</u>	<u>\$ 72,000</u>

JEROME URBAN RENEWAL AGENCY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - BUDGETARY INFORMATION

A) Budgetary-GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule for the Southeast Industrial Project Area Fund compares the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on the budgetary basis do not differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP).

B) Budgetary Policies

Jerome Urban Renewal Agency prepares an annual budget of revenue and expenditures prior to the beginning of the fiscal year. The budget is prepared on the modified accrual basis of accounting. Budget figures are based on prior levels of revenue and expenditures taking into account specific items which may be planned in advance by the District such as capital outlay expenditures. Any excess of budgeted expenditures over budgeted revenue are temporary situations and are budgeted so as to utilize cash balances in the individual fund. The Agency did not adopt an annual budget for Area 4 for the year ended September 30, 2018.

C) Excess of Expenditures Over Revenue

The Budgetary Comparison Schedule for the Southeast Industrial Project Area Fund and the Downtown Improvement Area Fund show budgeted and actual expenditures in excess of revenue.

Rexroat, Harberd & Assoc., P.A.

Certified Public Accountants

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Telephone 208-324-2391 Fax 208-324-8266

March 21, 2019

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

Board of Commissioners
Jerome Urban Renewal Agency
Jerome, Idaho 83338

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Jerome Urban Renewal Agency (Agency), a component unit of the City of Jerome, Idaho, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 21, 2019.

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 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 been identified.

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*.

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.

Rexroat, Harberd & Assoc., P.A.