



Financial Statements
September 30, 2012

Meridian Development Corporation

Meridian Development Corporation

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Independent Auditor's Report

Members of the Board of Commissioners
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, 2012, 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 an opinion 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 opinion.

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, 2012, 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 November 29, 2012, 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 Sully LLP

Boise, Idaho
November 29, 2012

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, 2012. Please use this information in conjunction with the information furnished in MDC's financial statements.

Financial Highlights

- Fiscal year 2012 is the ninth full year that MDC has collected property tax. Property tax is MDC's principal source of revenue. Property tax collections decreased by approximately \$108,000 or 12% from fiscal year 2011 to fiscal year 2012.
- The total assets of MDC exceeded its liabilities at September 30, 2012 by \$1,133,806. Of the total net assets, \$523,152 is invested in capital assets, net of related debt. The remaining net assets of \$610,654 are restricted to meet the Corporation's on-going obligations. This is a decrease of \$1,716,694 from net assets of \$2,850,500 at September 30, 2011.

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, 2012, MDC's combined assets exceeded liabilities by \$1,133,806.

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

	2012	2011
Current and Other Assets	\$ 1,358,341	\$ 1,335,876
Capital Assets	1,513,225	4,058,032
Total Assets	2,871,566	5,393,908
Current Liabilities	835,557	2,543,408
Long term Liabilities	902,203	-
Total Liabilities	1,737,760	2,543,408
Net Assets		
Invested in Capital Assets, net of related debt	523,152	2,723,754
Restricted	610,654	139,590
Unrestricted	-	(12,844)
Total Net Assets	\$ 1,133,806	\$ 2,850,500

Changes in Net Assets

During the year, MDC's financial position decreased by \$1,716,694. This compares with the prior year increase in financial position of \$337,628. During fiscal year 2012, MDC purchased CIP of \$1,071,267 and made improvements to an MDC-owned building for the Ground Floor location in the amount of \$77,193. The building that was being built in FY11 was completed and sold in FY12 at a loss of \$1,887,321. Leasehold improvements for the previous Ground Floor location were written off in FY12 at a loss of \$29,379. MDC now has total net capital assets of \$1,513,225.

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.

	2012	2011
General Revenues		
Property tax	\$ 766,596	\$ 874,647
Interest	238	1,068
Other Revenues	5,060	8,990
Total general revenues	771,894	884,705
Program Revenues	21,949	3,538
Total Revenues	793,843	888,243
Expenses		
Administrative	2,450,758	530,751
Interest on long-term debt	59,779	19,864
Total Expenses	2,510,537	550,615
Change in Net Assets	(1,716,694)	337,628
Net Assets		
Beginning of year	2,850,500	2,512,872
End of year	\$ 1,133,806	\$ 2,850,500

From fiscal year 2011 to fiscal year 2012, 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

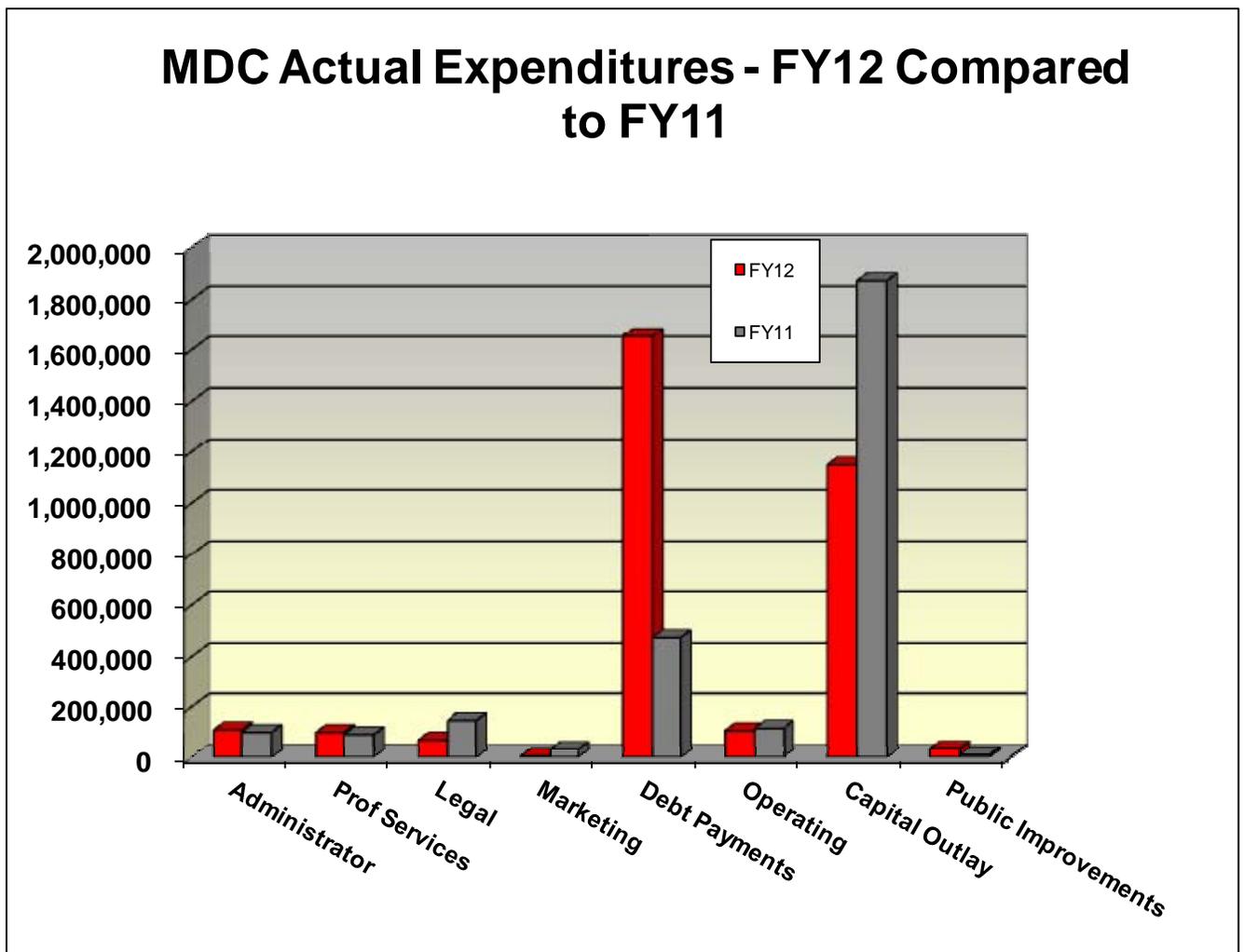
Governmental Fund

Fiscal year 2012 was the ninth 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, 2012 the fund balance was \$560,622 as compared to \$16,023 at September 30, 2011. Of the fund balance, \$1,274 is nonspendable and \$559,348 is restricted. Fund balance increased in fiscal year 2012 primarily due to the receipt of loan funds and proceeds from the sale of the building.

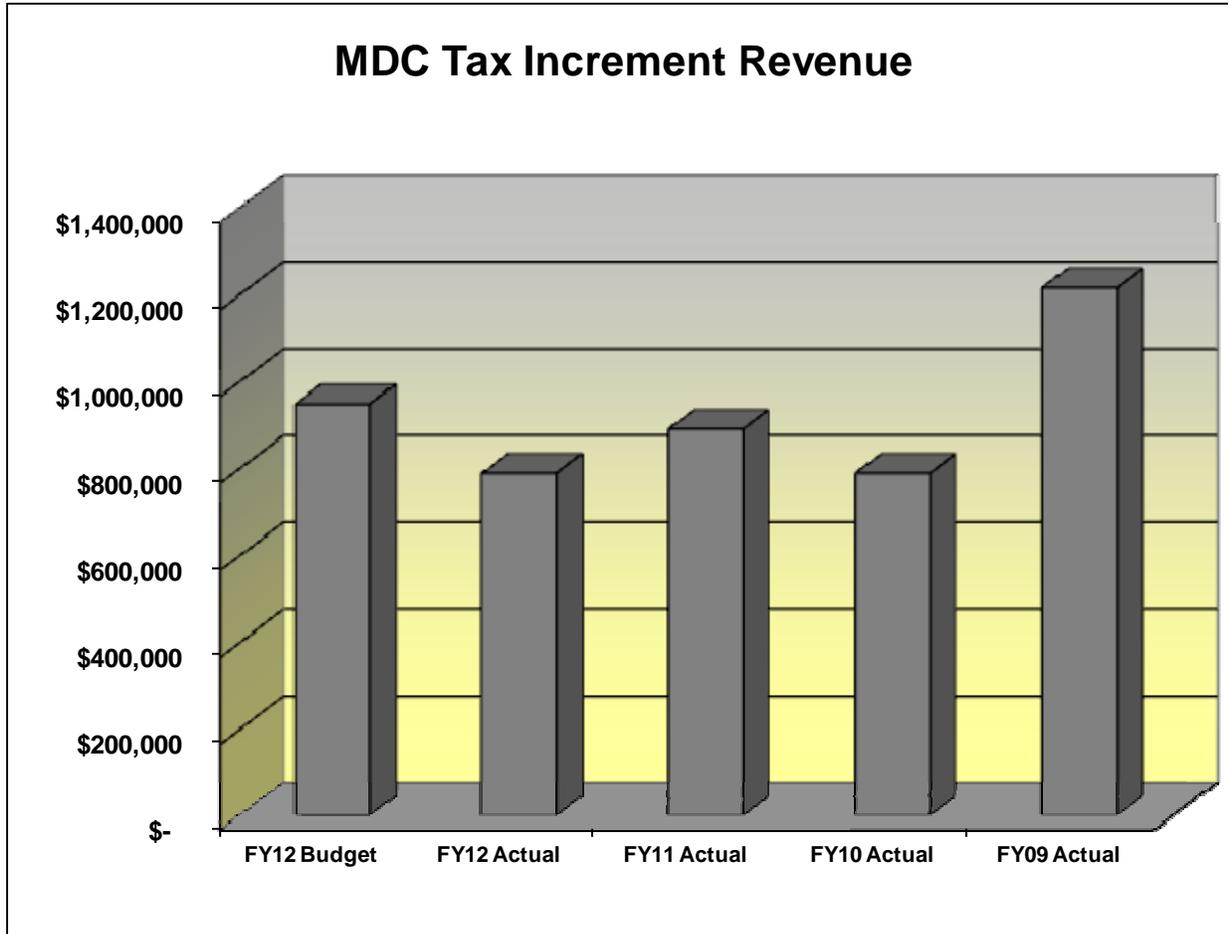
Budgetary Highlights

There were no amendments made to the original fiscal year 2012 budget. MDC budgeted \$1,218,787 in capital outlay for building improvements and the new building construction. Streetscape costs and other costs were budgeted as capital outlay. Total capital outlay was \$1,148,459. As an end result, actual capital outlay expenditures and operating expenses were under budget.

MDC does not have any employees and relies on professional service contracts for the administrator, legal, and marketing, etc. 69% of actual operating expenditures were for professional service contractors. MDC spent 75% of its operating budget.



Property tax revenue was budgeted to be \$950,000; actual tax collected was \$790,352.



Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2011, MDC had net investments in capital assets of \$4,058,032. At the end of fiscal year 2012, the net investment in capital assets had decreased to \$1,513,225, including \$845,067 in land, \$579,710 in buildings, \$104,196 in equipment, \$180,161 in intangibles and \$195,909 in accumulated depreciation. Intangible assets include the Downtown Master Plan, the 3D Modeling, and the MDC website. See Note 5 for further explanation of the changes in capital assets.

Long-Term Debt

During Fiscal Year 2011, MDC took out two new promissory notes with Washington Trust Bank, totaling \$2,850,000. These notes payable were incurred in order to complete the building to be sold as condominium and office space units. The first note was for \$1,576,000 and matured on March 5, 2012 and was paid in full when the building was sold. The second note was for \$1,274,000 and matures on March 5, 2022. Proceeds from the sales of the units were used to repay principal and interest on these notes. As of September 30, 2012, the balance on the remaining note was \$990,073. See Note 6 for further explanation of the changes in long-term debt.

Fiscal Year 2013 Budgetary Considerations

For fiscal year 2013, 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, and assist businesses with streetscape and façade improvements.

Property tax revenue is expected to be about the same as the amount collected in fiscal year 2012. MDC has also planned for possible receipts of \$5,000 from the Ground Floor Business Incubator project.

Since its formation in fiscal year 2002, MDC has gone from a \$15,000 budget to approximately \$1.3 million in fiscal year 2013.

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, 2012

	General Fund	Adjustments Note 2	Statement of Net Assets
Assets			
Current Assets			
Cash and cash equivalents	\$ 578,042	\$ -	\$ 578,042
Property tax receivable	772,817	-	772,817
Prepays and other receivables	1,824	-	1,824
Deferred financing costs, net of accumulated amortization	-	5,658	5,658
Total current assets	1,352,683	5,658	1,358,341
Non current Assets			
Capital assets, not subject to depreciation and amortization	-	845,067	845,067
Capital assets, subject to depreciation and amortization	-	864,067	864,067
Less accumulated depreciation	-	(195,909)	(195,909)
Total assets	\$ 1,352,683	\$ 1,518,883	\$ 2,871,566
Liabilities			
Current Liabilities			
Accounts payable	\$ 24,244	\$ -	\$ 24,244
Interest payable	-	3,210	3,210
Deferred property tax revenue	767,817	(47,584)	720,233
Note - current portion	-	87,870	87,870
Total current liabilities	792,061	43,496	835,557
Noncurrent Liabilities			
Note payable - less current portion	-	902,203	902,203
Total liabilities	792,061	945,699	1,737,760
Fund Balance/Net Assets			
Fund balance			
Nonspendable	1,274	(1,274)	-
Restricted	559,348	(559,348)	-
Total fund balance	560,622	(560,622)	-
Total Liabilities and Fund Balances	\$ 1,352,683		
Capital assets, net of related debt		523,152	523,152
Restricted		610,654	610,654
		\$ 1,518,883	\$ 2,871,566

Meridian Development Corporation

Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund
Balances
Year Ended September 30, 2012

	General Fund	Adjustments Note 3	Statement of Activities
Expenditures			
Office and operating expense	\$ 106,812	\$ 108,618	\$ 215,430
Professional services, surveys, studies	279,749	-	279,749
Public education and marketing	38,879	-	38,879
Debt service			
Principal	1,598,548	(1,598,548)	-
Interest	56,569	3,210	59,779
Capital outlay	1,148,459	(1,148,459)	-
Total expenditures	<u>3,229,016</u>	<u>(2,635,179)</u>	<u>593,837</u>
General Revenues			
General property tax revenue	790,352	(23,756)	766,596
Interest earnings	238	-	238
Other revenue	5,060	-	5,060
Total general revenues	<u>795,650</u>	<u>(23,756)</u>	<u>771,894</u>
Program Revenues			
Grant revenues	21,949	-	21,949
Total revenues	<u>817,599</u>	<u>(23,756)</u>	<u>793,843</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(2,411,417)</u>	<u>2,611,423</u>	<u>200,006</u>
Other Financing Sources (Uses)			
Proceeds from sale of asset	1,701,673	(1,701,673)	-
Proceeds from note payable	1,254,343	(1,254,343)	-
Loss on sale of assets	-	(1,916,700)	(1,916,700)
Net Change in Fund Balances	544,599	(2,261,293)	(1,716,694)
Fund Balance/Net Assets, Beginning of year	<u>16,023</u>		<u>2,850,500</u>
End of year	<u>\$ 560,622</u>		<u>\$ 1,133,806</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).

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 \$21,949 in 2012. 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.

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.

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, 2012 by MDC are nonspendable in form. This includes prepaid expenses of \$1,274. 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 had \$559,348 in restricted fund balance at September 30, 2012.

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.

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.

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.

On September 28, 2011, MDC developed and adopted a Fund Balance Policy with Resolution No. 11-021. This policy states that GASB refers to a minimum fund balance as a Stabilization Arrangement and MDC has established the practice of reserving 8% of the current year budget of tax revenues as the amount needed to reserve in order to ensure there is sufficient cash flow to maintain services between property tax receipts.

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>\$ 47,584</u></u>
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u><u>\$ 1,513,225</u></u>
Deferred financing costs are not financial resources and, therefore, are not reported in the funds.	<u><u>\$ 5,658</u></u>
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. All liabilities, both current and long-term are reported on the statement of net assets.	<u><u>\$ (990,073)</u></u>
Interest on long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	<u><u>\$ (3,210)</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>\$ (23,756)</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 current year deferred financing costs (\$0) exceeded amortization expense (\$33,725) in the current period.	<u><u>\$ (33,725)</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 (\$1,148,459) exceeded depreciation (\$74,893) in the current period.	<u><u>\$ 1,073,566</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>\$ (1,254,343)</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>\$ 1,598,548</u></u>
Loss on sales and disposals of assets are not reported in governmental funds. In the Statement of Activities, however, these losses are shown as a reduction to net income.	<u><u>\$ (1,916,700)</u></u>
Other financing sources include proceeds from the sale of assets. These are shown on the governmental fund statements, but not on government-wide statements.	<u><u>\$ (1,701,673)</u></u>
Interest expense accrued but not paid reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.	<u><u>\$ (3,210)</u></u>

Note 4 - Deposits –Custodial Credit Risk

Cash and Cash Equivalents

As of September 30, 2012, the carrying amount and account balance of the checking account was \$473,156 and \$501,936, respectively. As of September 30, 2012, the carrying amount and account balance of the money market account was \$104,886. At times during the year, the bank balances exceeded FDIC insurance limits and is uncollateralized. Cash is held in custody of The Washington Trust Bank in MDC's name.

Note 5 - Capital Assets

Changes to capital assets are as follows:

	Balance Oct. 1, 2011	Additions	Deletions	Transfers	Balance Sept. 30, 2012
Governmental Activities					
Capital assets, not depreciated					
CIP	\$ 2,051,438	\$ 1,071,267	\$ -	\$(3,122,705)	\$ -
Land	1,311,358	-	(466,291)	-	845,067
Total capital assets, not depreciated	<u>3,362,796</u>	<u>1,071,267</u>	<u>(466,291)</u>	<u>(3,122,705)</u>	<u>845,067</u>
Capital assets, depreciated					
Buildings	502,517	77,193	(3,122,705)	3,122,705	579,710
Equipment	96,719	-	(3,876)	11,353	104,196
Leasehold Improvements	83,023	-	(32,057)	(50,966)	-
Intangibles	140,898	-	(350)	39,613	180,161
Total capital assets, depreciated	<u>823,157</u>	<u>77,193</u>	<u>(3,158,988)</u>	<u>3,122,705</u>	<u>864,067</u>
Less accumulated depreciation					
Buildings	(41,876)	(18,895)	-	-	(60,771)
Equipment	(17,810)	(19,186)	-	(8,062)	(45,058)
Leasehold Improvements	(18,893)	-	6,870	12,023	-
Intangibles	(49,342)	(36,812)	35	(3,961)	(90,080)
Total accumulated depreciation	<u>(127,921)</u>	<u>(74,893)</u>	<u>6,905</u>	<u>-</u>	<u>(195,909)</u>
Total net capital assets, depreciated	<u>695,236</u>	<u>2,300</u>	<u>(3,152,083)</u>	<u>3,122,705</u>	<u>668,158</u>
Governmental activities capital assets, net	<u>\$ 4,058,032</u>	<u>\$ 1,073,567</u>	<u>\$ (3,618,374)</u>	<u>\$ -</u>	<u>\$ 1,513,225</u>

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 and construction began in fiscal year 2011. Construction was completed and the building was sold in fiscal year 2012. Additional costs of \$1,071,267 were incurred to complete the building and it was sold at a loss of \$1,887,321.

MDC also made improvements to an MDC-owned building for the Ground Floor location in the amount of \$77,193. Leasehold improvements for the previous Ground Floor location were written off in FY12 at a loss of \$29,379. MDC now has total net capital assets of \$1,513,225.

Note 6 - Changes in Long-Term Debt

During fiscal year 2011, MDC obtained two promissory notes, totaling \$2,850,000, with Washington Trust Bank. These notes payable were incurred in order to complete a building to be sold as condominium and office space units. The first note was for \$1,576,000 and matured on March 5, 2012. The second note was for \$1,274,000 and matures on March 5, 2022. Proceeds from the sales of the units were used to repay the first note in total and a portion of the second note.

In fiscal year 2010, MDC entered into a lease for a copier for the business incubator for a period of 19 months. Payments were \$213 per month beginning in February 2010 for a total cost of \$4,043. This lease was paid in full during fiscal year 2012.

The following is a summary of changes in debt of MDC for the year ended September 30, 2012.

	Balance Oct. 1, 2011	Debt Issued	Debt Retired	Balance Sept. 30, 2012
Governmental Activities				
Lease Payable - Copier	\$ 282	\$ -	\$ (282)	\$ -
Note Payable - Building	1,333,996	1,254,343	(1,598,266)	990,073
Governmental activities liabilities	<u>\$ 1,334,278</u>	<u>\$ 1,254,343</u>	<u>\$ (1,598,548)</u>	<u>\$ 990,073</u>

Maturities of the note payable are as follows for the years ended September 30:

	Principal	Interest	Total
2013	\$ 87,870	\$ 33,750	\$ 121,620
2014	91,350	33,480	124,830
2015	94,967	29,862	124,829
2016	98,728	26,101	124,829
2017	102,638	22,192	124,830
2018-2022	514,520	47,181	561,701
Totals	<u>\$ 990,073</u>	<u>\$ 192,566</u>	<u>\$ 1,182,639</u>

Note 7 - Related Party Transactions

MDC partners with the City of Meridian for various downtown improvements. During the fiscal year, total expenditures were \$34,050.

In addition, MDC had a contract with Red Sky Public Relations for administrative services and for a contract for public relations and marketing. The administrator of MDC during fiscal year 2012 worked for Red Sky Public Relations from October 1, 2011 through January 31, 2012. Pursuant to the agreement, MDC paid \$8,333 per month for administration. Total expenses to Red Sky for the year were \$37,042 for administration and \$4,521 for public relations and marketing.



Required Supplementary Information
September 30, 2012

Meridian Development Corporation

Meridian Development Corporation
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund
Year Ended September 30, 2012

	<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	\$ 790,352	\$ (159,648)
Interest earnings	1,500	1,500	238	(1,262)
Other revenue	72,674	72,674	27,009	(45,665)
	<u>1,024,174</u>	<u>1,024,174</u>	<u>817,599</u>	<u>(206,575)</u>
Expenditures				
Office and operating expense	168,320	168,320	106,812	61,508
Professional services, surveys, studies	234,000	234,000	279,749	(45,749)
Public education and marketing	52,500	52,500	38,879	13,621
Debt service				
Principal	2,083,412	2,083,412	1,598,548	484,864
Interest	95,242	95,242	56,569	38,673
Capital Outlay	1,218,787	1,218,787	1,148,459	70,328
	<u>3,852,261</u>	<u>3,852,261</u>	<u>3,229,016</u>	<u>623,245</u>
Excess (deficiency) revenues over (under) expenditures	(2,828,087)	(2,828,087)	(2,411,417)	416,670
Proceeds from note payable	935,731	935,731	1,701,673	765,942
Proceeds from sale of building	1,817,560	1,817,560	1,254,343	(563,217)
Net change in fund balances	(74,796)	(74,796)	544,599	619,395
Fund Balance, Beginning of Year	<u>687,221</u>	<u>687,221</u>	<u>16,023</u>	<u>(671,198)</u>
Fund Balance, End of Year	<u>\$ 612,425</u>	<u>\$ 612,425</u>	<u>\$ 560,622</u>	<u>\$ (51,803)</u>

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, 2012

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, 2012, which collectively comprise MDC's basic financial statements and have issued our report thereon dated November 29, 2012. 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

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency'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 the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 the Agency'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 and the Board of Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Boise, Idaho
November 29, 2012