

FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

MERIDIAN DEVELOPMENT CORPORATION

MERIDIAN DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors

**Meridian Development Corporation, a component
unit of the City of Meridian, Idaho**

We have audited the accompanying financial statements of the governmental activities of Meridian Development Corporation, a component unit of the City of Meridian, Idaho as of and for the year ended September 30, 2004, which collectively comprise Meridian Development Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Meridian Development Corporation'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, 2005, and 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 9, 2004, on our consideration of Meridian Development Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Boise, Idaho
December 9, 2004

MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004

This section of the Meridian Development Corporation's (MDC) annual financial report presents management's discussion and analysis of the Corporation's financial performance during the year ended September 30, 2004. Please use this information in conjunction with the information furnished in the Corporation's financial statements. Comparative analysis will be provided in future years when prior year information is available.

Financial Highlights

- Fiscal year 2004 is the first year that MDC presented audited financial statements at the component unit level and the third year of its existence.
- The total net assets of the Corporation exceeded its liabilities at September 30, 2004 by \$71,116. This total amount is unrestricted and available to meet the Corporation's on-going obligations.

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 the Corporation 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 the Corporation'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 or whether the financial position of the Corporation 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.

MERIDIAN DEVELOPMENT CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004

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 the Corporation. Substantially all of the income is derived from property tax.

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 THE 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, 2004 MDC's combined assets exceeded liabilities by \$71,116.

MDC's sole asset is cash. None of the cash is restricted for any purpose.

	Governmental
	Activities
	<u>2004</u>
Current Assets	\$71,733
Total Assets	<u>\$71,733</u>
Current Liabilities	\$657
Total Liabilities	<u>\$657</u>
Net Assets:	
Unrestricted	\$71,116
Total Net Assets	<u>\$71,116</u>

MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004

Changes in Net Assets

During the year the Corporation's financial position improved by \$44,534. 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.

General Revenues

Property Tax	\$112,406
Interest	\$877
Total Revenue	<u>\$113,283</u>

Expenses

Administrative	\$68,449
Total Expenses	<u>\$68,449</u>

Change in Net Assets \$44,834

Net Assets October 1, 2003	\$26,282
Net Assets September 30, 2004	<u><u>\$71,116</u></u>

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

Governmental Fund

During FY05 Meridian Development Corporations sole source of revenue was tax increment financing. This means the corporation gets the tax on the difference between the base year – the year the urban renewal agency is established and each subsequent year. Fiscal year 2004 was the first 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, 2003 the fund balance of \$26,282 was the cash left at the end of the fiscal year from a \$40,000 donation from the City. By the end of fiscal year 2004 the fund balance had increased to \$71,116. The only revenue was property tax and a small amount of interest.

Budgetary Highlights

There were no amendments made to the original FY04 budget. Expenditures were for administrative operating expenses, a market study, and contracting for an administrator. Expenses ended up being 32% under budget. Property tax revenue was \$112,000, slightly over the budgeted amount of \$100,000.

**MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004**

FY05 Budgetary Considerations

Fiscal year 2005 will be the Corporations second year of collecting property tax revenue. MDC expects revenue to almost double. Fiscal year 2005 will be another planning year with funds budgeted to pay consultants for studies, the contract administrator and administrative expenses.

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:

City of Meridian
Finance Office
33 E. Idaho Ave.
Meridian, Idaho 83642

Phone: (208) 888-4433

MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2004

	General Fund	Adjustments Note 2	Statement of Net Assets
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 71,773	\$ -	\$ 71,773
Total assets	<u>\$ 71,773</u>	<u>\$ -</u>	<u>\$ 71,773</u>
LIABILITIES			
Accounts payable	\$ 657	\$ -	\$ 657
Total liabilities	657	-	657
FUND BALANCE/NET ASSETS			
Fund balances			
Unreserved	<u>71,116</u>	<u>(71,116)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 71,773</u>		
Net assets			
Unrestricted		<u>71,116</u>	<u>71,116</u>
		<u>\$ -</u>	<u>\$ 71,773</u>

MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Adjustments Note 3	Statement of Net Assets
EXPENDITURES			
Office and operating expense	\$ 928	\$ -	\$ 928
Electronics expense	-	-	-
Professional services, surveys, studies	50,810	-	50,810
Audit and accounting services	500	-	500
Contract legal services	13,089	-	13,089
Telephone expense	-	-	-
Postage and mailings	-	-	-
Meeting expense	-	-	-
Legal notices and publications	-	-	-
Public education and marketing	-	-	-
ICRMP insurance premiums and claims	1,982	-	1,982
Miscellaneous	1,140	-	1,140
Total expenditures	68,449	-	68,449
GENERAL REVENUES			
Taxes	112,406	-	112,406
Interest	877	-	877
Total general revenues	113,283	-	113,283
EXCESS OF REVENUES OVER EXPENDITURES	44,834	(44,834)	-
CHANGE IN NET ASSETS	-	44,834	44,834
FUND BALANCE/NET ASSETS, BEGINNING OF YEAR	26,282	-	26,282
END OF YEAR	\$ 71,116	\$ -	\$ 71,116

MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Meridian Development Corporate (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 no program revenues in 2004. 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 for the government-wide financial statements to be combined with the fund level financial statements.

NOTES TO 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*, as are the proprietary fund and fiduciary fund financial statements. 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 30 to 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.

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 includes 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.

NOTES TO FINANCIAL STATEMENTS

Risk Management

As a component unit of the City of Meridian, 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.

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. However, as of September 30, 2004, there are no differences between total fund balances and the net assets reported in the Statement of Net Assets and Governmental Funds Balance Sheet.

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. However, as of September 30, 2004, there are no differences between the net change in fund balances and the change in net assets as reported in the Statement of Activities and Governmental Funds Revenue, Expenditures, and Changes in Fund Balances.

NOTE 4 – DEPOSITS –CUSTODIAL CREDIT RISK

Cash and cash equivalents

At year-end, the bank balance of MDC’s deposits was \$71,773. The bank balance was covered by depository insurance. All cash is held in a national financial institution.

MERIDIAN DEVELOPMENT CORPORATION

REQUIRED SUPPLEMENTARY INFORMATION

MERIDIAN DEVELOPMENT CORPORATION**COMPONENT UNIT OF THE CITY OF MERIDIAN****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –****BUDGET AND ACTUAL – GENERAL FUND****YEAR ENDED SEPTEMBER 30, 2004**

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	With Final Budget
REVENUES				
General property tax revenue	\$ 100,000	\$ 100,000	\$ 112,406	\$ 12,406
City of Meridian contribuion	60,000	60,000	-	(60,000)
Interest earnings	-	-	877	877
Total revenues	160,000	160,000	113,283	(46,717)
EXPENDITURES				
Personnel	20,000	20,000	-	(20,000)
Office and operating expense	2,000	2,000	928	(1,072)
Electronics expense	-	-	-	-
Professional services, surveys, studies	64,000	64,000	50,810	(13,190)
Audit and accounting serivces	1,000	1,000	500	(500)
Contract legal services	10,000	10,000	13,089	3,089
Telephone expense	-	-	-	-
Postage and mailings	-	-	-	-
Meeting expense	-	-	-	-
Legal notices and publications	-	-	-	-
Public education and marketing	-	-	-	-
ICRMP insurance premiums and claims	1,500	1,500	1,982	482
Miscellaneous	1,500	1,500	1,140	(360)
Repay City of Meridian	60,000	60,000	-	(60,000)
Total expenditures	160,000	160,000	68,449	(91,551)
Excess (Deficiency) revenues over (under) expenditures	-	-	44,834	44,834
FUND BALANCE, BEGINNING OF YEAR				
	26,282	26,282	26,282	-
FUND BALANCE, END OF YEAR	\$ 26,282	\$ 26,282	\$ 71,116	\$ 44,834

MERIDIAN DEVELOPMENT CORPORATION
COMPONENT UNIT OF THE CITY OF MERIDIAN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2004

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, staff from the City of Meridian 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.

MERIDIAN DEVELOPMENT CORPORATION

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the governmental activities of Meridian Development Corporation, as of and for the year ended September 30, 2004, which collectively comprise Meridian Development Corporation's basic financial statements and have issued our report thereon dated December 9, 2004. 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 Meridian Development Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meridian Development Corporation'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 that are required to be reported under *Government Auditing Standards*.

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

Boise, Idaho
December 9, 2004