



Financial Statements
September 30, 2011

Meridian Development Corporation

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Independent Auditor's Report

Members of the Board of Directors
Meridian Development Corporation, a component unit of the City of Meridian, Idaho
Meridian, Idaho

We have audited the accompanying financial statements of the governmental activities of Meridian Development Corporation, (MDC), a component unit of the City of Meridian, Idaho, as of and for the year ended September 30, 2011, which collectively comprise MDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MDC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Meridian Development Corporation, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 08, 2011, on our consideration of MDC's internal control over financial reporting 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information

and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
December 08, 2011

This section of the Meridian Development Corporation's (MDC or Corporation) annual financial report presents management's discussion and analysis of MDC's financial performance during the year ended September 30, 2011. Please use this information in conjunction with the information furnished in MDC's financial statements.

Financial Highlights

- Fiscal year 2011 is the eighth full year that MDC has collected property tax. Property tax is MDC's principal source of revenue. Property tax collections decreased by approximately \$189,000 or 18% from fiscal year 2010 to fiscal year 2011.
- The total assets of MDC exceeded its liabilities at September 30, 2011 by \$2,850,500. Of the total net assets, \$2,723,754 is invested in capital assets, net of related debt. The remaining net assets of \$126,746 are unrestricted and are available to meet the Corporation's on-going obligations. This is an increase of \$337,628 over net assets of \$2,512,872 at September 30, 2010.

Overview of the Financial Statements

This annual report consists of five parts – *management discussion and analysis, the government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information.*

Government- Wide Financial Statements

These statements report information about all of the operations of MDC using accounting methods similar to those used by private sector companies. These statements are prepared using the flow of economic resources measurement focus and accrual basis of accounting. The current year's revenues and expenses are recorded as transactions occur rather than when cash is received or paid.

The government-wide financial statements are divided into two categories:

Statement of Net Assets – Reports all of MDC's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the entity is improving or deteriorating.

Statement of Activities – Reports all of the Corporation's revenues and expenses for the year by function. MDC currently only has one function, the administrative function.

Fund Financial Statements

The Fund financial statements provide information about an entity's major funds. MDC only has one fund. Funds may be required by law or may be established by the MDC Board of Directors.

Governmental Funds: Governmental fund financial statements focus on short-term inflows and outflows of spendable resources, an accounting approach known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. Information provided by these statements provides a short-term view of what resources will be available to meet needs.

MDC has one governmental fund:

General Fund: The general fund is the general operating fund of MDC. Income is derived primarily from property tax and secondarily from a promissory note.

Notes to the Financial Statements

The notes provide additional information that is necessary to fully understand the data presented in the government-wide and fund financial statements.

Required Supplementary Information

This section has information that further explains and supports the information in the financial statements by including a comparison of the Corporation's budget data for the year.

FINANCIAL ANALYSIS OF MERIDIAN DEVELOPMENT CORPORATION AS A WHOLE

Net Assets

Net assets measure the difference between what the entity owns (assets) versus what the entity owes (liabilities). At September 30, 2011, MDC's combined assets exceeded liabilities by \$2,850,500. None of the unrestricted assets are restricted for any purpose.

The following statement is condensed from the Statement of Net Assets.

	2011	2010
Current and Other Assets	\$ 1,335,876	\$ 1,700,047
Capital Assets	4,058,032	2,259,393
Total Assets	5,393,908	3,959,440
Current Liabilities	2,543,408	1,012,743
Long-Term Liabilities	-	433,825
Total liabilities	2,543,408	1,446,568
Net Assets		
Invested in capital assets, net of related debt	2,723,754	1,805,854
Unrestricted	(12,844)	707,018
Restricted	139,590	-
Total net assets	\$ 2,850,500	\$ 2,512,872

Changes in Net Assets

During the year, MDC's financial position improved by \$337,628, comparable to the prior year change in financial position of \$489,285. During Fiscal Year 2011, MDC purchased intangibles and CIP for \$1,867,228. MDC now has total net capital assets of \$4,058,032. The following condensed financial information was derived from the government-wide Statement of Activities and shows how MDC's net assets changed during the year.

	2011	2010
General Revenues		
Property tax	\$ 874,647	\$ 1,063,915
Interest	1,068	1,493
Other revenue	8,990	16,519
	884,705	1,081,927
Total general revenues		
Program Revenues		
Grant	3,538	-
	888,243	1,081,927
Total revenues		
Expenses		
Administrative	530,751	568,912
Interest on long-term debt	19,864	23,730
	550,615	592,642
Total expenses		
Change in Net Assets	337,628	489,285
Net Assets		
Beginning of year	2,512,872	2,023,587
End of year	\$ 2,850,500	\$ 2,512,872

From fiscal year 2010 to fiscal year 2011, the MDC's tax increment financing decreased 23%. Tax increment financing is the tax on the difference between the market value in the base year – the year the urban renewal agency is established – and each subsequent year.

FINANCIAL ANALYSIS OF MDC'S FUNDS

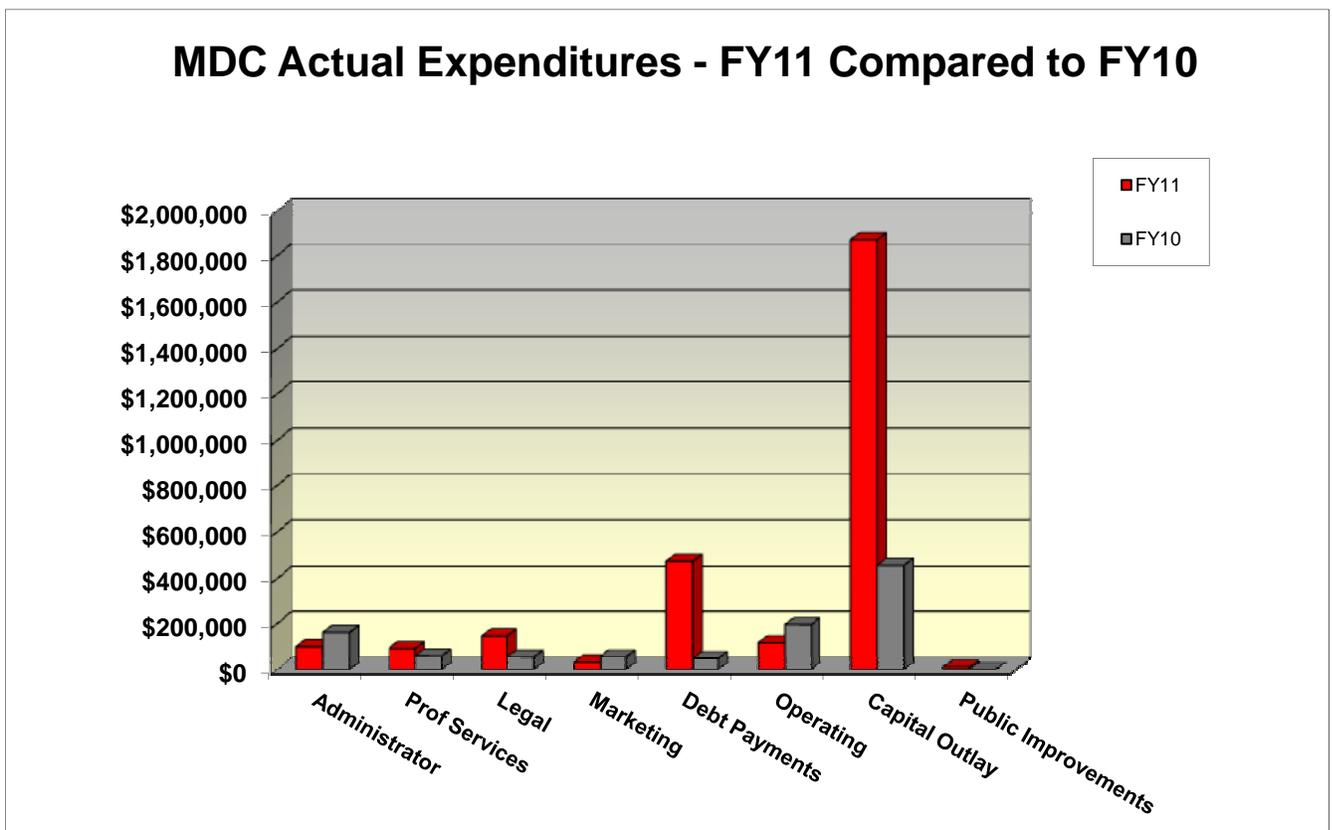
Governmental Fund

Fiscal year 2011 was the eighth full year that MDC received property tax revenue. During its initial organization years, fiscal year 2002 and fiscal year 2003, MDC received contributions from the City of Meridian. At September 30, 2011 the fund balance was \$2,850,500 as compared to \$2,512,872 at September 30, 2010. Of the fund balance, \$2,723,754 is invested in capital assets, net of related debt, while the remaining fund balance of \$126,746 is unrestricted.

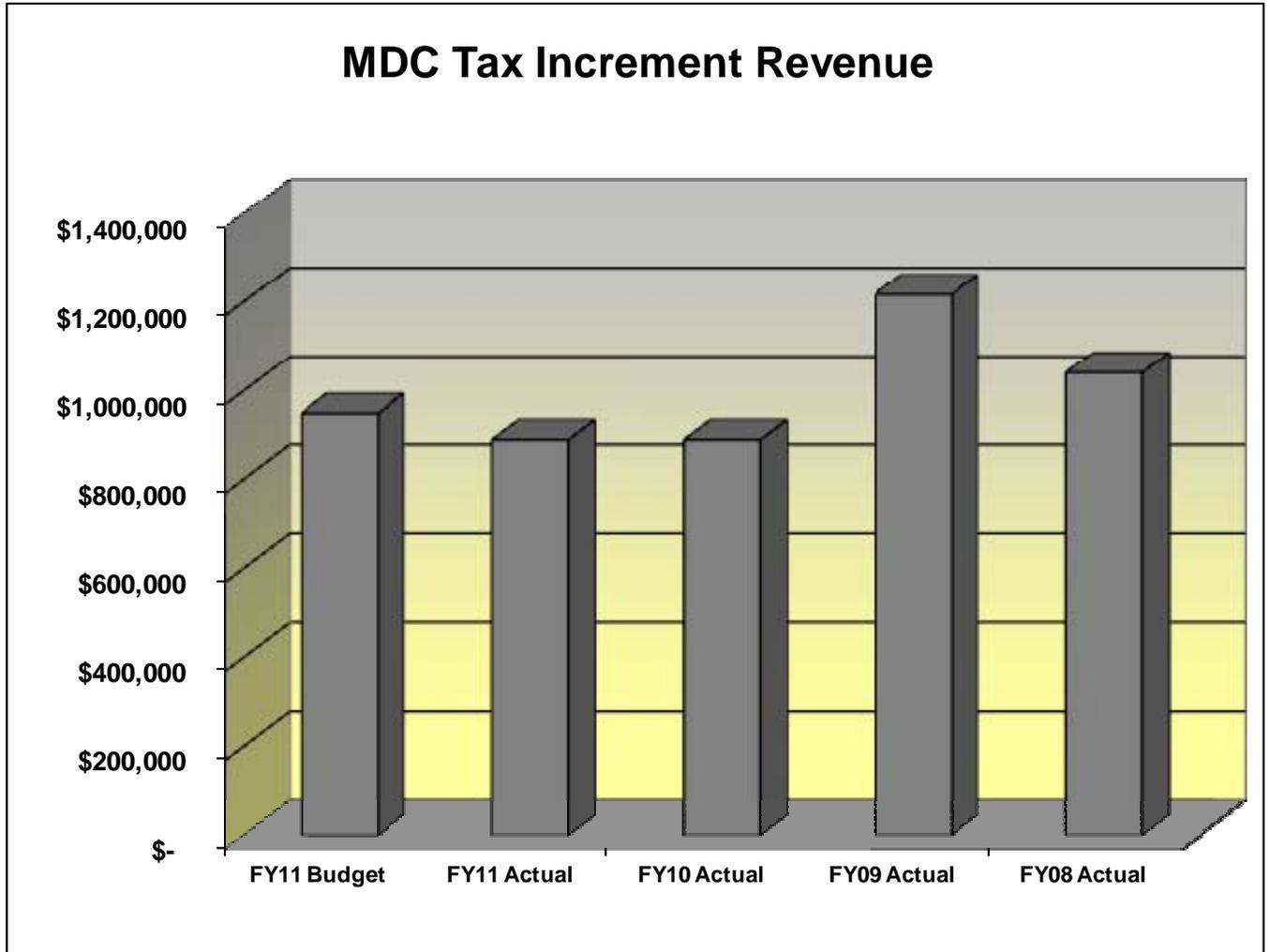
Budgetary Highlights

There were no amendments made to the original fiscal year 2011 budget. MDC budgeted \$2,280,000 in capital outlay for building improvements, equipment and for the new building construction. In actuality, during fiscal year 2011, MDC paid for permits, plans, and construction for a new building to be built on land currently owned by MDC. Total capital outlay was \$1,873,078. Streetscape costs, leasehold improvements and other capital costs were budgeted as operating expenses and professional services as opposed to being capitalized. As an end result, actual capital outlay expenditures were under budget and operating expenses were slightly under budget.

MDC does not have any employees and relies on professional service contracts for the administrator, legal, and marketing, etc. 68% of actual operating expenditures were for professional service contractors. MDC spent 94% of their operating budget.



Property tax revenue was budgeted to be \$950,000; actual tax collected was slightly less at \$892,096.



Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2010, MDC had net investments in capital assets of \$2,259,393. At the end of fiscal year 2011, the net investment in capital assets had increased to \$4,058,032, including \$2,051,438 in construction in progress, \$1,311,358 in land, \$502,517 in buildings, \$96,719 in equipment, \$83,023 in leasehold improvements, \$140,898 in intangibles and \$127,921 in accumulated depreciation. Intangible assets include the Downtown Master Plan, the business incubator logo, and the MDC website.

Long-Term Debt

MDC had a promissory note with the Bank of the Cascades for \$500,000. This note was taken out in fiscal year 2008 for the purpose of purchasing land for redevelopment. During Fiscal Year 2011, two new promissory notes were taken out with Washington Trust Bank, totaling \$2,850,000, which included paying the Bank of the Cascades note in full. These notes payable were incurred in order to complete a building to be sold as condominium and office space units. The first note is for \$1,576,000 and matures on March 5, 2012. The second note is for \$1,274,000 and matures on March 5, 2022. Proceeds from the sales of the units are to be used to repay these notes. As of September 30, 2011, \$1,327,399 had been drawn on the first note and \$6,597 had been drawn on the second note.

Also, a copier was leased for the Business Incubator in Fiscal Year 2010. As of September 30, 2011, the short-term balance is \$282.

Fiscal Year 2012 Budgetary Considerations

For fiscal year 2012, MDC will continue downtown rehabilitation efforts by purchasing properties for redevelopment and parking and by participating in a variety of community downtown projects and programs. MDC will partner with the City of Meridian for downtown decorations, help fund public art, assist businesses with streetscape and façade improvements, and sell the office/condo units in the new building in downtown Meridian.

Property tax revenue is expected to be about the same as the amount collected in fiscal year 2011. MDC has also budgeted \$1,817,560 in proceeds from sales of the condo units, \$935,731 from loan proceeds and planned for possible receipts of \$9,400 from the Business Incubator project.

Since its formation in fiscal year 2002, MDC has gone from a \$15,000 budget to approximately \$3.7 million in fiscal year 2012.

Requests for Information

This report is designed to provide a general overview of Meridian Development Corporation's finances for our citizens and customers. If you have questions about this report or need additional financial information contact the Finance Office: 628 S. Glenn Brook Pl., Kuna, ID 83634. Phone 208-724-4182.

Meridian Development Corporation
Statement of Net Assets and Governmental Fund Balance Sheet
September 30, 2011

	General Fund	Adjustments Note 2	Statement of Net Assets
Assets			
Current Assets			
Cash and cash equivalents	\$ 313,344	\$ -	\$ 313,344
Restricted cash	139,590	-	139,590
Property tax receivable	840,947	-	840,947
Grant receivable	920	-	920
Deposits and prepaids	1,692	-	1,692
Deferred financing costs, net of accumulated amortization	-	39,383	39,383
Total current assets	<u>1,296,493</u>	<u>39,383</u>	<u>1,335,876</u>
Noncurrent Assets			
Capital assets, not subject to depreciation and amortization	-	3,362,796	3,362,796
Capital assets, subject to depreciation and amortization	-	823,157	823,157
Less accumulated depreciation and amortization	-	(127,921)	(127,921)
Total assets	<u>\$ 1,296,493</u>	<u>\$ 4,097,415</u>	<u>\$ 5,393,908</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 445,472	\$ -	\$ 445,472
Due to related parties	14,201	-	14,201
Deferred property tax revenue	820,597	(71,340)	749,257
Other current liabilities	200	-	200
Lease payable - current portion	-	282	282
Note - current portion	-	1,333,996	1,333,996
Total liabilities	<u>1,280,470</u>	<u>1,262,938</u>	<u>2,543,408</u>
Fund Balance/Net Assets			
Fund balance			
Nonspendable	1,532	(1,532)	-
Restricted	139,590	(139,590)	-
Unassigned	(125,099)	125,099	-
Total fund balance	<u>16,023</u>	<u>(16,023)</u>	<u>-</u>
Total Liabilities and Fund Balances			
Capital assets, net of related debt	<u>\$ 1,296,493</u>	2,723,754	2,723,754
Restricted		139,590	139,590
Unrestricted		(12,844)	(12,844)
		<u>\$ 4,097,415</u>	<u>\$ 5,393,908</u>

Meridian Development Corporation
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund
Balances
Year Ended September 30, 2011

	<u>General Fund</u>	<u>Adjustments Note 3</u>	<u>Statement of Activities</u>
Expenditures			
Office and operating expense	\$ 116,027	\$ 80,373	\$ 196,400
Professional services, surveys, studies	336,927	(45,317)	291,610
Public education and marketing	42,741	-	42,741
Debt service			
Principal	453,257	(453,257)	-
Interest	19,864	-	19,864
Capital outlay	<u>1,873,078</u>	<u>(1,873,078)</u>	<u>-</u>
Total expenditures	<u>2,841,894</u>	<u>(2,291,279)</u>	<u>550,615</u>
General Revenues			
Property tax	892,096	(17,449)	874,647
Interest	1,068	-	1,068
Other revenue	<u>8,990</u>	<u>-</u>	<u>8,990</u>
Total general revenues	<u>902,154</u>	<u>(17,449)</u>	<u>884,705</u>
Program Revenues			
Grant	<u>3,538</u>	<u>-</u>	<u>3,538</u>
Total revenues	<u>905,692</u>	<u>(17,449)</u>	<u>888,243</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(1,936,202)</u>	<u>2,273,830</u>	<u>337,628</u>
Other Financing Sources (Uses)			
Proceeds from note payable	<u>1,333,996</u>	<u>(1,333,996)</u>	<u>-</u>
Net Change in Fund Balances	(602,206)	939,834	337,628
Fund Balance/Net Assets,			
Beginning of year	<u>618,229</u>		<u>2,512,872</u>
End of year	<u>\$ 16,023</u>		<u>\$ 2,850,500</u>

Note 1 - Summary of Significant Accounting Policies

The Meridian Development Corporation (MDC) is a separate and distinct legal entity of the City of Meridian (City) created by state statute. The Directors for MDC are appointed by the Mayor and approved by the City Council. MDC provides urban renewal services for the citizens of the City.

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

The accounting and reporting policies of MDC relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the GASB, the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, MDC has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

The government-wide column of the financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. There were program revenues of \$3,538 in 2011. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

As allowed under GASB 34, MDC is reported as a "Single Purpose Entity". This allows the government-wide financial statements to be combined with the fund-level financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

MDC reports the following major governmental funds:

General Funds - MDC is a general fund. General funds are used for all financial resources except those required to be accounted for in another fund.

Restricted Cash

Restricted cash consists of proceeds from the Series 2011A and B Notes that have not been spent on the capital projects related to the financing.

Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. All material fixed assets are valued at cost. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets are depreciated on the straight-line basis with the half-year convention over useful lives of 3 to 30 years.

During fiscal year 2010, MDC began the planning and preliminary drawings for a new building to be built for office and residential space. Loans for \$2.85 million were obtained of which \$1.33 million was drawn on and construction began in fiscal year 2011.

Property Taxes Receivable and Deferred Revenue

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

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

Risk Management

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

Fund Balances

MDC implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in Fiscal Year 2011. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at September 30, 2011 by MDC are nonspendable in form. This includes prepaid expenses of \$1,532. MDC has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted - This fund balance is constrained for a specific purpose and legally restricted by external parties, such as State or Federal agencies. MDC has \$139,590 in restricted fund balance at September 30, 2011 associated with the notes payable on the building issued in 2011.

Committed - This fund balance constraint is self-imposed by the Board of Directors. Formal action is required by the Board of Directors to commit funds and must occur prior to year-end; however, the actual dollar amount may be determined in the subsequent period. MDC has committed funds to update a church downtown and for engineering/Leadership in Energy and Environmental Design (LEED) for the office condominium building; however as of September 30, 2011, MDC did not have the fund balance available to reserve for the committed funds.

Assigned - This fund balance is intended for a specific purpose and the authority to "assign" is delegated to the Administrator. Formal action is not necessary to impose, remove or modify an Assigned Fund Balance. MDC does not have any assigned fund balance at September 30, 2011.

Unassigned - This is the remaining fund balance that has no internal or external restrictions. Unassigned amounts are available for any purpose. Although there is generally no set spending plan, there is a need to maintain a certain funding level. The unassigned fund balance is commonly used for emergency expenditures or reserves needed to ensure cash flow. MDC has a negative unassigned fund balance at September 30, 2011 due to the nonspendable and restricted fund balance exceeding the total fund balance.

Beginning fund balances for MDC's governmental funds have been restated to reflect the above classifications.

On September 28, 2011, MDC developed and adopted a Fund Balance Policy with Resolution No. 11-021. This policy establishes a minimum fund balance policy for MDC. The policy establishes that the fund balance at fiscal year end to be at least equal to 8% of the current year budget of tax revenues. As of September 30, 2011, MDC was unable to reserve for the minimum fund balance, due to nonspendable and restricted fund balances exceeding the total fund balance.

This Resolution states that it shall be the Policy of MDC that this reserve will be in the unassigned fund balance unless the Administrator designates otherwise. The policy also requires that the restricted, committed, assigned fund balances are to be expended first, followed by the unassigned, unless the Board of Directors approves to do otherwise through the budget process.

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

"Total fund balances" in MDC's governmental fund may differ from the "net assets" of the governmental activities reported in the Statement of Net Assets as a result of the long-term economic focus of the Statements of Net Assets versus the current financial resources focus of the governmental fund balance sheet.

Some of the property taxes receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	<u><u>\$ 71,340</u></u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u><u>\$ 4,058,032</u></u>
Deferred financing costs are not financial resources and, therefore, are not reported in the funds.	<u><u>\$ 39,383</u></u>
Long-term debt is not due and payable in the current period and, therefore, is not report in the funds.	<u><u>\$ (1,334,278)</u></u>

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

The “net change in fund balances” for governmental funds may differ from the “change in net assets” for governmental activities reported in the Statement of Activities as a result of the long-term economic focus of the Statement of Activities versus the current financial resource focus of the governmental funds.

Some property tax revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.	<u><u>\$ (17,449)</u></u>
Deferred financing costs are reported as expense in Governmental funds. However, in the statement of activities, those costs are allocated over the life of the loans and reported as amortization expense. This is the amount by which deferred financing costs (\$82,976) exceeded amortization (\$43,593) in the current period.	<u><u>\$ 39,383</u></u>
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,873,078) exceeded depreciation (\$74,439) in the current period.	<u><u>\$ 1,798,639</u></u>
Proceeds from loans are reported as revenues in the governmental funds. In the Statement of Activities, however, those receipts are reported as liabilities.	<u><u>\$ (1,333,996)</u></u>
Repayment of long-term debt expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.	<u><u>\$ 453,257</u></u>

Note 4 - Deposits –Custodial Credit Risk

Cash and Cash Equivalents

As of September 30, 2011, the account balances of the checking account and the money market savings account were \$313,344 and \$139,590, respectively. At September 30, 2011, the balance was fully insured and collateralized by the FDIC. Cash is held in custody of The Washington Trust Bank in MDC’s name.

MDC also participates in the State of Idaho Local Government Investment Pool (LGIP), Idaho State Treasurer’s Pooled Idle Fund. The pool is an internal investment pool managed by the State Treasurer’s Office on behalf of participants. The LGIP is a part of the Joint Powers Investment Pool managed by the State of Idaho Treasurer’s Office and was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. This pooling is intended to improve administrative efficiency and increase investment yield. The funds of the Pool are invested in certificates of deposit, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank.

An annual audit of the Joint Powers Investment Pool is conducted by the State Legislative Auditors Office. The Legislative Auditor of the State of Idaho has full access to the records of the Pool. The amount invested in the LGIP is considered a cash equivalent and as of September 30, 2011 was \$59,272. Copies of the report may be obtained from the Idaho State Treasurer's Office, 700 West Jefferson Street, Suite 126, Boise, Idaho 83702.

For purposes of efficient cash flow management and the management of temporary investments, MDC utilizes the LGIP to invest its cash.

Investments Authorized by the State of Idaho and MDC's Investment Policy

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

1. Local and State Agency Bonds
2. U. S. Agency Bonds
3. U. S. Agency Securities
4. Time Deposit Accounts

Credit Risk

Credit risk is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation and is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's and Fitch's. MDC's investment policy requires a rating of A or better by Standard & Poor's or other nationally recognized rating agency. As of December 30, 2009, the rating on the LGIP was removed, however at the time of withdrawal, the LGIP was managed in a manner consistent with an AAf rating. The LGIP is unrated as of September 30, 2011.

Interest Rate Risk

Interest rate risk is the risk that the changes in market interest rates will adversely impact the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to change in market interest rates. The Board is invested in LGIP and does not have a policy concerning maturities of investments. The LGIP had a weighted average maturity of 114 days as of September 30, 2011.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. The Board does not have a policy for custodial credit risk outside of the deposit and investment agreements.

Concentration of Credit Risk

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

Note 5 - Capital Assets

Changes to capital assets are as follows:

	Balance Oct. 1, 2010	Additions	Deletions	Balance Sept. 30, 2011
Governmental Activities:				
Capital assets, not depreciated/ amortized				
CIP	\$ 184,210	\$ 1,867,228	\$ -	\$ 2,051,438
Land	1,311,358	-	-	1,311,358
Total capital assets, not depreciated/amortized	<u>1,495,568</u>	<u>1,867,228</u>	<u>-</u>	<u>3,362,796</u>
Capital assets, depreciated/ amortized:				
Buildings	502,517	-	-	502,517
Equipment	96,719	-	-	96,719
Leasehold improvements	83,023	-	-	83,023
Intangibles	135,048	5,850	-	140,898
Total capital assets, depreciated/amortized	<u>817,307</u>	<u>5,850</u>	<u>-</u>	<u>823,157</u>
Less accumulated depreciation/ amortization				
Buildings	(25,126)	(16,750)	-	(41,876)
Equipment	(8,577)	(9,233)	-	(17,810)
Leasehold improvements	(6,298)	(12,595)	-	(18,893)
Intangibles	(13,481)	(35,861)	-	(49,342)
Total accumulated depreciation/amortization	<u>(53,482)</u>	<u>(74,439)</u>	<u>-</u>	<u>(127,921)</u>
Total net capital assets, depreciated/amortized	<u>763,825</u>	<u>(68,589)</u>	<u>-</u>	<u>695,236</u>
Governmental activities capital assets, net	<u>\$ 2,259,393</u>	<u>\$ 1,798,639</u>	<u>\$ -</u>	<u>\$ 4,058,032</u>

Note 6 - Changes in Long-Term Debt

MDC had a \$500,000 promissory note with the Bank of the Cascades to acquire property for redevelopment and public parking. The note was issued October 16, 2007 and had a maturity date of November 1, 2017. The note had an interest rate of 5.115 %, required monthly payments of \$3,332 and was collateralized with future tax revenues. During Fiscal Year 2011, MDC obtained two promissory notes, totaling \$2,850,000, with Washington Trust Bank which paid the Bank of Cascades note in full. These notes payable were incurred in order to complete a building to be sold as a condominium and office space units. The first note (Series 2011A) is for \$1,576,000 and matures on March 5, 2012. The second note (Series 2011B) is for \$1,274,000 and matures on March 5, 2022. Proceeds from the sales of the units are to be used to repay these notes. Funds from both notes are received on a draw-down basis as the money is needed to perform work on the building.

The Series 2011A Note for \$1,576,000 requires interest-only payments of 3.24% until the maturity date of March 5, 2012, in which the outstanding balance is due in full. The balance of the loan (total draw downs) at September 30, 2011 was \$1,327,399. The 2011 B Note for \$1,274,000 requires interest-only payments of 3.89% until March 5, 2012. Monthly payments of principal and interest are payable beginning April 5, 2012. In addition, a principal payment of \$241,000 is due on March 5, 2012. The balance of this loan (total draw downs) at September 30, 2011 was \$6,597. The outstanding balance associated with the Series 2011 A and B Notes are due in full during 2012. The collateral on the Series 2011 A and B Notes is the property. MDC's debt agreements are subject to restrictive covenants related to maintenance of financial records, insurance coverage, financial ratios, and continuing operations. During the current fiscal year, MDC was not in compliance with its debt service coverage ratio.

In fiscal year 2010, MDC entered into a lease for a copier for the Business Incubator for a period of 19 months. Payments are \$213 per month which began in February 2010 for a total cost of \$4,043. The carrying amount is \$282 (\$3,875 net of accumulated depreciation of \$3,593) as of September 30, 2011.

The following is a summary of changes in debt of MDC for the year ended September 30, 2011.

	Balance Oct. 1, 2010	Debt Issued	Debt Retired	Balance Sept. 30, 2011
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities				
Lease payable - copier	\$ 2,752	\$ -	\$ (2,470)	\$ 282
Note payable - building	450,787	1,333,996	(450,787)	1,333,996
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities liabilities	<u>\$ 453,539</u>	<u>\$ 1,333,996</u>	<u>\$ (453,257)</u>	<u>\$ 1,334,278</u>

Note 7 - Commitments

MDC budgeted for several projects in Fiscal Years 2011 and 2010 that had not been completed as of September 30, 2011. This includes improvements to the Church of the Harvest for \$35,000. None of the work has begun yet. Also included is engineering/LEED fundamental commissioning for the office/condo building. \$4,225 is committed for completion of this work. The balance left for the construction contract for the office/condo building was approximately \$982,000. However, there were \$1,516,000 in loan funds still available to be used for this contract as of September 30, 2011.

Note 8 - Related Party Transactions

MDC partners with the City of Meridian for various downtown improvements. As of September 30, 2011, total expenditures were \$1,637.

In addition, MDC has a contract with Red Sky Public Relations for administrative services and for a contract for public relations and marketing. During Fiscal Year 2011, the administrator of MDC worked for Red Sky Public Relations. Pursuant to the agreement, MDC paid \$8,333 per month for administration, which accounted for about \$100,000 in expenses for the year. In addition, \$31,752 was paid to Red Sky Public Relations for public relations and marketing expenses. As of September 30, 2011, \$12,314 was outstanding as payables to Red Sky Public Relations.



Required Supplementary Information
September 30, 2011

Meridian Development Corporation

Meridian Development Corporation
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund
Year Ended September 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
General property tax revenue	\$ 950,000	\$ 950,000	\$ 892,096	\$ (57,904)
Interest earnings	5,000	5,000	1,068	(3,932)
Other revenue	15,000	15,000	12,528	(2,472)
Total revenues	970,000	970,000	905,692	(64,308)
Expenditures				
Office and operating expense	172,508	172,508	116,027	56,481
Professional services, surveys, studies	251,000	251,000	336,927	(85,927)
Public education and marketing	105,500	105,500	42,741	62,759
Debt service				
Principal	18,000	18,000	453,257	(435,257)
Interest	74,000	74,000	19,864	54,136
Capital outlay	2,280,000	2,280,000	1,873,078	406,922
Total expenditures	2,901,008	2,901,008	2,841,894	59,114
Excess (deficiency) revenues over (under) expenditures	(1,931,008)	(1,931,008)	(1,936,202)	(5,194)
Other financing sources (uses) proceeds from note payable	2,000,000	2,000,000	1,333,996	(666,004)
Net change in fund balances	68,992	68,992	(602,206)	(671,198)
Fund Balance, Beginning of year	618,229	618,229	618,229	-
End of year	<u>\$ 687,221</u>	<u>\$ 687,221</u>	<u>\$ 16,023</u>	<u>\$ (671,198)</u>

Note 1 - Budgets and Budgetary Accounting

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

Prior to September 1, the members of the Board of Directors and the contract administrator prepare a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted at City Hall to obtain taxpayer comments.

Prior to October 1, the budget is legally enacted through passage of an ordinance.

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

Formal budgetary integration is employed as a management control device during the year.



Supplementary Information
September 30, 2011

Meridian Development Corporation



Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board of Directors
Meridian Development Corporation, a component unit of the City of Meridian, Idaho
Meridian, Idaho

We have audited the financial statements of the governmental activities of Meridian Development Corporation, (MDC), a component unit of the City of Meridian, Idaho, as of and for the year ended September 30, 2011, which collectively comprise MDC's basic financial statements and have issued our report thereon dated December 08, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered MDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MDC's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDC's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Boise, Idaho
December 08, 2011