

**AGREED-UPON PROCEDURES
SEPTEMBER 30, 2008**

**CAPITAL CITY DEVELOPMENT
CORPORATION**

CAPITAL CITY DEVELOPMENT CORPORATION – AGREED UPON PROCEDURES

Table of Contents

	<u>Page</u>
INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES FOR CCDC'S RISK BASED CYCLING REVIEW POLICY	1
POLICY ON INTERNAL CONTROLS – RISK BASED CYCLING REVIEW AS ADOPTED	3
EXHIBIT A: EXECUTIVE SUMMARY	4
EXHIBIT B: SUMMARY OF PROCEDURES, AGENCY'S POLICIES, AND EVALUATIONS AND RECOMMENDATIONS	5



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES FOR CCDC'S RISK BASED CYCLING REVIEW POLICY

To the Board of Commissioners
Capital City Development Corporation
Boise, Idaho

We have performed the procedures enumerated below, which were agreed to by Capital City Development Corporation (the Agency), solely to assist you with respect to the presentation of financial information, certain internal control policies and procedures, and specified risk management procedures of the Agency. The Agency's management is responsible for the organization's presentation of financial information, certain internal control policies and procedures, and specified risk management procedures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures engagement specifies that the elements reviewed will be evaluated based on a rating scale and identified as "satisfactory," "needs improvement," or "unsatisfactory."

For those elements identified as needs improvement or unsatisfactory, the report includes a discussion of possible implications and/or risks should the suggestions provided not be implemented.

We performed the agreed upon procedures by conducting interviews, inspecting documents, reviewing policies and procedures, observing practices, and walking through processes. We have included an executive summary of our ratings below as Exhibit A. Also, a summary of the procedures, the current policies, and our evaluations and recommendations are included below as Exhibit B.

In addition, we have included on the following page the Agency's "Policy on Internal Controls – Risk Based Cycling Review" adopted by the board on June 9, 2008. This policy is provided for informational purposes, but was not included in the scope of evaluation of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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This report is intended solely for the information and use of the Board of Commissioners of the Capital City Development Corporation and is not intended to be and should not be used by anyone other than those specified parties.

Eide Bailly LLP

Boise, Idaho
February 17, 2009

Adopted by CCDC Board on June 9, 2008
Policy on Internal Controls – Risk Based Cycling Review

Capital City Development Corporation (CCDC) is *'an independent public body corporate and politic to be known as the "urban renewal agency" for the municipality...'* Idaho Code 50-2006, and has been duly authorized by the *'local governing body'*, the City of Boise. As such, CCDC follows all applicable Idaho statutes, primarily contained in Title 50 (Chapters 20 and 29) of the Idaho Code including financial requirements for budget, audit, and reporting, etc... Additionally, professional standards procured by national accounting boards provide further direction on accounting and internal control standards in public accounting, as well as, on best practices. CCDC maintains membership in the Governmental Finance Officers Association which, together with its independent auditor, provides both professional resources and independent reviews to achieve compliance.

By most public corporation standards, CCDC's work is financially complex and the Agency seeks experienced professionals to accomplish the desired results and compliance with all applicable laws, rules, and requirements. As both a check and an aid to the organization, a supplemental, periodic and external review known as a 'risk-based cycling review' (RBCR) of internal controls will be conducted. These reviews will provide a manageable approach and valuable opportunity for the organization to obtain a 'check-up' on existing practices, receive recommendations, and make improvements where warranted. The governing board and organization will carefully evaluate the results/recommendations produced by these reviews to determine if the deployment of additional efforts and/or resources is warranted or if the degree of risk identified is acceptable given the costs (both time and money) associated with eliminating.

As stewards of the public's resources, risk management is an important responsibility for both the governing board and staff. As important, is responsible decision making on the efficient and effective use of public funds. This policy acknowledges some degree of risk will always be present in any organization as the cost of zero risk generally results in an inefficient utilization of valuable public resources. Therefore, these reviews will generally focus on the most important areas needed to protect the public trust. The Executive Committee will meet annually to determine the content of the RBCR. The Board is the client and, working with its Executive Committee and its' staff, will receive the results of the RBCR and determine whether individual recommendations will be implemented, modified, or set-aside.

EXHIBIT A – EXECUTIVE SUMMARY

		<u>Page</u>	
1.	Internal control systems	Satisfactory with recommendations	5
	Cash controls	Satisfactory	
	Electronic banking	Satisfactory	
	Cash handling	Satisfactory	
	Bank reconciliations	Satisfactory	
	Accounts payable procedures	Satisfactory	
	Credit cards	Satisfactory	
	Travel	Satisfactory	
	Meeting/food expenses	Satisfactory	
2.	Cost allocation policies and procedures	Satisfactory	7
	Operations fund transfers	Satisfactory with recommendations	
	Debt service fund transfers	Satisfactory	
	Pooled cash investment methods	Satisfactory	
	Line of credit usage	Satisfactory	
	Fund organization and governmental type	Satisfactory with recommendations	
3.	Financial reporting accuracy and sufficiency	Satisfactory with recommendations	11
4.	Risk management practices	Satisfactory	13
	External environment	Satisfactory	
	Financial responsibility training	Satisfactory	
	Disaster preparedness plan	Satisfactory with recommendations	
5.	Debt financing policies and procedures	Satisfactory	16
	Arbitrage	Satisfactory with recommendations	
	Bond covenants, reserves, coverage	Satisfactory with recommendations	
	Interest rate risk	Satisfactory	
	Financial disclosures	Satisfactory	
	Debt service	Satisfactory	
6.	Financial and external reporting	Satisfactory	19
	Audit and annual report	Satisfactory with recommendations	
	CAFR	Satisfactory with recommendations	
	Financial communications	Satisfactory	
7.	Report documenting procedure and findings	Enclosed Exhibit B	

EXHIBIT B: SUMMARY OF PROCEDURES, AGENCY'S POLICIES, AND EVALUATIONS AND RECOMMENDATIONS

Procedure 1:

Procedure

We evaluated the policies and procedures for the internal control systems related to the areas listed below and provided suggestions based on our professional knowledge and any applicable best practices. Our evaluation of the policies and procedures included inquiries, observations and walk-throughs as deemed necessary to gain an understanding of the process.

- Cash controls over the following items
 - SinglePoint electronic banking internal controls
 - Other electronic banking controls
 - Cash handling procedures
 - Bank reconciliation procedures
- Accounts payable procedures related to the following items
 - Credit card procedures
 - Travel procedures
 - Meeting/food expense procedures
- Accounts receivable procedures
- Payroll and timecard procedures

Summary of the Agency's Policies/Procedures

There are two processes that provide controls over electronic banking. Most electronic transactions, including credit card payments and debt service payments, are completed using the Agency's electronic banking system (Single Point). The Agency has set the parameters in Single Point so that one individual (the Accountant) initiates the transaction and two individuals (the Controller and CFO) approve the transaction. Single Point transactions can not be processed without completion of all three steps. The Accountant, Controller and CFO all sign off on the entry form with the supporting documentation attached, indicating completion of their assigned step. Some flexibility is included here allowing two individuals to release funds should one of the three individuals not be available however, for internal control purposes two individuals are always required. The signed forms are collected in a packet with a summary coversheet, which creates an official record of the transaction. This packet is reviewed and signed by a Board member. The signed packet is then included with Board materials for review by the entire Board at the next regularly scheduled meeting.

Certain, limited transactions cannot be completed using the Single Point system (such as the PERSI payment which does not allow an interface for the SinglePoint System). For these transactions, the ACH transaction is prepared by the Accountant, and then the Controller reviews and approves the transaction. The Controller signs off on the entry form with the supporting documentation attached, indicating completion of the approval step. The review by the Board is the same as with Single Point transactions.

The Agency receives some cash in the form of checks at its office. The handling procedures for such cash receipts are for the Administrative Assistant to create a log of the receipts and then pass the checks on to another Administrative Assistant to prepare the deposit. The deposit slip is then passed on to the Accountant to record the transaction.

The Controller reconciles the bank accounts monthly and the CFO reviews and signs the completed bank reconciliations.

The Agency has a policy for credit card purchases. The policy requires that a bona fide, itemized vendor receipt listing the specific details of the charge must accompany every credit card purchase. The policy also specifies that under no circumstances may employees charge personal goods or services to Agency credit cards. Any accidental or inadvertent charge is to be immediately reimbursed together with a signed record of the reimbursement. Employees are required to sign a statement certifying that they have read and understood Agency policies on credit card usage upon issuance of a credit card.

The Agency has a policy for meeting/food expenses. The policy requires that all such transactions be accompanied by a Business Expense form that lists the attendees, location, date and purpose of the meeting as well as a signature of the organizing staff member indicating the expense was made for business purposes.

The Agency has a procedure for travel and out of office training. The Agency requires that travel be authorized in advance, in writing, by the Executive Director.

Travel, meeting/food and any other credit card expenditures must be supported by a receipt, and all receipts are reconciled by the Accountant. These types of expenses for employees must be approved by management, and management's such expenses must be approved by the Executive Director. A travel approval form authorizing training and travel is completed together with a travel expense form which documents the total costs of a given trip for business purposes providing a complete record of an activity which may involve multiple expense types and dates of purchase (e.g. hotel, airline, registration, etc.). A record of all travel is maintained for convenience and accessibility in addition to the accounts payable records. A credit card form together with signature providing explanation for business expenses incurred on the Agency credit card is completed to accompany each monthly bank statement.

Credit card expenses are paid via ACH transaction. Individual statements with detailed account activity are reviewed by a Board officer, the Executive Director, and CFO. The Board reviews and approves these compiled transactions following the procedure outlined above.

Travel and meeting expenses may be paid via check. All checks, with the supporting documentation attached, are signed by both the Executive Director and a Board officer. A check register is included with the Board packet on a monthly basis for review by the entire Board.

For accounts receivable, the Accountant prepares the billings, and the Controller reviews and approves the billings prior to recording and mailing.

For payroll and timecards, the Accountant gathers the timesheets and processes the payroll. For all employees, both employees and their supervisors sign the timesheet. The Controller reviews and approves the payroll each period, and the Executive Director reviews and signs off on the timesheets post-processing. This process ensures that all individuals in any given payroll are identifiable as employees of the Agency and provides oversight on any personal leave which may be used.

Evaluation and Recommendations

Based on our inquiries, observations and walk-throughs of the above procedures, we have the following evaluations and recommendations:

- We believe the Agency's procedures relative to the cash receipts and disbursements of the Agency itself are rated satisfactory.
- The Agency contracts with Republic Parking (Republic) for operation of the garages. The Agency reviews the monthly reports from Republic for reasonableness. The Agency reviews the ticket sequence tracking from Republic's internal auditor. Other than these measures, the Agency relies on

the internal controls of Republic to handle accurately the cash receipts from the parking garages. We believe that the Agency's procedures related to analyzing the parking activity are satisfactory. However, we also believe there are also other procedures the Agency could consider in their processes that may provide additional benefits of analysis. Such procedures could include the following:

- Analyze the ticket sequence tracking for gaps and require Republic to provide explanations of the gaps along with its monthly reports.
- Extrapolate the possible dollar loss on missing tickets reported in the Republic reports and set thresholds which would require follow up with Republic.
- Perform month to month analytical procedures on revenue expectations based on historical trends and current month events.
- Review periodically Republic's physical documentation that supports the reports it provides.

We also believe the Agency should document the procedures as to what the monthly reviews should entail.

We understand that the Agency has initiated an internal control program effective October 2008 to gain a greater level of oversight of the parking operator.

- We believe that the policy related to accounts receivable appears satisfactory for routine billings. However, we observed that there is not currently a policy or procedure in place to ensure that receivables from contracts are tracked and accounted. Contractual obligations of the Agency may be significant and have a material impact on its financial statements. A procedure for tracking contractual obligations would allow the Agency to record such obligations timely and help to avoid delays in completion of the audit.

We understand that management is aware of this issue, and is currently implementing a contract management system to ensure that such contractual obligations, whether a payable or a receivable, are properly reflected in the financial information. The Agency also has in place an assembled list of all major contracts which provides assistance in tracking payables/receivables related to contractual activities pending a more comprehensive implementation of an electronic contract management system currently identified as ContraX. We cannot rate the effectiveness of this system as it is new, and there was insufficient data to evaluate during the course of our procedures.

Procedure 2:

Procedure

We evaluated the policies and procedures related to the cost allocation model, which included the components of the model listed below.

- Transfers to operations for central services/downtown area-wide costs
- Inter-fund transfers for debt service
- Agency pooled cash and investment methods
- Line of credit usage
- Fund organization and governmental type

Summary of the Agency's Policies/Procedures

Transfers to Operations

The Agency has a Program Operations fund. This fund includes ongoing operational costs of the Agency. The operation of the Agency is for the benefit of the three Urban Renewal Districts and the parking facilities. These costs include personnel expenses, office space rent, office supplies, insurance, and general activities in support of the Agency's redevelopment and parking operations responsibilities, etc.. The program operations fund also includes project costs for those projects that have an area-wide benefit to the downtown rather than a specific district benefit. Two examples of an area-wide benefit would include: the Agency's workforce housing studies and streetcar feasibility assessment.

The program operations fund receives revenues in the form of a monthly transfer from the Agency's three revenue allocation and two parking funds. The total transfer for the month is effectively the actual amount of the program operations expenses for that month. Each fund's proportionate share of that total transfer is determined based on the cost allocation model. The Agency uses the cost allocation model to provide an estimate of proportionate costs. The Agency does not allocate each expense individually. The Agency has used an individual expense allocation method and determined that this approach is very time and cost intensive and unnecessarily burdensome without providing a significantly greater degree of accuracy than the cost allocation model method.

The cost allocation model follows several steps to produce an estimate of each fund's proportionate share of expenses. First, staff produce an estimate of the proportion of their work time (on average, over the course of one year) that is spent on revenue allocation district activities versus parking activities. These estimates are then compiled into one overall estimate for the proportion of total staff work time (on average, over the course of one year) spent on revenue allocation district activities versus parking activities.

The next step is to calculate the distribution of costs between the three RAD (Revenue Allocation District) funds and the two parking funds. The Agency uses total revenues to estimate these costs. The Agency has determined that total revenues provide a reasonably reliable estimate of the related volume of activities and associated costs. Actual costs may vacillate up or down from year to year, depending on whether a major project has been completed. Revenues, however, follow a smoother growth curve while still being a general good predictor of the activities in the district. That is, the more revenues that a district has available, the more activities that can be completed in that district and the more time involved in completing. To be effective the method must also be relatively reliable and stable to afford the ability to conduct long-term financial forecasting and capital improvement planning. The current method has been used for the past five budget cycles, is updated each year, and has produced a reliable and equitable method for apportioning costs of consolidated operational activities.

The staff time percentage and the revenue percentage are then combined to determine each fund's proportionate share of program operations costs.

Each month, the Agency calculates and records the transfer from the funds to program operations. The amount of the transfer is exactly enough to cover that month's program operations expenses and no more. The Program Operations Fund carries a minimal fund balance. This is all approved in the annual budget process.

Inter-fund debt transfers

The Agency has a number of bond issues with associated long-term bond debt service. Both revenue allocation district (RAD) and parking revenues are pledged to service the debt. Since the debt was generally issued to build the parking garages, and the asset is recorded in the parking funds, the principal, interest and fee expenditures are also recorded in the parking funds. (One exception is that portion of the 2004 debt which was issued for streetscape costs and is therefore recorded in the RAD fund.) The parking funds alone generally have insufficient revenues to pay all of the debt service without additional support from the RAD funds. A monthly transfer is completed from the RAD funds to cover the debt service costs of the several bond issues. The respective shares of RAD and parking revenues applicable to debt are detailed out in the annual budget.

An additional transfer related to debt results from the location of the district boundary. BoDo, a major mixed-use development project, straddles the district line between the Central and River Myrtle District. As assessor valuation cannot be split below parcel level by the County and some valuation bisects the two URA district boundaries, some revenue allocation attributable to this project is received in Central. All of the underlying debt, however, is recorded in the River Myrtle District. To match revenues with expenses, the Central revenue allocation attributable to the BoDo project improvements on parcels which bisect the line between Central and River Myrtle is transferred to the River Myrtle Fund where the project proforma identified River Myrtle resources from the planned improvements.

The Agency is responsible for a share of the Master Ground Lease for the Ada County Courthouse Corridor Project. All of the revenue and expenses related to the Ground Lease for this project are passed through the debt service fund. The Agency's share of the Ground Lease is transferred from the River Myrtle Fund to the Debt Service Fund.

Agency pooled cash and investment methods

The Agency uses a single checking account for all cash disbursements. This was changed from a multiple account approach in 2005 which involving extensive account reconciliation work. The Agency's Caselle accounting system allows real time tracking of cash and fund balances without the additional work requirements of maintaining multiple physical bank accounts, a common application with local government users. Working capital not otherwise immediately required for monthly Agency operations expenses is currently invested in a single savings account at US Bank which is insured and collateralized or in the State of Idaho's Local Government Investment Pool (LGIP) until required for expense. These investments were selected for compliance with Idaho law, for preserving the safety of the principal, and for flexibility and accessibility as related to Agency expense obligations. This provides for an efficient investment method generating investment returns without undue administrative burden or the expense of additional investment staffing or contracted investment services.

The Agency's accounting system (Caselle) enables accurate tracking of pooled cash and fund ownership of this pooled cash and calculates each fund's exact share of the pooled cash at any point in time using beginning fund balances and year to date actual revenues and expenditures; a method common in local government.

The Agency finds the pooled cash method to be advantageous for several reasons. Using pooled cash allows the Agency to process cash receipts and disbursements in an efficient manner, reducing staff time required for processing. Eliminating bank accounts for each fund reduces costs for banking fees as well. Because the Caselle system tracks ownership of the pooled cash at all times, the Agency believes that the integrity and accuracy of the balance sheet is maintained. Added clarity of fund reporting occurs in the discrete presentation of individual funds in the 2008 annual financial report.

Line of credit usage

The Agency has a line of credit for the River Myrtle district. The line of credit is used for two primary purposes. This borrowing may be taxable or tax-exempt depending upon the purpose of the draw and certain certifications are required for the latter. The first purpose is to provide advance short term funding for a project or activity. When used for this purpose, the amount specifically needed for this particular project is identified and drawn from the line on a short term basis until the associated revenues for that project are received.

The second purpose is to provide working capital as needed. Currently, the River Myrtle district requires short term borrowings to meet its obligations due to non-payment of certain development obligations by a contractual party to the Avenue A development project. While enforcement of obligations is being actively pursued, year-to-year deficiencies draw on this credit line to provide sufficient resources. The draw requirements are slightly mitigated due to the pooled cash balances utilized for month-to-month payment of expenses. The pooled cash method prevents any actual cash shortage for an individual fund for the Agency cash flow purposes. Periodically

during the year as needed and at the end of the fiscal year, resources are drawn from the line of credit, with the obligation assigned to River Myrtle. This ensures that the amount owed in the River Myrtle Fund is correctly identified in fiscal year end reporting.

Fund organization and governmental type

The Agency has a total of eight funds. The Program Operations Fund, the three RAD (Revenue Allocation Fund) funds (Central RAD, River Myrtle-Old Boise RAD, Westside RAD), the Debt Service Fund and the Capital Projects Fund are classified as governmental funds. The two parking funds (Central Parking Fund, River Myrtle Parking Fund) are classified as business type funds. The Program Operations Fund accounts for the general operational and program expenses of the Agency's redevelopment and parking responsibilities and area-wide projects. The RAD funds are utilized for implementation of the three urban renewal plans and capital improvement plans which constitute the redevelopment charge of the Agency. The Debt Service Fund is utilized for administration of the Ada County Courthouse Corridor/Avenue A project. The Capital Projects Fund is utilized for the administration of special capital projects and bond proceeds which may be included in the funding of certain projects. The parking funds are utilized for the convenience of the Agency and to organize resources which are pledged as security on several bond issues associated with the construction of downtown public parking garages.

Management reviews the policies, procedures, and methodologies for transfers, pooled cash and investment methods, line of credit usages and fund organization on a periodic basis to ensure reasonableness. The Executive Committee of the Board and the Board of Commissioners review most of the major provisions in the review and approval of the Agency's annual budget where individual schedules are prepared as exhibits to identify key activities in support of annually approved budgets. External consultations are obtained as necessary.

Evaluation and Recommendations

- *Transfers to operations for central services/downtown area-wide costs* – The Agency allocates costs based upon employee estimates of time spent working on activities related to the responsibilities associated with each fund. The Agency requires the staff to provide an estimate of the portion or percentage of their work time (on average, over the course of one year) that is spent on revenue allocation district activities versus parking activities. We believe the allocation model as its currently used by the Agency is a reasonable method, and we rate its use as *satisfactory*. However, we also have the following recommendation that should be considered by the Agency.
 - The Agency should consider basing the allocation percentages either upon more frequent estimates of actual time or alternatively upon actual time spent by employees working on each of the funds. Since the Agency has a minimal amount of funds for which to allocate time, the Agency should consider tracking actual time spent by the employee on each fund. This can be accomplished using a time tracking system. The time sheet could be tracked year round, or for a specified period (for example, time sheets could be maintained for one quarter of the year) or alternatives to tracking time could be to either have employees allocate their time monthly or quarterly (rather than annually). This would provide a more accurate measurement of time incurred by each employee working on each fund and would provide a more accurate method of allocating costs.
- *Inter-fund transfers for debt service* – We believe the current policies and procedures to be rated satisfactory.
- *Agency pooled cash and investment methods* – We believe the current policies and procedures to be rated satisfactory.
- *Line of credit usage* – We believe the current policies and procedures to be rated satisfactory.

- *Fund organization and governmental type* – The Agency is evaluating if the two parking funds are most appropriately classified as business-type activities (or proprietary funds). Business-type activities, as defined by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis for State and Local Governments* (GASB 34), "are financed in whole or in part by fees charged to external parties for goods and services." The parking garages function much like a business enterprise. Competition is present, an exchange relationship with the public exists that involves user fees, and the parking funds have revenue-producing assets subject to depreciation. GASB 34 also specifies that if any of the following three criteria exist, a fund is required to be reported as proprietary fund:
 - The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
 - Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
 - The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

We have researched, discussed and evaluated the three criteria above with management on a preliminary basis, and we have determined that the parking garages do not meet the first two criteria. Based on our discussions with management of the third criteria, we believe that the garages have been correctly presented as proprietary funds, and we believe management’s fund organization to be satisfactory. We also recommend that management periodically evaluate the third criteria as the dynamics of the Agency’s intentions evolve.

Procedure 3:

Procedure

We evaluated the sufficiency of financial reports provided to management and the Board. This included determining that the information provided to both management and the Board agrees with the accounting records in the general ledger system.

Summary of Agency Policies/Procedures

The Agency’s management team includes the following members: Executive Director, CFO, Development Director, Planning Director, Parking & Facilities Director, and Controller/Office Manager. The management team is provided with a set of financial reports on a monthly basis to advise operational decision making and to manage implementation of appropriated budgets. This information is provided to enable management to understand the financial results of their own responsibility area as well as the financial results for the Agency as a whole. Further, these reports are intended to inform decision making about planned Agency projects and established or changed priorities.

The Controller provides a set of reports to the Planning Director, Development Director and Parking & Facilities Director. These include:

- Summary of actual v budget revenue and expenses by fund
- Actual v budget v prior year revenue summary by source

- Parking results by garage
- Actual v budget expense detail
- Travel expense by trip and employee detail
- Training expense by class and employee by detail
- Legal expense by issue detail
- Accrued leave time by employee summary

In addition to the reports listed above, the Parking & Facilities Director, CFO and Executive Director receive:

- Summary of revenue & expense by garage by month
- Comparative charts on garage performance for revenues, volume & length of stay

In addition to the reports listed above, the CFO and Executive Director also receive:

- Actual v budget revenue detail
- Summary of payments received on the Courthouse ground leases
- Cash flow summary, actual and projected
- Debt disbursement summary, actual and projected
- Projected ending cash by fund
- Rate history on variable rate debt
- Line of credit usage summary

The Accountant prepares most of the reports. The Controller reviews these reports, prepares the remaining reports and distributes to the appropriate staff.

The Agency provides a quarterly financial report to the Board. This report shows actual v budget expenses by fund and shows actual v budget v prior year revenues by source. A written explanation of major variances against budget is also included. Recent reports have been presented together with quarterly updates on the Agency's adopted strategic plan for enhanced presentation of both project and financial activities and results.

The Board receives ad hoc reports in particular areas as requested.

The Controller prepares these reports and the CFO reviews to ensure the accounting and presentation appears reasonable.

Evaluations and Recommendations

Based on our discussions with the board and management, and based on our review of the reports, we believe the current reporting models are satisfactory. However, for the reports provided to management, the CFO and Controller should consider inquiring of the managers each month to determine if there are significant vendor contracts outstanding that should be separately displayed in the reports. Such a display would include the original contracted amount, and the amount expended to date for that vendor.

Procedure 4:

Procedure

We will evaluate the policies related to risk management practices and assess the adequacy of the plan documents.

- Agency external environment monitoring/financial
- Training on financial responsibility
- Disaster preparedness plan

Summary of Agency Policies/Procedures

External environment monitoring

The Agency employs a number of different techniques on an ongoing basis in an effort to conduct a thorough environmental assessment and to assess what impact environmental factors may have on the Agency's financial condition.

The Agency participates in a variety of professional associations at a local, state and national level. The intent of this participation is to provide the Agency with up-to-date information in the various aspects of its business, to provide the opportunity to interact with other professionals in the field and to provide opportunities for continuing education in relevant subject areas. The Agency is a member/participant in the following organizations/projects:

- Association of Idaho Cities
- Associated Taxpayers of Idaho
- Boise Valley Economic Partnership
- Chamber of Commerce
- Community Streetcar
- COMPASS
- Downtown Boise Association
- International Downtown Association
- Urban Land Institute
- Council of Development Finance Agencies
- Government Finance Officers Association
- Idaho Economic Development Association
- International Economic Development Council
- American Planning Association
- Idaho Planning Association
- Planning Advisory Services
- International Parking Institute
- Building Owners & Managers Association
- Project for Public Spaces
- Valley Regional Transit

Second, the Agency utilizes consultants in various fields of expertise to assist with projects. Use of consultants is intended to provide expertise and insight that the Agency may not have on staff, as well as to provide the perspective of an outside party. This approach has also proven to be cost efficient in utilizing consulting expertise intermittently and as needed to either supplement existing staff resources or gain specialized expertise for a specified project. Some of the consultant expertise that the Agency has recently utilized includes:

Keyser Marston – evaluating the eligibility of study areas as possible urban renewal districts, conduct gap analysis on specific projects.

Carl Walker – nationally recognized parking consultant for assistance with parking issues, recent rate adjustment and development of a new Parking Reinvestment Program for the downtown public parking system.

Shiels Oblatz & Johnsen – leading consultant on streetcar projects responsible for implementing the Portland and Seattle streetcar systems.

Seattle Northwest Securities/Regional Financial Advisors– consultant on bond related financial issues, public financing, public markets, banking, bond insurance, and investment, etc.

Zimmer Gunsels Frasca architects – urban design and master planning expertise.

Leland Consulting – urban planning expertise.

StastnyBrun architects – urban planning and development expertise.

Third, the Agency monitors legislative issues that may result in law changes, new requirements, or new opportunities at both the federal and state level. The Agency has retained legislative liaisons at both the federal and state level to provide this specialized advice and service.

The Agency's Executive Director and management team participate on a number of boards and committees both to provide and to obtain input about issues impacting downtown Boise. These include:

- Downtown Policy Advisory Committee
- Chamber of Commerce
- COMPASS
- Downtown Business Association

The Agency's Executive Director and management team participate in strategic planning activities together with its Board of Directors. These activities include a monthly briefing meeting with the Mayor and an annual strategic planning retreat with the Agency's board and selected city staff, including the Mayor. As part of the annual strategic planning retreat, the Agency reviews the key plans, projects, and goals of the agency as well as the economic outlook, financial plans and forecasts.

The Agency draws on the expertise of its diverse Board. Board members have backgrounds and expertise in land development, banking, economics, business, finance, investment, tax, real estate, public utilities, and governmental affairs. The current organizational construct, which involves staggered five-year terms of board members, provides enhanced ability of members to provide oversight, advice, and expertise on plans and development projects which typically span multiple years from origination to completion.

Finally, the Agency receives and reviews a number of regular publications that provide data that help to assess environmental conditions relevant to the business of redevelopment and management of parking systems. This includes a wide variety of professional publications and includes newsletters from various professional organizations, e.g. Wells Fargo construction reports on activity in Idaho, the Idaho Economic Outlook and Economic Forecast from the Idaho Division of Financial Management and the Kiplinger letter, Council of Development Finance studies, Governmental Finance Association bulletins, Downtown Digest newsletters, and Urban Land Institute publications, etc. These resources assist the Agency in staying abreast of current issues in the downtown redevelopment and revitalization as well as best practices in public administration.

Training on financial responsibility

The Agency provides its financial staff with regular opportunities to obtain training to add to or refresh their knowledge of public finance, debt issuance, state laws and regulations, and a variety of accounting and financial reporting principles, GASB requirements, and best practices for public agencies.

In addition, the Agency provides periodic training to all staff on the basics and responsibilities of public funds, public agency financials, legal requirements, and agency policies. An example of a recent half-day training included the following major topics: ethics in government, tax increment financing, urban renewal business practices, the elements of public finance, agency policies and procedures, state and federal laws on ethics, internal controls, standards of accountability and conduct, and state law on misuse or theft of public funds.

Disaster preparedness plan

The Agency has a written disaster preparedness plan in place.

Evaluation and Recommendations

- *Agency external environment monitoring/financial* – We believe the current policies and procedures to be satisfactory.
- *Training on financial responsibility* – We believe the current policies and procedures to be satisfactory. However, we also recommend that the Agency consider a requirement for the accounting staff to receive a certain number of hours of training annually and/or require some minimum amount of annual training suitable to their position and responsibilities. This will help to ensure financial staff remains aware of: 1) current changes in accounting pronouncements, 2) how to implement those changes, and 3) assessing how those changes will impact the Agency's operating environment.
- *Disaster preparedness plan (DDP)* – We believe the current policies and procedures to be satisfactory. However, we also recommend that the Agency consider the following:

The disaster recovery plan (DRP) of the Agency focuses primarily on information technology (IT). The Agency should consider other non-IT elements in the DRP (or if Disaster Recovery Plan then change title to match) that could prevent a smooth recovery. The Agency should also develop a Business Continuity Plan (BCP). A BCP suggests a more comprehensive approach to ensuring the Agency can continue to function, not only after a natural calamity but also in the event of smaller disruptions including illness or departure of key staffers, or other challenges that organizations face from time to time. In addition to staff, this plan should consider regular and essential, but outsourced, services including IT and legal services as well.

With respect to IT, the DRP is general and lacks specific important details. The Agency should incorporate the following items in the DRP:

- Phone listing of emergency contacts, including IT consultants, local police, fire dept, building personnel, or other applicable employees/emergency personnel.
- Contact information (phone, email, etc.) for disaster recovery team personnel, including roles and responsibilities.
- Establishment of an alternate site from which to operate if the main location is not available.
- Procedures for returning to normal operating mode:
 - Procedures to procure replacement equipment and supplies as necessary.
 - Procedures to check system functions/results.
 - Procedures for notifying personnel to return to normal operating mode.
- Detailed procedures for restoring lost or corrupt data.
- Documenting the testing strategy of the DRP and creating action plans:
 - Document testing dates - This should include dates and resources to be used in managing and performing the testing.
 - Developing disaster/disruption scenarios.
 - Developing action plans for each scenario.
- Documentation of revisions made to the DRP (date, reason for revision, comments).
- The Agency should also include the following additional appendices:
 - Hardware lists and serial numbers.
 - Software lists and license numbers.
 - Contact lists for vendors.
 - Contact lists for staff with home/work numbers.
 - Network schematic diagrams.
 - Equipment room floor grid diagrams.
 - Contract and maintenance agreements.
 - Test scenarios.

- Special operating instructions for sensitive equipment, if applicable.
- Any other documentation needed in the event of a severe disruption.
- The Agency relies heavily on their IT consultant for IT disaster recovery. The Agency should also consider performing an independent risk assessment by conducting an analysis that assesses types of possible disruptions based upon probability and impact and incorporate considerations in the Business Continuity Plan. Based upon the results of that analysis, the Agency should develop a strategic outline of recovery from each disruption type.

Procedure 5:

Procedure

We will evaluate the policies and procedures related to debt/financing as it relates to the components listed below.

- Arbitrage calculation
- Bond covenants, reserves, and coverage
- Interest rate risk assessment
- Financial disclosures
- Debt service schedules

Summary of Agency Policies/Procedures

The Agency employs a third party professional to prepare its arbitrage calculations, in compliance with IRS requirements for tax exempt debt. The calculations are currently being prepared by Arbitrage Compliance Specialists, a nationally recognized arbitrage firm.

The Agency utilizes US Bank as the trustee for assistance in ensuring continuing compliance and for disclosure requirements for its several bond issues. US Bank has assigned a trust review analyst to the Agency's bond issues. The analyst monitors the documentation requirements in the bond covenants to ensure that the Agency complies with those requirements. The Agency is responsible for compliance and for preparing the necessary documentation and utilizes bond and tax legal counsels as may be necessary. The trustee provides a valuable service in organizing, noticing, and disseminating key information as well as advice and expertise on compliance related interpretation of bond covenants and calculations for specialized activities such as bond calls.

The Agency works with a third party advisor, currently Rebecca Chao of Seattle Northwest Securities/Regional Financial Advisors to provide insight into market conditions, to test and check debt service calculations, to plan for bond calls, to explore options for refinancing and to manage or mitigate interest rate risk or as needed for financial reviews of various matters where specialized expertise may be useful to the best use of resources. The financial advisor is independent of any underwriting, trustee, debt issuance or letter of credit activities the Agency might engage in and is therefore well positioned to offer objective advice. The Financial Advisor has extensive experience in public finance in the northwest and involvement in many public bond issuances, financial advising, and pricing advising in Idaho, and the region. The Agency regularly monitors variable rates associated with its bond issues, and periodically analyzes the historical trends in variable rates and the market conditions to estimate the rates on its variable debt going forward. The Agency secures the help of its financial advisor to assess and advise on the reasonableness and reliability of its calculations. The Agency prepares a summary of its interest rate risk calculations for the Executive Committee and reviews bonded obligations as part of the annual budget process.

The bond covenants have various disclosure requirements. The Agency has compiled these disclosures into a single comprehensive bond disclosure document. The Agency prepares this document annually and distributes it to US Bank, Bank of America, Key Bank, Standard & Poors, and Moodys as requested. This reporting format has met with good reviews to date by the rating agencies for providing well organized, clear, and complete compliance information.

The Agency monitors compliance with bond covenants to ensure compliance with those requirements and prepares a comprehensive disclosure report which is disseminated through the trustee to the bond repositories and rating agencies. The Agency employs general counsel, bond counsel, and tax counsel as needed to address, interpret or resolve any questions relation to compliance. The Agency tracks reserve requirements as a function of the master debt service schedule which is regularly updated. All coverage requirements are monitored, calculated, and reported via the annual comprehensive bond disclosure report which has been prepared for the past several years. Additional refinement is expected regarding related development agreements which may be associated with some bond issuances with the implementation of the ContraX contract management system; however the Agency has identified all development contract provisions in an independent schedule for accounting, budgeting, and compliance purposes. Full implementation of ContraX will enhance the existing system in providing convenient notices and assigning responsibilities to facilitate work accomplishment.

The Agency completes a comprehensive annual disclosure which is comprised of the continuing disclosure requirements of the several bond issues and related covenants. This disclosure is distributed through US Bank acting as the Agency's dissemination agent and has been sent to the Nationally Recognized Municipal Information Repositories and the State Information Depositories as required.

With the support of its financial advisor, the Agency has prepared and maintains a current master debt schedule. This schedule includes individual debt service for each bond issue that includes principal, interest and fees through maturity, based on the estimated or assumed rates calculated as described above. The schedule includes summaries by district and by type (variable v fixed) for the Agency's planning and budgeting purposes. The schedule also includes individual sub-schedules for any bond call activities and the associated adjustments for involved maturities. Finally, the schedule includes an index noting the key pieces of information about each bond issue. The Agency finds that this schedule is an essential tool for organizing, understanding, communicating, and managing its debt service obligations in a comprehensive manner.

The Agency maintains this comprehensive and current master debt service schedule which includes key information informing debt management, planning, budgeting, debt service, and compliance. The information has been extracted from extensive review of bond transcript documents and includes: issuance dates, ratings, insurance providers, surety reserve status, trustee, underwriter, bond counsel, bank letter of credit provider and terms, call dates and options, fixed and variable rate bond schedules by bond issue and by district, principal and interest monthly and yearly payment amounts and dates for all maturities, principal bond call calculations, principal balances, variable debt service calculators for debt management and budgeting.

Evaluations and Recommendations:

- *Arbitrage calculations* – We believe that the current policies and procedures are satisfactory. However, such policies and procedures are new, and were implemented just recently. Arbitrage calculations had not previously been performed which had the potential to jeopardize the Agency's tax exempt status of certain bond issuances. The Agency recognized the importance of this issue and employed an arbitrage consultant to perform the calculations and bring the agency current on arbitrage calculations for all of its debt issues. We understand that as of November 30, 2008, all past due arbitrage calculations are completed, and arbitrage rebates, where required, were paid in full in fiscal year 2008. The Agency requested a waiver of penalties from the IRS and to date this request has not been denied. We understand that the Agency has implemented a tracking system and ongoing engagement for arbitrage due dates to insure the calculations are completed timely going forward. Any liabilities resulting from the arbitrage calculations should be reflected in the financial statements.
- *Bond covenants, reserves, and coverage* – We believe that the current policies and procedures are satisfactory. We recommend that management incorporate all the covenants, including both financial and non-financial performances, and develop a template in the proposed system to ensure that all covenants are assessed annually or more frequently if the covenant requires it. We understand that

the Agency intends to include bond covenant requirements in its overall contract management system, described in Procedure 1.

- *Interest rate risk assessment* – We believe the current policies and procedures are satisfactory. The Agency has a significant portion of its debt portfolio comprised of variable rate bonds. These bonds are remarketed weekly. Historic rates have varied but have been less volatile than recent rates. The cost of debt service can vary significantly with the rate. Current conditions in the financial markets have added volatility to this remarketing and rates have experienced dramatic short term volatility unlike historical patterns. The Agency monitors this closely. While historically the variable rate remarketings have produced good value for the Agency, the uncertainty makes long term financial planning and commitments to new debt issuances for new projects less predictable. Additionally rating agencies are reviewing some variable rate debt issuances and making determinations for scenarios where remarketings may not be accomplished in the current market and the resultant term out provisions are not feasible. As the Agency evaluates the feasibility of future financings, more stability in the cost of debt may prove beneficial. In the current market, which has experienced dramatic and historic change resulting in less market demand and higher price for municipal taxable and tax exempt bonds, more volatility creates more interest rate risk exposure than has historically existed. The Agency has appropriately deliberated and discussed this matter at both the board and staff levels on multiple occasions and has engaged the professional services of financial advisor, asset management services, bond counsel, tax counsel and general counsel to assess the options. The identified options have some limitations associated with the current market conditions, the credit crunch and condition of banking, the availability of insurance and letter of credit providers currently in the market, the integration of development obligations surrounding some debt issues, the financial capacity of the organization to convert to higher initial cost long-term debt and/or restructure and reissue debt, the complexity of the debt, the increasing principal of the existing debt structure, the pledged revenue security limitations on individual bond restructuring solutions, the unavailability of credit swap authority in Idaho, and pending Idaho court proceedings involving questions on the legal authority to enter into long term debt commitments. The Agency has appropriately engaged professional services and assertively focused resources on addressing these issues with the goals of ensuring resource/obligation parity, reducing risk, increasing predictability, and simplifying security and administration.
- *Financial Disclosures* – We believe the policies and procedures are satisfactory. On December 8, 2008, the Securities and Exchange Commissioner amended SEC Rule 15c2-12. The amendment is effective as of July 1, 2009. Pursuant to the amendment, the Nationally Recognized Municipal Information Repositories and the State Information Depositories will no longer be authorized to accept continuing disclosure filings. Instead, as of the effective date, all annual reports and material events notices are to be filed electronically with the Municipal Securities Rulemaking Board's (MSRB) new Electronic Municipal Market Access (EMMA) system. In addition, the amendment modified the small issuer (i.e., issuers with \$10 million or less of bonds outstanding) exemption to Rule 15c2-12, potentially requiring small issuers to file annual continuing disclosure reports for the first time since the continuing disclosure rules were adopted in 1994. The Agency and the trustee are aware of this recent change through its bond counsel and will comply with the new distribution requirements.
- The Agency has also been regularly advised through its bond counsel and financial advisor of material events changes. Over the past year, the major rating agencies (Standard & Poor's, Moody's and Fitch) have been examining the ratings of bond insurance companies, particularly in light of those companies' exposure to subprime mortgage loans and investments. Throughout 2008, all three rating agencies downgraded all of the bond insurers. In February 2008, Sherman & Howard, bond counsel for certain bond issues for the Agency sent the Agency an advisory which described these downgrades and specified the ratings that had were in effect as of that time. Since February,

numerous additional downgrades have occurred. These downgrades have caused uncertainty in the market and have complicated the issuance of new bonds. In addition, the rating changes are important events for outstanding bonds, because they may trigger a contractual obligation of bond issuers (or in certain types of financings, borrowers or other "obligated persons" under the bonds) to file a "Material Event Notice" with national information repositories. The Agency monitors these events and has complied with relevant notices affect the bond issues.

- *Debt Service Schedules* – We believe the policies and procedures are satisfactory. The master and individual bond series schedules are comprehensive and current and appear sufficient to provide the necessary information for effective debt management.

Procedure 6:

Procedure

We will suggest models and provide consultation related to external reporting as it relates to the components listed below.

- Audit and annual report
- CAFR advisability
- Agency financial communication/information

Summary of Agency Policies/Procedures

Audit and annual report

Historically, the Agency has had its financial statements prepared by its audit firm. Beginning with fiscal 2007, auditing standards were updated to require that agencies prepare their own financial statements in-house. Under new standards, agencies that elected not to prepare their own statements, or lacked the time or resources to prepare their own statements, would be determined to have a significant deficiency or material weakness finding which must accordingly be reported in the management letter for that audit. The Agency elected not to prepare its own report for fiscal 2007, and has done so for fiscal year 2008. It is noteworthy that many public agencies and smaller local governments have elected to continue with the external audit firm's role in preparing the financial statements for the audit based on the economics and to simply accept the resultant finding which is mandated based on this circumstance.

Agency financial communication/information

The Agency employs a variety of methods to deliver regular communications regarding its activities. The Board of Commissioners has regularly scheduled and advertised meetings held twice monthly. These meetings are public meetings and the agendas and materials are public. Meeting notices are posted on the web and sent to the media. The Board receives regular updates at these meetings in the form of routine Director's Reports, Operations Reports on facilities and parking, quarterly financial reports, and special reports on timely issues. Additionally, the Agency employs a thorough method of memorializing action items brought to the Board for approvals to wit. The Agency prepares complete Agenda Bills which provide issue background, fiscal impact, documents to be executed, specific action requested, staff recommendations and summarized action. Generally this process is further documented by way of official resolutions which are prepared in conjunction with Agency General Counsel. The Agency has a long-established history of thoroughly preparing, documenting, and presenting full information to its governing board for consideration.

The Agency also employs the use of an Executive Committee whose membership and charge is approved annually. The Executive Committee provides additional oversight and guidance for agency operations in between regular and special Board of Commissioners meetings. The Executive Committee serves as the Agency's Audit Committee and reviews both budgets and annual financial reports in detail, in addition to reviews by the full Board.

The Agency prepares monthly financial reports for the Management Team. The reports review the status of the approved budget and actual year to date expenses as a budget management tool. The Agency prepares monthly account reconciliations to provide current financial information useful in decision making and budget implementation. Monthly general ledger and bank account reconciliations are also completed ensuring financial reporting is current.

The Agency prepares an annual working budget, a summary budget, and an annual financial report, maintains a current website with a large volume of publications and resources documents and prepares a formal Annual Report with a wide circulation beyond the requirement to file the report with the city. The Annual Report is voluntarily mailed out to approximately 250 entities or individuals who have expressed interest or been involved with Agency's activities and are identified as interested stakeholders or partnership organizations in the Boise downtown.

Evaluation and Recommendations:

- *Audit and annual report* – We believe that the policies and procedures are satisfactory based on the size and structure of the Agency. In fiscal 2007, the Agency elected to have its auditors prepare the financial statements to assist with timely preparation of the final report. In compliance with new auditing standards, a significant deficiency was duly noted and reported in the fiscal 2007 management letter. The letter was discussed with the Agency's Executive Committee and delivered to the Board of Commissioners as part of the audit communication. As noted in the management letter, this circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We recommend that management evaluate their resources and the costs and benefits of preparing the report.
- *CAFR advisability* – This evaluation was a request of our considerations of preparing a Comprehensive Annual Financial Report (CAFR). Accordingly, we provide no rating. A CAFR differs from a typical audit report in a few ways, including the addition of an introductory section, letter of transmittal, and statistical section. Such additions are reviewed by the auditors, but the audit report does not opine on such information. CAFRs add a level of transparency to the organization, and provide up to 10 years of comparative statistical data that may be useful in evaluating the operations of the organization. As a CAFR is not a required reporting model, we recommend that management determine the usefulness of the statistical data to the users of the financial statements. A CAFR can be a complex document to prepare in the first year, and will require the retrieving of up to 10 years of a variety of data for comparative schedules. Accordingly, if management makes the decision to report under the CAFR model, we recommend that they prepare all the information a few months prior to year end, and they have the auditors review the information at some interim period prior to the commencement of the year end audit.
- *Financial communication/information* - we believe the current policies and procedures are satisfactory.