



Financial Statements
September 30, 2014
City of Meridian, Idaho



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Independent Auditor's Report

Mayor and Members of the City Council
City of Meridian, Idaho
Meridian, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of City of Meridian, Idaho, (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Adoption of New Accounting Standard

During the year ended September 30, 2014, the City adopted GASB 65, *Items Previously Reported as Assets and Liabilities*. The adoption of this statement resulted in the reclassification of items previously reported in liabilities as deferred revenues. These items are now reported in deferred inflows of resources as unavailable revenues. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of revenues, expenditures, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedules of revenues, expenditures, and changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2015, on our consideration of the City'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* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
February 10, 2015

This section of the City of Meridian's (City's) annual financial report presents management's discussion and analysis of the City's financial performance during the year ended September 30, 2014. Please use this information in conjunction with the information furnished in the City's financial statements.

Financial Highlights

- The total assets of the City exceeded its liabilities and deferred inflows at September 30, 2014 by \$369,337,141. Of this amount \$59,559,823 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2014 the City's total net position increased \$16,067,832 as compared to an increase of \$12,356,421 during fiscal year 2013. Net position of the governmental activities increased \$5,279,326 and net position of business-type activities increased \$10,788,506.
- Total fund balance of governmental funds at September 30, 2014 was \$36,451,692 compared to a total governmental fund balance at September 30, 2013 of \$32,869,764. Of the September 30, 2014 balance;
 - \$7,668,210 is restricted for park, police and fire impact fee capital expenditures (of which \$1,101,204 is assigned for budget carry forward)
 - \$4,824 is restricted for grant expenditures
 - \$296,455 is non-spendable
 - \$6,397,207 is assigned for budget carry forward
 - \$5,200,878 is restricted for capital projects (of which \$1,282,536 is restricted for budget carry forward)
 - \$1,476,197 is assigned for public safety capital projects (of which \$1,371,783 is assigned for carry forward)
 - \$15,407,921 is unassigned and available to meet the entities 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 City 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 Position – Reports all of the City's assets and liabilities and deferred inflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Statement of Activities – Reports all of the City's revenues and expenses for the year by function. Examples of functions are public safety, administration, and water and sewer activities. Revenues, such as property tax which cannot be traced to a specific function, are reported as General Revenues.

Fund Financial Statements

The Fund financial statements provide information about the City's major *funds*, not the City as a whole. The City uses a method of accounting, called fund accounting, to separate specific sources of funds and corresponding expenditures. Funds may be required by law or may be established by the City Council.

The City has the following funds:

Governmental Funds – These funds encompass the City's basic services, public safety, community planning and development, administration, and parks and recreation. 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.

The City has two governmental funds:

General Fund – The general fund is the general operating fund of the City. It derives most of its income from property tax and funds the operations of the City. It includes the Development Services Fund, used to account for revenue and expenses of the community planning and development function, and the Public Safety Fund used to set aside funds for police and fire capital projects. It also includes the Impact Fee Fund used to account for park and public safety impact fee revenue and capital acquisitions.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition of major capital facilities.

Proprietary Fund – User fees finance activities in these funds. The City of Meridian only has one type of proprietary fund, the enterprise fund. The water and sewer utilities and all the activities necessary to support their operation are accounted for in this fund. Accounting for this fund is the same as a private business on a full accrual basis.

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 City's budget data for the year.

FINANCIAL ANALYSIS OF THE CITY OF MERIDIAN AS A WHOLE

Net Position

Net position measures the difference between what the City owns (assets) versus what the City owes (liabilities and deferred inflows). At September 30, 2014 the City's combined assets exceeded liabilities and deferred inflows by \$369,337,141. In comparison at September 30, 2013 combined assets exceeded liabilities and deferred inflows by \$353,269,309 and by \$340,912,888 at the end of FY2012. The largest portion of the City's net position, 80%, is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and sewer and water utility infrastructure. This percentage distribution has remained virtually unchanged for the last six years.

Assets restricted to a particular use are 3% of net position. The City's restricted fund balance is composed of; \$7,668,210 in park, police, and fire impact fee funds, (portion of building permit collected for the construction of new assets to retain existing service levels), \$5,200,878 is for the Capital Improvement Fund, finally, \$4,824 is in a grant fund.

Unrestricted net position equal 16% of net position; this is a 2% decrease from the prior year. The City's net position increased 5% or \$16,067,832 from FY2013 to FY2014. In contrast from FY2012 to FY2013 City net position increased 4% or \$12,356,421.

The table below has been condensed from the Statement of Net Position.

	Governmental		Primary Government		Total	
	Activities		Business - type			
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 64,715,849	\$ 58,197,063	\$ 45,129,622	\$ 48,795,442	\$ 109,845,471	\$ 106,992,505
Capital Assets	86,171,152	83,869,016	208,870,841	192,629,596	295,041,993	276,498,612
TOTAL Assets	150,887,001	142,066,079	254,000,463	241,425,038	404,887,464	383,491,117
Current Liabilities	4,270,415	2,868,897	5,589,769	4,037,913	9,860,184	6,906,810
Long-term Liabilities	1,241,567	1,231,357	418,330	183,267	1,659,897	1,414,624
Deferred Inflows of Resources	24,030,242	21,900,374	-	-	24,030,242	21,900,374
TOTAL Liabilities and Deferred Inflows	29,542,224	26,000,628	6,008,099	4,221,180	35,550,323	30,221,808
Net Position:						
Invested in Capital Assets						
Net of Related Debt	88,032,565	85,730,431	208,870,841	192,629,596	296,903,406	278,360,027
Restricted	12,873,912	10,212,304	-	-	12,873,912	10,212,304
Unrestricted	20,438,300	20,122,716	39,121,523	44,574,262	59,559,823	64,696,978
TOTAL Net Position	\$ 121,344,777	\$ 116,065,451	\$ 247,992,364	\$ 237,203,858	\$ 369,337,141	\$ 353,269,309

Changes in Net Position

During the year the City's financial position improved by \$16,067,832. The following condensed financial information was derived from the government-wide Statement of Activities and shows how the City's net position changed during the year.

City of Meridian, Idaho
Management's Discussion and Analysis
September 30, 2014

Changes in Net Position for Fiscal Year Ending September 30, 2014
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	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY2014	FY2013	FY2014	FY2013	FY2014	FY2013
Revenues						
Program Revenues						
Charges for services	\$ 7,573,537	\$ 8,047,883	\$ 22,030,346	\$ 21,443,636	\$ 29,603,883	\$ 29,491,519
Operating grants and contribution	515,681	765,896	6,242,864	5,774,932	6,758,545	6,540,828
Capital Grants and Contributions	2,849,539	2,692,824	4,591,101	2,850,498	7,440,640	5,543,322
General Revenue						
Property taxes	22,474,207	20,771,835	-	-	22,474,207	20,771,835
Franchise fees	1,566,048	1,383,176	-	-	1,566,048	1,383,176
Sales tax and other governmental	4,826,397	4,409,522	-	-	4,826,397	4,409,522
Investment Earnings	176,992	137,468	357,245	319,388	534,237	456,856
Other Revenue	184,686	(2,133,114)	31,737	(549,640)	216,423	(2,682,754)
Total Revenues	40,167,087	36,075,490	33,253,293	29,838,814	73,420,380	65,914,304
Expenses						
General Government						
Administration	6,733,322	6,612,523	-	-	6,733,322	6,612,523
Law Enforcement	12,539,007	12,079,540	-	-	12,539,007	12,079,540
Fire Department	9,399,328	9,750,208	-	-	9,399,328	9,750,208
Parks and Recreation	5,399,182	4,536,895	-	-	5,399,182	4,536,895
Community Planning and Devlp	3,210,634	3,034,689	-	-	3,210,634	3,034,689
Interest on long-term debt	-	66,757	-	-	-	66,757
Enterprise - sewer and water	-	-	20,071,075	17,477,271	20,071,075	17,477,271
Total Expenses	37,281,473	36,080,612	20,071,075	17,477,271	57,352,548	53,557,883
Excess (deficiency) of revenues over expenditures before transfers	2,885,614	(5,122)	13,182,218	12,361,543	16,067,832	12,356,421
Transfers - internal activities	2,393,712	1,561,707	(2,393,712)	(1,561,707)	-	-
Increase (decrease) in net position	5,279,326	1,556,585	10,788,506	10,799,836	16,067,832	12,356,421
Net Position, Beginning of Year	116,065,451	114,508,866	237,203,858	226,404,022	353,269,309	340,912,888
Net Position, Ending of Year	\$ 121,344,777	\$ 116,065,451	\$ 247,992,364	\$ 237,203,858	\$ 369,337,141	\$ 353,269,309

The following illustrates how items are categorized in various revenue categories listed on the Changes in Net Position report;

- Governmental charges for services includes building permits and filing fees, court fines, Rural Fire District, and Parks and Recreation fees.
- Governmental capital grants and contributions includes Parks, Police, and Fire impact fees, grant revenue, and donations.
- Business type charges for services include water and sewer sales, engineering fees, and solid waste pickup administration fees.
- Business type operating grants and contributions include water and sewer connection fees and cash donations for operating expenses.
- Business type capital grants and contributions include developer donated water and sewer lines and donations for capital outlay.

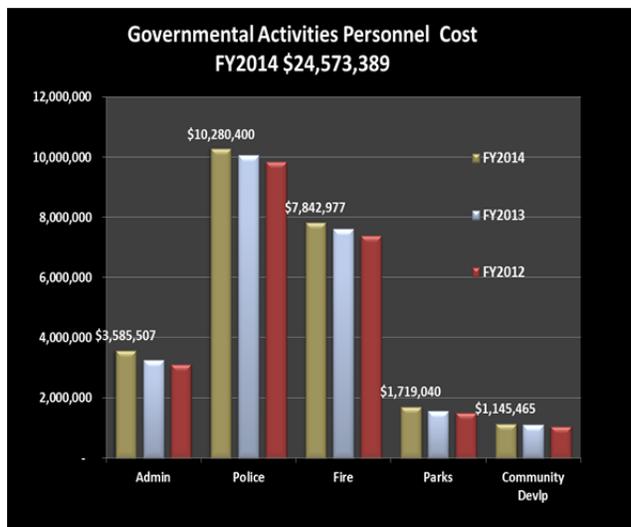
Governmental Activities:

Governmental net position increased \$5,279,326; this increase is 33% of the total City's FY2013 to FY2014 increase in net position. The prior year governmental net position increased \$1,556,585.

Governmental revenue increased just over \$4 million (11%) from FY2013 to FY2014. In analyzing this increase a couple items stand out. One, in FY2013 the City had a fixed asset loss of \$1.9 million that resulted from the down-ward adjustment of part of a large park donation that was made in the prior year. The City received a 60 acre park donation that included a senior citizen center. The cost of the center was included when the City recorded the \$25 million dollar donation. Subsequently it was determined that the center located within the park would not be owned by City.

Property tax revenue, which is 56% of total governmental, revenue, increased about \$1.7 million dollars (8%). This was the result of new residential and commercial construction and the allowed statutory 3% increase in development.

Total Governmental expenses increased 4% from FY2013. Personnel costs increased 4%, in FY2014 personnel costs were 63% of all operating costs. Public Safety, Police and Fire collectively, were \$18 million dollars of the \$24.5 million dollars spent for personnel costs. As

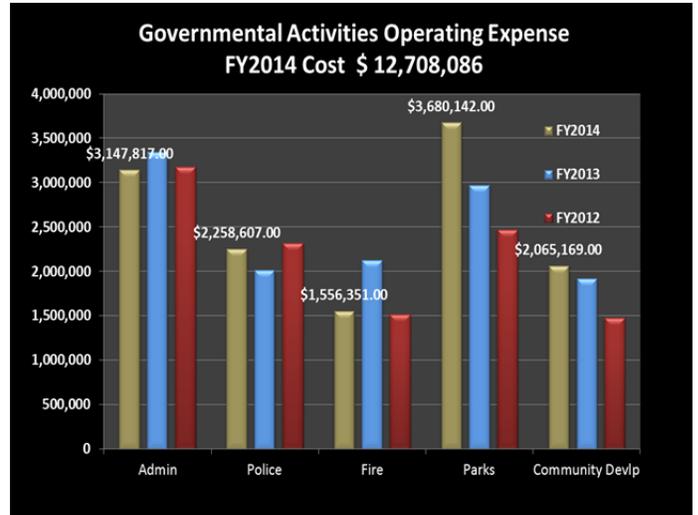


illustrated by the graph to the left Police is the largest governmental activity. Personnel costs include not only wages and salaries but overtime, payroll taxes, health insurance, retirement, workman's compensation insurance, and various items like payment of accrued vacation to retirees.

In FY2014 the City added nine employees for governmental activities; City Council increased from four to six members, two Information Technology employees, an accountant, a Human Resources Coordinator, part-time positions in the Mayor's Office and the Park's Department increased from part time to full time, Fire records clerk, and two officers in the Police Department. Additionally a part of personnel cost

was moved from personnel to operating eliminating three and one half positions. Instead of performing animal control services in-house the Police Department contracted with the Idaho Humane Society to provide the service.

Operating costs can vary from year to year due to one-time projects. There were some one-time projects that resulted in notable department variances between FY2013 and FY2014. The Parks Department committed \$500,000 to the local Boys and Girls toward building a new gym in FY2014. The Fire Department showed a decrease in operating expenses because they had a large one-time expense in FY2013; a payment to the Meridian Rural Fire District of \$600,000 of impact fees as partial repayment for Fire Station #5 (initially built by Fire District).

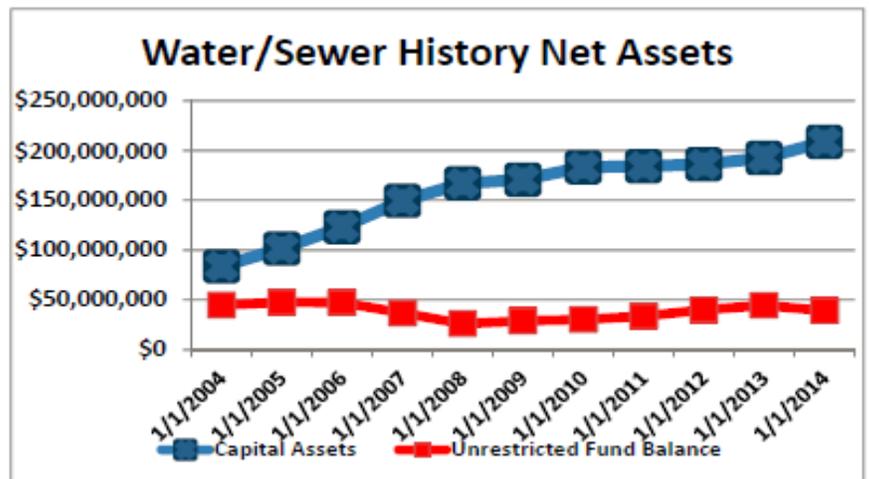


One on-going change impacting operating expenses was the shift of animal control from an in-house service to a contracted service. This increased the Police Department FY2014 operating costs by \$253,631.

Business-Type Activities:

At the end of FY2014 total net position for the City's utility business activities was \$247,992,364. Of the total 84% is in capital assets net of depreciation and 16% is in unrestricted fund balance. Total net position increased 5%.

Business-type activities, the provision of water and sewer services, increased net position by \$10.8 million in FY2014 the same as the \$10.8 million dollar increase in FY2013 and compared to \$8.4 million dollar increase in FY2012. Capital assets net of depreciation increased \$16.2 million a substantial increase compared to the prior year increase in net position of \$6.3 million. Unrestricted net position in contrast decreased \$5.5 million compared to a FY2013 increase of \$4.5 million.



Capital assets are funded through a combination of developer contributed assets and City generated funds from fee charges for services and connections to the system. Developer contributed assets result when developers put in water and sewer lines to serve subdivisions and eventually turn ownership of the infrastructure over to the City to maintain and replace. The City has also made, and will continue to make a substantial investment in enlarging the capacity of the sewer treatment plant and making technological improvements to meet discharge standards.

During FY2014 the business fund had multiple significant capital projects underway. In total they spent just under \$19 million dollars on various capital projects. In addition to plant improvements, and work on a third water storage, a new lab, and administration building were constructed at the Waste Water Treatment Plant. These projects will be discussed later in this report in the Capital Asset section. Although revenues remained consistent the spike in capital construction drew down the unrestricted fund balance.

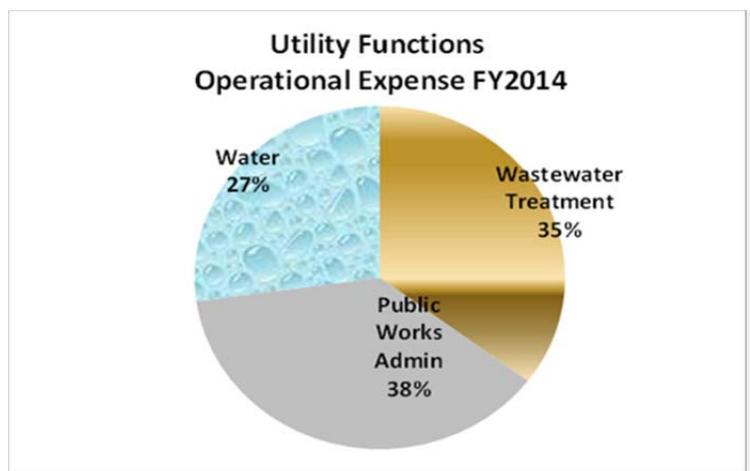
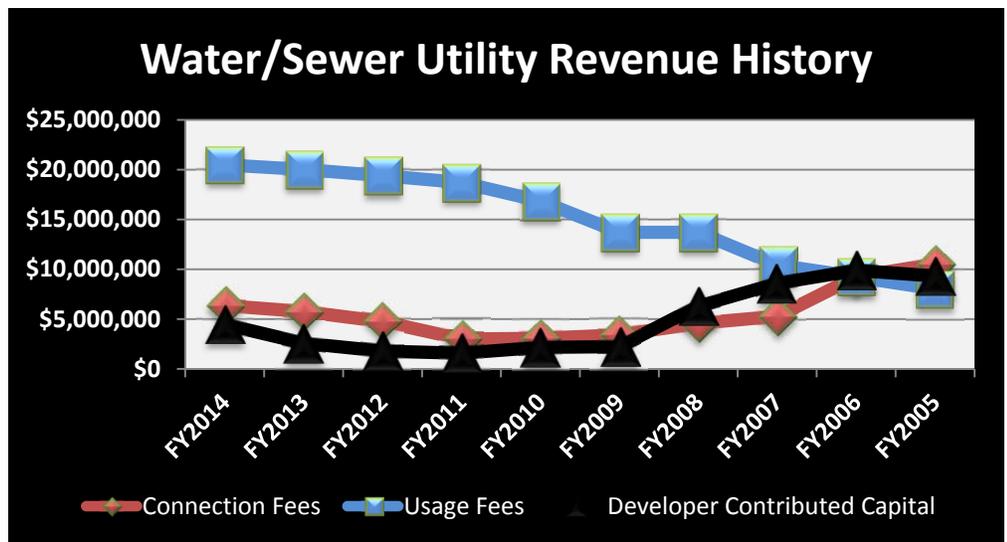
The Utility has three principal sources of revenue. Operating revenue from selling water and sewer services (charges for services), contributed capital discussed above, and connection or assessment, fees charged for new businesses and residences to connect to the utility system.

When the City is growing, connection revenue provides resources to expand and improve the system. On the flip side this revenue stream will dry up if there is no new development taking place in the City.

Usage charges are monthly fees that utility customers pay for the water they use in and on their property and for the use of the sewage system. Usage fees must cover basic fixed costs to keep the system operational, there are also charges based on resources used, that is, how many gallons each customer uses. At the end of FY2014 the City increased water and sewer rates by 2% and added a flat fee of \$3.75 in anticipation of the release of a new National Pollutant Discharge Elimination System (NPDES) permit (issued by the Environmental Protection Agency). This permit regulates the amount of pollutants that can be discharged into the Boise River. Stricter discharge requirements could result in significant cost to remain in compliance.

The Proprietary Fund is divided into three divisions: Waste Water Treatment, Water, and Public Works. Within Public Works there are several support services; professional engineering support, construction management, inspections, and environmental education. Waste Water Treatment is the largest division in the fund.

The table below compares Proprietary Fund revenue and expenses for the last three fiscal years. Operating revenue was discussed above. Operating expense includes numerous items such as; power, supplies, building and equipment maintenance and repair, fuel, professional



services, etc. Non-operating revenues and expenses include interest revenue, connection fees, gain or loss on sale of assets, and change in fair market value of investments. In FY2014 \$6,356,219 of the \$6,712,724 total is connection fees. Depreciation is a non-cash expense; it is a method of allocating the useful life of a capital asset over the life of the asset.

Personnel costs increased 9% between FY2014 and FY2013. During FY2014 the Utility Fund amended the budget to add six additional employees. Those employees were added at various times during the year. Operating expenses increased 32%. A few of the more significant increases between FY2013 and FY2014 include; \$300,000 plus increase in purchase of water meters due to increased building demand, \$427,630 to settle lawsuits, and an additional \$359,000 plus spent for professional services. The Fund generally has any number of engineering and planning projects underway that require the use of outside professional services.

Water and Sewer Proprietary Fund			
Revenue and Expenses Annual Comparison			
	FY2014	FY2013	FY2012
Operating Revenue	\$22,062,823	\$21,465,076	\$20,697,403
Personnel Expense	\$6,049,960	\$5,531,272	\$5,755,468
Operating Expense	\$6,813,265	\$5,155,277	\$5,241,958
Depreciation Expense	\$7,207,850	\$6,790,722	\$6,455,243
Operating Income	\$1,991,748	\$3,987,805	\$3,244,734
Non-operating Revenues			
(Expenses)	\$6,712,724	\$5,794,199	\$4,934,164
Income Before Contributions and Transfers	\$8,704,472	\$9,782,004	\$8,178,898

Depreciation expense increased 6% due to finishing and closing infrastructure projects.

In FY2014 the Business Fund had a capital budget of \$26,505,226 and spent \$18,986,999. The Fund has several multi-year projects budgeted. The Water Divisions largest budgeted project is a ground reservoir with a budget of almost \$4.5 million dollars and FY2014 expenditures of almost \$4 million dollars. Another larger project for Water is construction on various wells; with a FY2014 budget of about \$2 million they spent \$1 million.

The Waste Water Treatment Department worked on the construction of a new \$6.8 million dollar administration and laboratory campus at the treatment plant. During FY2014 they completed \$5.5 million worth of construction on this project. Another large project taking place at the treatment plant is the fermentation project, which is an on-going project to improve the process used for removing phosphorus and nitrogen from waste water. In FY2014 the Department spent \$2.4 million dollars.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

Governmental Funds provide information about near-term inflows, outflows, and balances of resources that are available for spending. At the end of a fiscal year the unreserved fund balance serves as a useful measure of a government's net resources. Types of governmental funds reported by the City include the General Fund, the Capital Projects Fund, the Impact Fee Fund, and the Public Safety Fund.

At the end of the current year, the City's governmental funds had a combined ending fund balance of \$36,451,692 which is an increase of \$3,581,928 over the combined ending fund balance at the end of the prior year.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* the fund balances are classified for the year ended September 30, 2014 as follows; of the combined ending fund balance of \$36,451,692, \$296,455 is non- spendable, \$7,673,035 is restricted by law, \$13,074,281 is assigned by intent of the City to specific purposes, and \$15,407,921 is unassigned and available for spending by the City.

GOVERNMENTAL FUND BALANCES	FY2014	FY2013	Change In Fund Balance
<i>Nonspendable</i>			
Prepays	\$ 296,455	\$ 130,119	\$ 166,336
<i>Restricted</i>			
Impact Fund	6,567,007	5,278,872	1,288,135
Impact Fund Carryforward	1,101,204	1,125,156	(23,952)
Grant Fund	4,824	4,824	-
<i>Assigned</i>			
General Fund Budget for Carryforward	6,397,207	4,120,975	2,276,232
Capital Projects Fund	3,918,341	3,326,274	592,067
Capital Projects Fund Carryforward	1,282,536	482,535	800,001
Public Safety Fund	104,414	2,099,204	(1,994,790)
Public Safety Fund Carryforward	1,371,783	-	1,371,783
<i>Unassigned</i>	15,407,921	16,301,805	(893,884)
TOTAL FUND BALANCE	\$ 36,451,692	\$ 32,869,764	\$ 3,581,928

The General Fund is the primary operating fund of the City, used for major operations including public safety, planning and development, parks, and administration. At the end of the fiscal year, the unassigned fund balance of the General Fund was \$15,407,921 down from the previous year balance of \$16,301,805. The City does not want the unassigned fund balance to drop below the minimum of four months of on-going personnel and operating expense. The amount of necessary reserve is calculated using the upcoming budget year i.e. the FY2015 budget is used to calculate the balance at the end of FY2014. For fiscal year end this amount is \$12 million dollars. That means that the City considers \$3,407,922 of the \$15,407,921 unassigned fund balance available to budget new projects.

The Impact Fee Fund is a restricted and by state statute can only be spent on police, fire and parks capital projects that sustain the level of service existing when the fees were adopted. The City collects impact fees when a building permit is purchased. Parks fees are collected only for residential buildings, fire and police fees are collected at the sale of both residential and commercial building permits. The fees are calculated based on levels of service, predicted growth, and the ten year capital improvement plans needed to a consistent level of service.

In FY2014 impact fee revenue of \$2,535,597 was almost identical to FY2013 impact fee revenue of \$2,589,828. The majority of the revenue comes from residential development, only \$183,417, or 7% was generated by commercial projects. The Fund also earned a small amount of interest; \$9,719.

The City spent \$1,281,135 from the impact fee fund in FY2014. The Police spent \$500,000 on the construction of a training center, Fire spent \$18,494 on equipment, and Parks spent \$737,239 on park improvements, and the Fund as a whole spent \$22,340 on professional services to update the impact fee capital plan and \$3,062 on investment services.

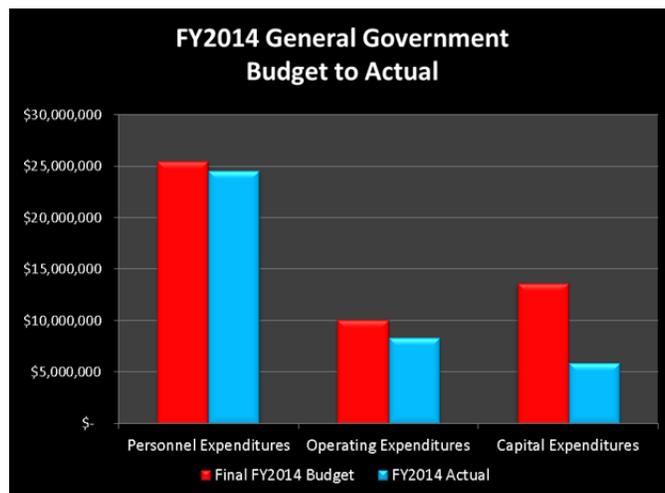
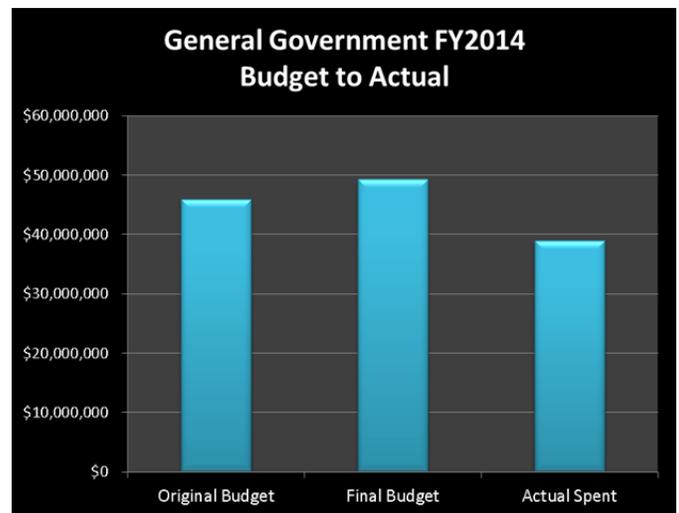
When building permit sales and related fees exceed the cost of the Community Development Services Department the City assigns the excess to the Capital Projects Fund to use for future capital projects. The City may transfer other funds into the Capital Projects Fund to set them aside for capital projects. During FY2014 the City transferred \$1,592,539 into Capital Improvement Fund from accumulated building permit revenue. At the end of FY2014 the balance of the Capital Improvement in total is \$5,200,877 compared to a FY2013 balance of \$3,808,809. Of the \$5,200,877, \$1,282,536 has been budgeted for projects that have not been completed. None of the fund was spent for capital projects during FY2014.

Assigned for Public Safety purchases is a fund used to save for public safety construction or large capital purchases. The balance in the fund at the end of FY2014 is \$1,476,197. With the exception of \$104,414 the fund budgeted is for the Police Training Center.

General Fund Budgetary Highlights

The original FY2014 General Government budget was \$45,916,133; this budget was amended during the year for a final budget of \$49,269,141, a net addition to the budget of \$3,353,008. Actual expenditures were \$38,904,328.

There are three categories of budget expenditures; personnel, operating, and capital outlay. The discussion below will address each category and the differences between budget and actual.

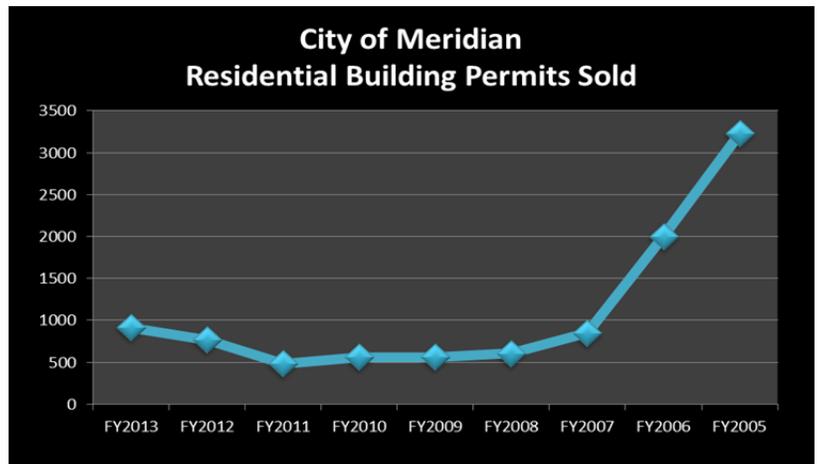


FY2014 General Fund revenue of \$39.8 million dollars exceeded the budgeted amount by \$4.4 million dollars.

The largest percentage of General Fund income resides in property tax. Property tax collections in FY2014 were up 8% over FY2013. Each budget year, by state law, taxing entities are allowed to increase their property tax request by a maximum of 3%. The City elected to take the increase allowed by state statute; the remaining increase is due to an increase in new construction and annexations.

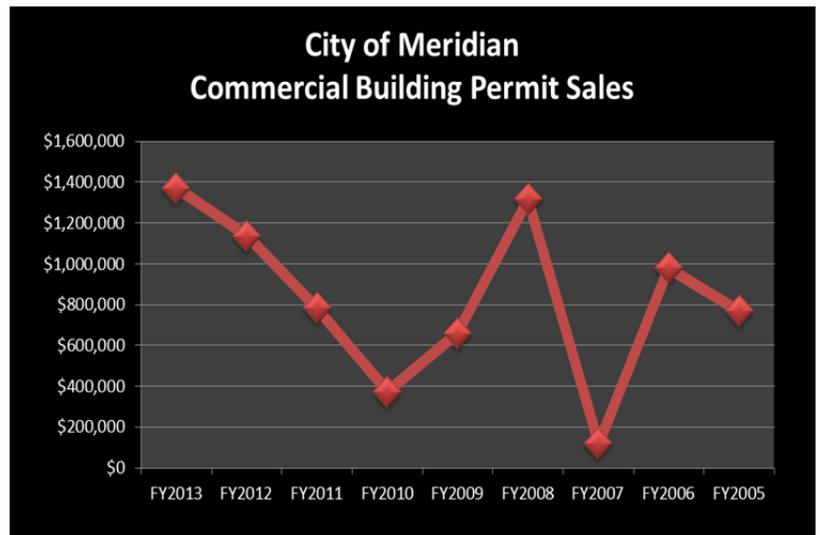
Intergovernmental revenue sharing is the second largest revenue stream, 17% of total revenue in FY2014. This category includes grants, sales tax revenue sharing, and a joint powers service agreement with the Meridian Rural Fire District. Sales tax revenue is the largest item in this category, comprising 62% of total intergovernmental revenue. The state distributes sales tax revenue to cities and counties based on a formula that in part uses population for each taxing entity. Increases in Meridian's population coupled with a more robust economy have resulted in a jump in revenue sharing increases for Meridian over the last couple of years. For FY2014 actual sales tax revenue sharing was \$4,262,626, 29% more than \$3,300,000 budget.

The third largest source of General Fund revenue (11% of the total) in FY2014 was licenses and permits, namely building permit sales. In the category licenses and permits only 3% of the revenues are not related to construction activity. City of Meridian building and development rebounded from the mid- 2000's decade recession in the spring of 2012. This uptick in activity continued in FY2013 and FY2014. Building activity and population growth is the driver that increases or decreases the majority of City revenue flows.



Total license and permit revenue decreased slightly, 5%, from FY2013 to FY2014. However, actual revenue did exceed budgeted revenue by about \$1,000,000. The City budgets conservatively for building permit revenue because it can change quickly from a position of rapid growth to minimal activity. The City measures three principal categories of building activity; residential, commercial, and multi-family.

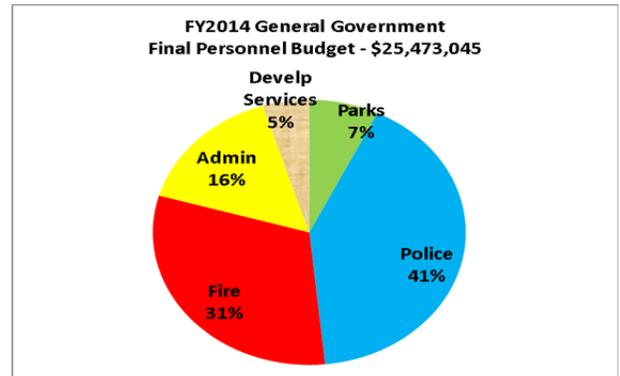
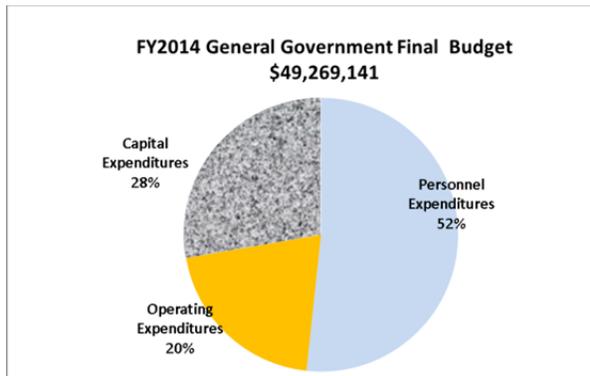
As illustrated by the graphs residential permit sales declined in a smooth drop from FY2005 to FY2011 then started to climb gradually, leveling out in FY2013 and FY2014. In contrast commercial development changes have been dramatic during the same time period. Although commercial growth tends to follow a spurt in residential growth, commercial revenue can vary widely due to the size and type of a project as well as economic conditions.



Multi-family housing development is relatively new to the City of Meridian. Following national trends the last two years the City issued more building permits for multi-family housing than at any time in the past. Budgeting for these permits, as with commercial, is difficult due to complexities in how building permits amounts are calculated.

On the expenditure side of the budget expenses are divided into the personnel, operating, and capital as discussed above, and also by function. The functions are Administration, Public Safety (Police and Fire), Community Development Services, and Parks and Recreation. The largest percentage of the budget is in personnel cost which includes wages, payroll taxes, retirement, and health insurance.

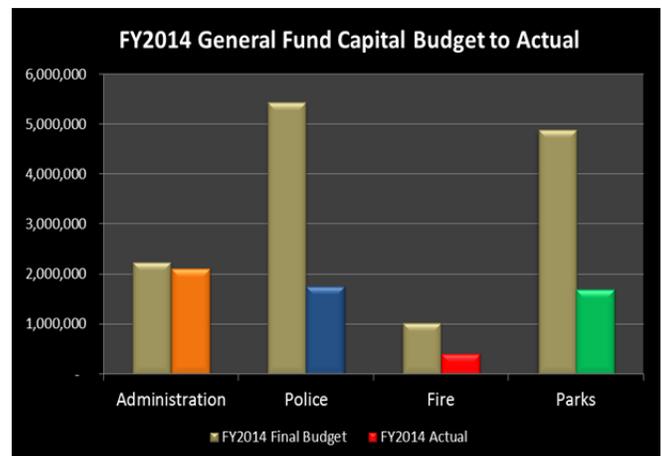
The total General Government actual personnel expense was \$24,528,744, 4% under the final budget. Public Safety is 74% of the total; however 46% of the personnel savings occurred in Administration. This was due in part to newly budgeted positions that were filled late in the year. There were some savings in other departments from health and workers compensation insurance. The City added 6 positions to the budget in FY2014.



Operating expenses are a combination of on-going costs like fuel, utilities, and on-going maintenance, and one-time expenses like payments to consultants or one time purchases of equipment. There were some variances between the FY2014 operating budget of \$10,132,474 and the actual spent of \$8,418,378. The larger variances pertain to one-time items not spent in FY2014 that will be spent in prior years; \$500,000 for a contribution to the Boys and Girls Club for a new gym, \$150,000 to update the Parks master plan, \$412,556 for furniture and fixtures for the Police training center that is under construction, and \$436,848 in Administration for unspent grant money.

There was a negative operating variance between budget and actual in Community Development Services. The fees paid for contracted building inspections exceeded the budget because building permit sales exceeded the budgeted amount. The extra fees were offset by increased revenue.

The total governmental fund FY2014 capital budget was \$13,663,622. Of that amount \$5,957,204 was spent. The capital budget consisted of vehicles, equipment, construction projects, land and land improvements, and software. Several construction projects were not completed or started during FY2014 and were re-budgeted in the FY2015 budget. Many Parks Department projects are in "savings" accounts; this means that each year as finances permit money is budgeted toward projects until enough funds can be accumulated to complete the project. Significant projects that will span more than one budget year include;



- Police Training Center, budget \$5,014,113, spent in FY2014, \$1,275,278
- Parks and Recreation Field House, budget \$1,500,000, spent in FY2014 \$0
- Parks land and park development, budget \$4,136,545, spent in FY2014 \$1,617,517

CAPITAL ASSET and DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014 the City had \$295 million invested in capital assets (net of accumulated depreciation). During fiscal year 2014 the City's total investment in net position increased 7%. See table below:

	Capital Assets as of September 30, 2014 (net of depreciation)					
	Governmental Activities		Business - Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 26,190,934	\$ 25,659,758	\$ 1,681,817	\$ 1,131,109	\$ 27,872,751	\$ 26,790,867
Easements	322,614	293,138	7,918,844	7,539,635	8,241,458	7,832,773
Intangibles	4,704	14,109	-	-	4,704	14,109
Buildings and improvements other than buildings	52,756,570	53,131,744	41,745,350	40,072,233	94,501,920	93,203,977
Sewer and water lines	-	-	121,512,931	116,377,305	121,512,931	116,377,305
Equipment	4,226,362	4,216,594	16,251,285	17,432,213	20,477,647	21,648,807
Construction in progress	2,669,968	553,673	19,760,614	10,077,101	22,430,582	10,630,774
	<u>\$ 86,171,152</u>	<u>\$ 83,869,016</u>	<u>\$ 208,870,841</u>	<u>\$ 192,629,596</u>	<u>\$ 295,041,993</u>	<u>\$ 276,498,612</u>

The City's investment in capital assets includes land, buildings, sewer and water lines, buildings, vehicles and equipment. Sidewalks, bridges, and roads belong to the Ada County Highway District.

Major capital asset events in the general government funds in FY2014 included:

- \$1.4 million for dark fiber
- \$1.16 million for Public Safety Training Center
- \$632,983 for Settlers Park improvements
- \$281,609 for Storey Dog Park improvements
- \$365,492 for Police vehicles, \$43,372 in Park department vehicles and \$39,885 in Fire vehicles
- \$373,023 for Andrews Upholstery property
- \$342,124 for Fire Department cardiac monitors and defibrillators

Major capital asset events in the business-type funds in FY2014 included:

- \$5.5 million for Wastewater Treatment Plant administration and laboratory buildings
- \$4 million in sewer/water lines and wells construction
- \$4 million for Ground Water Reservoir #2
- \$2.4 million for Wastewater Treatment Plant fermentation and odor control
- \$4.1 million in donated and contributed capital water and sewer infrastructure

The City booked \$3,757,902 in depreciation expense for governmental City functions and \$7,207,850 for business-type activities.

FY2015 Budgetary Considerations

The City of Meridian's proposed FY2015 budget anticipated a level of economic activity commiserate that of 2014. After growing very rapidly at the start of the last decade the City of Meridian, like the rest of the country, had very little growth at the end of the decade. In the spring of 2012 stalled developments became active again and development growth stabilized, although certainly not at the level of the frenzy of ten years ago. However, revenue forecasts remained conservative. Revenue for the FY2015 budget reflects the same level of development activity and economic conditions as the last couple of years.

The General Fund FY2015 budget added seven and a half new employee positions. Four and a half positions were added in the Police Department, one and one half positions added to Administration, one-half positions in the Fire Department, and one in the Parks Department. Additionally a little over \$500,000 was added to the budget for increases to the Police Step Plan Payment system.

The General Fund FY2014 budget includes replacements of capital items and computers of \$1.1 million dollars. Larger items include;

- \$380,000 for fire breathing apparatus
- \$102,925 for parks vehicles and equipment
- \$207,450 for computers and other electronic equipment
- \$326,000 for police vehicle replacement

Larger General Fund FY2015 new capital items include;

- \$320,000 for a City Hall parking lot (split with Enterprise Fund)
- \$450,000 to landscape the Meridian Interchange Overpass
- \$500,000 for neighborhood park development

The FY2015 Water and Sewer Enterprise Fund added 9 additional employee positions; one position in Public Works Administration, one in the Water Department, and seven in the Waste Water Treatment Department. During FY2014, the utility amended the budget and added 6 additional positions.

Larger Enterprise Fund Projects Include;

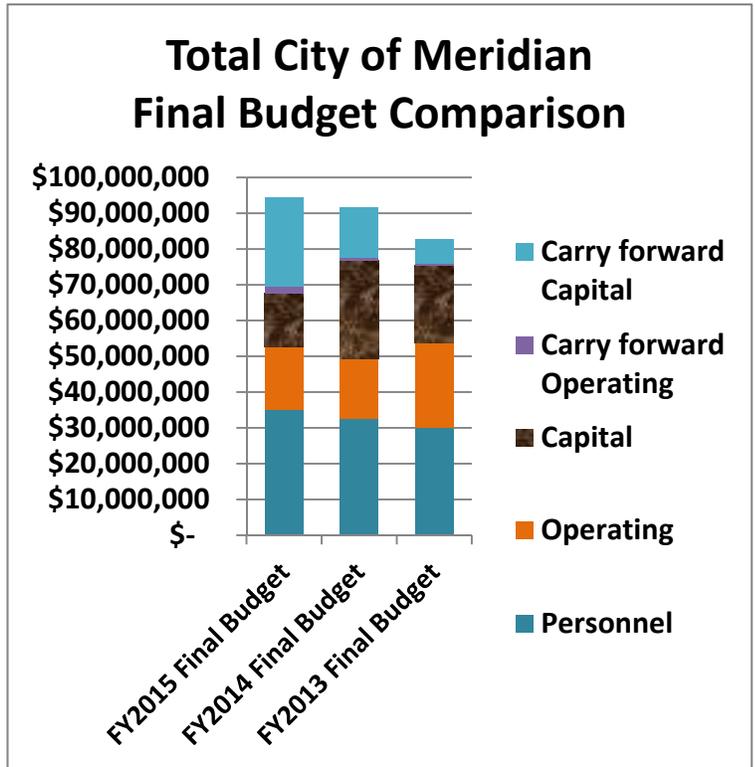
- \$169,058 for vehicle, equipment, and computer replacement
- \$2.9 million dollars for well and water line projects
- \$897,800 for water supply upgrades and improvements
- \$1.2 million dollars for waste water regulatory requirements and studies
- \$6.1 million dollars for waste water treatment plant improvements and upgrades

Requests for Information

This report is designed to provide a general overview of the City of Meridian'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. Broadway Ave.
 Meridian, Idaho 83642

Phone: (208) 888-4433



City of Meridian, Idaho
Statement of Net Position
September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	\$ 3,480,008	\$ 3,913,870	\$ 7,393,878	\$ 782,222
Restricted cash and cash equivalents	163,313	-	163,313	-
Investments	25,653,458	37,821,378	63,474,836	-
Restricted investments	7,622,097	-	7,622,097	-
Receivables				
Accounts (net of \$36,000 allowance for enterprise fund uncollectibles)	817,287	3,225,505	4,042,792	7,037
Property taxes	24,769,485	-	24,769,485	947,531
Due from other governmental units	1,878,973	-	1,878,973	-
Interest	34,773	66,793	101,566	-
Deposits and prepaid expenses	296,455	102,076	398,531	2,965
Total current assets	<u>64,715,849</u>	<u>45,129,622</u>	<u>109,845,471</u>	<u>1,739,755</u>
Noncurrent Assets				
Capital assets				
Land, infrastructure, and other assets not depreciated	29,183,516	29,361,275	58,544,791	845,067
Buildings, improvements and equipment, net of depreciation	<u>56,987,636</u>	<u>179,509,566</u>	<u>236,497,202</u>	<u>540,012</u>
Total noncurrent assets	<u>86,171,152</u>	<u>208,870,841</u>	<u>295,041,993</u>	<u>1,385,079</u>
Total Assets	<u>\$ 150,887,001</u>	<u>\$ 254,000,463</u>	<u>\$ 404,887,464</u>	<u>\$ 3,124,834</u>

City of Meridian, Idaho
Statement of Net Position
September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Current liabilities				
Accounts payable	\$ 2,463,368	\$ 3,931,300	\$ 6,394,668	\$ 79,361
Accrued payroll and taxes	957,505	235,456	1,192,961	-
Customer deposits	678,289	1,398,754	2,077,043	-
Due within one year				
Accrued vacation, current portion	171,253	24,259	195,512	-
Note payable - current portion	-	-	-	87,134
Noncurrent liabilities				
Accrued vacation - less current portion	1,241,567	218,330	1,459,897	-
Note payable - less current portion	-	-	-	715,886
Settlement payable	-	200,000	200,000	-
Deferred Inflows of Resources				
Unavailable revenues - property taxes	24,030,242	-	24,030,242	884,352
Total liabilities and deferred inflows	<u>29,542,224</u>	<u>6,008,099</u>	<u>35,550,323</u>	<u>1,766,733</u>
Net Position				
Net investment in capital assets	88,032,565	208,870,841	296,903,406	582,059
Restricted for				
MDC Urban Renewal Projects	-	-	-	776,042
Impact funds	7,668,210	-	7,668,210	-
Grant funds	4,824	-	4,824	-
Capital improvements	5,200,878	-	5,200,878	-
Unrestricted	<u>20,438,300</u>	<u>39,121,523</u>	<u>59,559,823</u>	<u>-</u>
Total net position	<u>121,344,777</u>	<u>247,992,364</u>	<u>369,337,141</u>	<u>1,358,101</u>
Total Liabilities and Net Position	<u>\$ 150,887,001</u>	<u>\$ 254,000,463</u>	<u>\$ 404,887,464</u>	<u>\$ 3,124,834</u>

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government				
Administration	\$ 6,733,322	\$ 228,488	\$ 119,434	\$ -
Public safety				
Law enforcement	12,539,007	855,123	224,930	168,456
Fire department	9,399,328	1,441,373	18,909	869,904
Parks and recreation	5,399,182	625,096	130,634	1,811,179
Community development	3,210,634	4,423,457	21,774	-
Total governmental activities	37,281,473	7,573,537	515,681	2,849,539
Business-Type Activities				
Water and wastewater	20,071,075	22,030,346	6,242,864	4,591,101
Total Primary Government	<u>\$ 57,352,548</u>	<u>\$ 29,603,883</u>	<u>\$ 6,758,545</u>	<u>\$ 7,440,640</u>
Component Unit				
Downtown development	<u>\$ 724,186</u>	<u>\$ -</u>	<u>\$ 4,327</u>	<u>\$ -</u>

General revenues
 Shared revenues
 Property taxes, levied for general purposes
 Franchise fees
 Sales tax and other governmental
 Investment earnings
 Net increase (decrease) in fair value of investments
 Miscellaneous
 Gain (loss) on sale of fixed assets
 Transfers - internal activities

Total general revenues and transfers

Change in Net Position
 Net Position, Beginning of Year

Net Position, Ending of Year

City of Meridian, Idaho
Statement of Activities
Year Ended September 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Government Activities	Business-type Activities	Total	Component Unit
\$ (6,385,400)	\$ -	\$ (6,385,400)	\$ -
(11,290,498)	-	(11,290,498)	-
(7,069,142)	-	(7,069,142)	-
(2,832,273)	-	(2,832,273)	-
1,234,597	-	1,234,597	-
(26,342,716)	-	(26,342,716)	-
-	12,793,236	12,793,236	-
<u>\$ (26,342,716)</u>	<u>\$ 12,793,236</u>	<u>\$ (13,549,480)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (719,859)</u>
\$ 22,474,207	\$ -	\$ 22,474,207	\$ 689,361
1,566,048	-	1,566,048	-
4,826,397	-	4,826,397	-
176,992	357,245	534,237	752
28,798	(1,367)	27,431	-
9,397	32,477	41,874	5,999
146,491	627	147,118	-
2,393,712	(2,393,712)	-	-
31,622,042	(2,004,730)	29,617,312	696,112
5,279,326	10,788,506	16,067,832	(23,747)
116,065,451	237,203,858	353,269,309	1,381,848
<u>\$ 121,344,777</u>	<u>\$ 247,992,364</u>	<u>\$ 369,337,141</u>	<u>\$ 1,358,101</u>

City of Meridian, Idaho
Balance Sheet – Governmental Funds
September 30, 2014

	General	Capital Projects	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,467,044	\$ 12,964	\$ 3,480,008
Investments	21,857,496	3,795,962	25,653,458
Receivables			
Accounts	817,287	-	817,287
Property taxes	24,769,485	-	24,769,485
Due from other governmental units	1,878,973	-	1,878,973
Interest	34,498	275	34,773
Prepaid items	296,455	-	296,455
Restricted assets			
Cash and cash equivalents	163,313	-	163,313
Investments	7,622,097	-	7,622,097
	<u>\$ 60,906,648</u>	<u>\$ 3,809,201</u>	<u>\$ 64,715,849</u>
Liabilities, Deferred Inflows and Fund Balance			
Liabilities			
Current Liabilities			
Accounts payable	\$ 1,963,368	\$ -	\$ 1,963,368
Accrued payroll and taxes	957,505	-	957,505
Customer deposits	678,289	-	678,289
Total current liabilities	<u>3,599,162</u>	<u>-</u>	<u>3,599,162</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	24,664,995	-	24,664,995
Total liabilities and deferred inflows	<u>28,264,157</u>	<u>-</u>	<u>28,264,157</u>
Fund Balances			
Nonspendable			
Prepays	296,455	-	296,455
Restricted			
Impact Fund	6,567,007	-	6,567,007
Fund Balance Budget of Carryforward	1,101,204	-	1,101,204
Capital Projects Fund	1,391,676	2,526,665	3,918,341
Fund Balance Budget of Carryforward	-	1,282,536	1,282,536
Grant Fund	4,824	-	4,824
Assigned			
Fund Balance Budget of Carryforward	6,397,207	-	6,397,207
Public Safety Fund	104,414	-	104,414
Fund Balance Budget of Carryforward	1,371,783	-	1,371,783
Unassigned	15,407,921	-	15,407,921
Total fund balances	<u>32,642,491</u>	<u>3,809,201</u>	<u>36,451,692</u>
	<u>\$ 60,906,648</u>	<u>\$ 3,809,201</u>	<u>\$ 64,715,849</u>

City of Meridian, Idaho
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2014

Fund balance - total governmental funds	\$ 36,451,692
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	86,171,152
Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.	634,753
Committed contribution is not payable in the current period and therefore is not reported in the funds.	(500,000)
Accrued vacation is not due and payable in the current period and therefore is not reported in the funds.	<u>(1,412,820)</u>
Net position of governmental activities	<u><u>\$ 121,344,777</u></u>

City of Meridian, Idaho
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
September 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 22,534,302	\$ -	\$ 22,534,302
Licenses and permits	4,225,502	-	4,225,502
Intergovernmental	6,826,466	-	6,826,466
Franchise fees	1,566,048	-	1,566,048
Fines and forfeitures	490,106	-	490,106
Charges for services	1,443,208	-	1,443,208
Interest	174,634	2,358	176,992
Miscellaneous	9,397	-	9,397
Donations	33,807	-	33,807
Impact revenues	2,535,597	-	2,535,597
Total revenues	<u>39,839,067</u>	<u>2,358</u>	<u>39,841,425</u>
Expenditures			
General government	5,586,999	-	5,586,999
Public safety	20,974,233	-	20,974,233
Parks and recreation	3,174,196	-	3,174,196
Community development services	3,211,696	-	3,211,696
Capital outlay	5,957,204	-	5,957,204
Total expenditures	<u>38,904,328</u>	<u>-</u>	<u>38,904,328</u>
Excess of Revenues Over Expenditures	<u>934,739</u>	<u>2,358</u>	<u>937,097</u>
Other Financing Sources (Uses)			
Operating transfer in	2,393,712	1,592,539	3,986,251
Operating transfer out	(1,592,539)	-	(1,592,539)
Unrealized gain (loss) on investments	30,764	(1,966)	28,798
Proceeds from sale of capital assets	222,321	-	222,321
Total other financing sources	<u>1,054,258</u>	<u>1,590,573</u>	<u>2,644,831</u>
Net Change in Fund Balances	1,988,997	1,592,931	3,581,928
Fund Balance, Beginning of Year	<u>30,653,494</u>	<u>2,216,270</u>	<u>32,869,764</u>
Fund Balance, End of Year	<u>\$ 32,642,491</u>	<u>\$ 3,809,201</u>	<u>\$ 36,451,692</u>

City of Meridian, Idaho
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
 Funds to the Statement of Activities
 Year Ended September 30, 2014

Net change in fund balances - total governmental funds \$ 3,581,928

Amounts reported for *governmental activities* in the statement of activities are different because:

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 outlays exceeded depreciation and loss on sale of assets in the current period.

New capital	5,957,204	
Depreciation	(3,757,902)	
Loss on fixed asset	(75,830)	
Total		2,123,472

Capital assets contributed by citizens or developers are not a source of financial resources and thus, are not recognized in the governmental funds. 178,667

Some property tax revenue in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds. (60,095)

Contingent liability is recognized regardless of when financial resources are available and is not reported as a liability in the governmental funds. (500,000)

In the statement of activities, accrued vacation is measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This is the amount by which benefits earned exceeded benefits paid in the current year. (44,646)

Change in net position of governmental activities \$ 5,279,326

City of Meridian, Idaho
Statement of Net Position – Proprietary Fund
September 30, 2014

	Enterprise Fund Water and Sewer
Assets	
Current Assets	
Cash and cash equivalents	\$ 3,913,870
Investments	37,821,378
Receivables	
Accounts (net of \$34,999 allowance for uncollectibles)	3,225,505
Interest	66,793
Prepays	102,076
Total current assets	45,129,622
Noncurrent Assets	
Capital assets	
Land	1,681,817
Easements	7,918,844
Construction in progress	19,760,614
Buildings and improvements other than buildings	61,354,844
Sewer and water lines	154,844,130
Machinery and equipment	29,717,510
Less accumulated depreciation	(66,406,918)
Total assets	\$ 254,000,463
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 3,931,300
Accrued payroll and taxes	235,456
Accrued vacation, current portion	24,259
Customer deposits	1,398,754
Total current liabilities	5,589,769
Noncurrent Liabilities	
Accrued vacation - less current portion	218,330
Settlement payable	200,000
Total noncurrent liabilities	418,330
Net Position	
Net invested in capital assets	208,870,841
Unrestricted	39,121,523
Total net position	247,992,364
Total liabilities and net position	\$ 254,000,463

City of Meridian, Idaho
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
Year Ended September 30, 2014

	<u>Enterprise Fund Water and Sewer</u>
Operating Revenues	
Charges for services	
Water sales	\$ 7,474,033
Sewer sales	13,012,886
Other service revenues	422,553
Sale of meters	243,719
Trash billing service	604,871
Engineering fees	272,284
Miscellaneous	<u>32,477</u>
Total operating revenues	<u>22,062,823</u>
Operating Expenses	
Personnel services	6,049,960
Other services and charges	3,704,993
Depreciation	7,207,850
Supplies	2,082,379
Heat, lights and power	<u>1,025,893</u>
Total operating expenses	<u>20,071,075</u>
Operating Income	<u>1,991,748</u>
Nonoperating Revenues (Expenses)	
Interest revenue	357,245
Connection assessment fees and donations	6,356,219
Gain on sale of fixed assets	627
Net decrease in fair value of investments	<u>(1,367)</u>
Total nonoperating revenues	<u>6,712,724</u>
Income before contributions and transfers	8,704,472
Donated waterlines and sewerlines	4,477,746
Operating transfers out	<u>(2,393,712)</u>
Change in Net Position	10,788,506
Net Position, Beginning of Year	<u>237,203,858</u>
Net Position, End of Year	<u><u>\$ 247,992,364</u></u>

City of Meridian, Idaho
Statement of Cash Flows – Proprietary Fund
Year Ended September 30, 2014

	Enterprise Fund Water and Sewer
Operating Activities	
Receipts from customers and users	\$ 21,750,998
Payments to suppliers	5,068,476
Payments to employees	5,962,131
	10,720,391
Net Cash from Operating Activities	
Noncapital Financing Activities	
Operating transfer to general fund	(2,393,712)
	(2,393,712)
Net Cash used for Noncapital Financing Activities	
Capital and Related Financing Activities	
Connection assessment fees	6,356,219
Proceeds from sale of capital assets	16,278
Acquisition of capital assets	(18,987,000)
	(12,614,503)
Net Cash used for Capital and Related Financing Activities	
Investing Activities	
Purchase of investments	(5,176,188)
Sale of investments	9,084,677
Interest received	364,409
	4,272,898
Net Cash from Investing Activities	
Net Change in Cash	(14,926)
Cash, Beginning of Year	3,928,796
Cash, End of Year	\$ 3,913,870
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,991,748
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation	7,207,850
Changes in assets and liabilities	
Accounts receivable	(311,824)
Prepaid items	45,698
Accounts payable	1,182,212
Accrued payroll and taxes	87,829
Customer deposits	516,878
	10,720,391
Net Cash from Operating Activities	\$ 10,720,391
Supplemental Disclosure of Cash Flow Information	
Developer and customer contributed sewer and water lines	\$ 4,477,746

Note 1 - Summary of Significant Accounting Policies

The City of Meridian, Idaho (City) was incorporated August, 1903. The City operates under a mayor and council form of government and provides the following services as authorized by its charter; public safety (police and fire), community planning and development, parks and recreation, general administrative services, and water and sewer service.

The accounting and reporting policies of the City 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*.

Financial Reporting Entity

As required by generally accepted accounting principles, these basic financial statements present the City in conformance with GASB, component units are organizations that are included in the reporting entity because of the significance of their operational or financial relationships with the City.

Component units are legally separate organizations for which the City is financially accountable. The component unit column in the combined financial statements is the financial data of the City's single component unit, the Meridian Development Corporation (MDC). MDC is a separate and distinct legal entity created by state statute. The directors of MDC are appointed by the Mayor and approved by the City Council. MDC promotes downtown development services for the citizens of the City. Complete financial statements can be obtained from the City of Meridian Division of Financial Management, 33 East Broadway Avenue, Meridian, Idaho.

The City contributes to the multi-employer Public Employee Retirement System of Idaho (the System). The System is administered by the State of Idaho and the City is not the major participant in the plan; therefore, the plan's financial statements are not included in this report.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include; charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund. 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.

Governmental fund financial statements are 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, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds;

General Fund - The General Fund is the general operating fund of the City. It is used for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund- the Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The City reports the following major proprietary fund;

Enterprise Fund – The Enterprise Fund is used to account for water and sewer operations financed and operated in a manner similar to private business. The intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Additionally the governing body may have decided that periodic determination of revenues earned, expenditures incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the government when elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and products and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for services to customers for water and sewer sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses, such as fees property owners pay to connect to the utility system, not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property Taxes Receivable

Within the governmental fund financial statement, 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 the City is on a September 30 fiscal year end, property taxes levied during September for the succeeding year's collection are recorded as deferred inflows of resources at the City's year end and recognized as revenue in the following fiscal year. Ada County bills and collects taxes for the City.

Customer Services Receivable

Amounts owed to the City for customer services are due from area residents and businesses and relate to water, sewer and trash services provided by the City. The receivable is reported net of an allowance for uncollectible accounts. An allowance is reported when accounts are proven to be uncollectible. The allowance for uncollectible accounts was \$36,000 as of September 30, 2014.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., parks, wells, water and sewer lines and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial individual cost of \$5,000 and over for machinery and equipment, \$25,000 and over for building and land improvements, buildings, intangibles, and infrastructure, and an estimated useful life in excess of three years. Land acquisitions regardless of cost are recorded as capital assets. All material fixed assets are valued at cost. Donated fixed assets are valued at their estimated fair value on the date donated.

The GASB requires that the City capitalize and report intangible assets, such as easements and internally created software. To value easements, the City uses current land values calculated from Ada County Assessor's data divided by two, internally developed software is valued at cost.

Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	Estimated Useful Life (Years)
Buildings	30
Sewer plant	25
Sewer and water lines	50
Improvements other than buildings	10-50
Equipment and software	5-20
Public domain infrastructure	40

Maintenance, repairs, and minor renewals are charged to operations as incurred. When an asset is disposed of accumulated depreciation is deducted from the original cost, and any gain or loss arising from its disposal is credited or charged to operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during construction of capital assets of business-type activities are capitalized when they are material. No interest costs were included as part of the cost of capital assets under construction in the current year.

Compensated Absences Payable

The City provides vacation and sick leave to its full-time employees. Earned vacation is paid to employees when taken or paid to employees or beneficiaries upon the employees' termination, retirement or death. The City does not pay earned sick pay upon the employees' termination, retirement or death for non-union employees. The Fire Department union members are paid ten percent of their sick leave accrual upon the employees' voluntary termination, 25% upon employees' retirement, and 100% upon employees' death. The amount of unused vacation accumulated by City employees is accrued as expense when incurred in the Proprietary Fund, which uses the accrual basis of accounting. In the Governmental Funds, only the amount that normally would be liquidated with expendable available financial resources is accrued as current year expenditures. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods, so will not be recognized as an inflow of resources (revenue) until that time. The City has only unavailable property taxes which qualify for reporting in this category. The amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Fund Balances

Fund balance of governmental funds is reported in various categories based on the nature of any limitation requiring the use for specific purposes. Fund balances in the governmental balance sheet are categorized as follows

Nonspendable - when the resources cannot be spent because they are either legally or contractually required to be maintained intact, or are in a nonspendable form such as inventories, prepaid accounts, and assets held for resale.

Restricted - when the constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - when the City Council passes an ordinance or resolution that places specific constraints on how the resources may be used. The City Council can modify or rescind the ordinance or resolution at any time through passage of an additional ordinance or resolution, respectively.

Assigned - when it is intended for a specific purpose and the authority to “assign” is delegated to the City’s Chief Financial Officer.

Unassigned - fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

The City Council adopted a Fund Balance Policy that establishes a practice of reserving four months of the current year budget of personnel and recurring annual operating costs as minimum fund balance needed to ensure sufficient cash flow to meet the City’s obligations. This reserve will be in the unassigned fund balance. This policy also recommends a spending order of restricted, committed, assigned and then unassigned unless Council approves otherwise.

Risk Management

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued and Adopted Accounting Pronouncements

During the year ended September 30, 2014, the City implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement also required certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues and expenditures. There was no adjustment to beginning net position as a result of implementation of this standard.

Impact of Upcoming Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the City’s financial statements.

Note 2 - Cash and Investments

Cash and investments as of September 30, 2014 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 7,393,878
Cash and cash equivalents - restricted	<u>163,313</u>
Total cash and cash equivalents	<u><u>\$ 7,557,191</u></u>
Investments	\$ 63,474,836
Investments - restricted	<u>7,622,097</u>
Total investments	<u><u>\$ 71,096,933</u></u>

Investments Authorized by the State of Idaho and the City of Meridian’s Investment Policy

Investment types that are authorized for the City of Meridian by the Idaho Code and the City’s investment policy are as follows:

1. Local, State and U.S. Agency Bonds
2. U. S. Agency Securities
3. Certificates of Deposit

The City also participates in the State of Idaho Local Investment Pool (LGIP) and the State of Idaho Diversified Bond Fund (DBF). Both the LGIP and the DBF are regulated by Idaho Code under the oversight of the Treasurer of the State of Idaho.

The LGIP is a low risk investment pool with high liquidity. The City’s investment in the pool is reported in the accompanying financial statements based on the City pro-rata share of the fair market value provided by the fund for the entire portfolio. The LGIP is not currently rated by a nationally recognized rating agency. The funds are invested in short term investments in the priority order of safety, liquidity, and yield.

The DBF invests in longer term investment vehicles with higher returns over time than the LGIP. The DBF is not currently rated by a nationally recognized rating agency. However the investment guidelines require that funds be invested in high quality securities that provide a high level of return, with a reasonable level of risk while meeting or exceeding the Barclay’s Capital Intermediate A+ Aggregate Fixed Income Index. The City invests money in the DBF that it does not expect to need within the next three to five years. The City’s investment in the DBF is reported based on its pro-rata share of the fair market value provided by the fund for the entire portfolio.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that 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 changes in market interest rates. This risk can be managed using a calculation called duration that uses various inputs such as yield and years until maturity to estimate interest rate risk. Generally the higher the duration number the higher the risk. The City manages exposure to interest rate risk by purchasing a combination of long and short-term investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Duration</u>
Agency bonds	\$ 25,713,288	Aaa	3.6
Municipal bonds	210,021	Baa1	3.3
Municipal bonds	101,009	Aaa	4.2
Certificates of deposit	245,627	not rated	
Idaho Local Government Investment Pool (LGIP)	27,595,428	not rated	
Idaho Diversified Bond Fund	17,231,561	not rated	
Money market funds	4,386,404	not rated	
Other cash and cash equivalents	<u>3,170,786</u>		
 Total cash and investments	 <u>\$ 78,654,124</u>		

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City’s investment policy is consistent with the State Code related to credit risk.

Concentration of Credit Risk

When investments are concentrated in one issuer this concentration represents increased risk of potential loss. The GASB has adopted a principal that governments should provide note disclosure when five percent of the entity’s total 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. The City’s investment policy has no limitations on the amount that can be invested in any one issuer.

Investments in any one issuer (other than State Investment Pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount	Percentage
Federal Home Loan Bank	U.S. Agency Bond	\$ 13,027,827	18%
Fannie Mae	U.S. Agency Bond	\$ 9,784,871	14%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

At year end, the carrying amount of the City's cash deposits was \$7,557,191 and the bank balance was \$8,305,772. Of the bank balance \$268,088 is guaranteed by the Securities Investor Protection Corporation, \$250,000 was covered by federal depository insurance, \$4,118,316 was collateralized with securities held at the Federal Home Bank of Seattle for the Bank of the Cascades and pledged to the City of Meridian and the remainder of our deposits \$3,669,368 with Bank of the Cascades are secured in an undivided collateral pool for public agencies.

The City minimizes exposure to custodial credit risk with investments by requiring that to the extent possible they be identified as to City of Meridian ownership and be held in the City's name. All commercial paper, agency bonds and municipal bonds are held in custody by Charles Schwab & Co. in the City's name. The City further reduces risk by confining investment to insured levels in any one institution.

Note 3 - Due from Other Governmental Units

The following summarizes the intergovernmental receivables at September 30, 2014:

State of Idaho	
State Liquor Dispensary	\$ 120,552
State Tax Commission	970,273
Idaho Transportation Department	111,140
Idaho Crimes Against Children	8,034
Federal agencies	81,585
Meridian Downtown Development	25,000
Meridian Rural Fire District	257,756
Ada County	<u>304,633</u>
 Total Due from Other Governmental Units	 <u><u>\$ 1,878,973</u></u>

Note 4 - Capital Assets

Changes to capital assets are as follows:

Governmental Activities	Balance Oct. 1, 2013	Additions	Deletions	Transfers	Balance Sept. 30, 2014
Capital assets, not depreciated					
Land	\$ 25,659,757	\$ 546,319	\$ 15,142	\$ -	\$ 26,190,934
Easements	293,138	29,476	-	-	322,614
Construction in progress	553,674	2,285,024	-	(168,730)	2,669,968
Total capital assets, not depreciated	<u>26,506,569</u>	<u>2,860,819</u>	<u>15,142</u>	<u>(168,730)</u>	<u>29,183,516</u>
Capital assets, depreciated					
Buildings	34,956,120	245,160	-	5,615	35,206,895
Improvements other than buildings	30,512,427	1,940,260	19,323	163,115	32,596,479
Internally developed software	47,027	-	-	-	47,027
Equipment	11,594,074	1,089,626	251,900	-	12,431,800
Total capital assets, depreciated	<u>77,109,648</u>	<u>3,275,046</u>	<u>271,223</u>	<u>168,730</u>	<u>80,282,201</u>
Less accumulated depreciation for					
Buildings	6,270,747	1,193,023	-	-	7,463,770
Improvements other than buildings	6,066,056	1,533,407	16,429	-	7,583,034
Internally developed software	32,918	9,405	-	-	42,323
Equipment	7,377,480	1,022,067	194,109	-	8,205,438
Total accumulated depreciation	<u>19,747,201</u>	<u>3,757,902</u>	<u>210,538</u>	<u>-</u>	<u>23,294,565</u>
Total net capital assets, depreciated	<u>57,362,447</u>	<u>(482,856)</u>	<u>60,685</u>	<u>168,730</u>	<u>56,987,636</u>
Governmental activities capital assets, net	<u>\$ 83,869,016</u>	<u>\$ 2,377,963</u>	<u>\$ 75,827</u>	<u>\$ -</u>	<u>\$ 86,171,152</u>

City of Meridian, Idaho
Notes to Financial Statements
September 30, 2014

Business-type Activities	Balance Oct. 1, 2013	Additions	Deletions	Transfers	Balance Sept. 30, 2014
Capital assets, not depreciated					
Land	\$ 1,131,109	\$ 564,858	\$ 14,150	\$ -	\$ 1,681,817
Easements	7,539,635	379,209	-	-	7,918,844
Construction in progress	10,077,101	16,307,921	-	(6,624,408)	19,760,614
Total capital assets, not depreciated	<u>18,747,845</u>	<u>17,251,988</u>	<u>14,150</u>	<u>(6,624,408)</u>	<u>29,361,275</u>
Capital assets, depreciated					
Buildings and improvements other than buildings	57,185,394	433,105	-	3,736,345	61,354,844
Sewer and water lines	146,697,648	5,331,161	-	2,815,321	154,844,130
Machinery and equipment	29,226,862	448,492	30,586	72,742	29,717,510
Total capital assets, depreciated	<u>233,109,904</u>	<u>6,212,758</u>	<u>30,586</u>	<u>6,624,408</u>	<u>245,916,484</u>
Less accumulated depreciation for					
Buildings and improvements other than buildings	17,113,161	2,496,333	-	-	19,609,494
Sewer and water lines	30,320,343	3,010,856	-	-	33,331,199
Machinery and equipment	11,794,649	1,700,661	29,085	-	13,466,225
Total accumulated depreciation	<u>59,228,153</u>	<u>7,207,850</u>	<u>29,085</u>	<u>-</u>	<u>66,406,918</u>
Total net capital assets, depreciated	<u>173,881,751</u>	<u>(995,092)</u>	<u>1,501</u>	<u>6,624,408</u>	<u>179,509,566</u>
Business-type activities capital assets, net	<u>\$ 192,629,596</u>	<u>\$ 16,256,896</u>	<u>\$ 15,651</u>	<u>\$ -</u>	<u>\$ 208,870,841</u>

Depreciation expense was charge to functions/programs of the City as follows:

Governmental activities	
General government	\$ 1,134,586
Public safety	905,929
Community development	632
Parks and recreation	<u>1,716,755</u>
Total depreciation expense - governmental activities	<u>\$ 3,757,902</u>
Business-type activities	
Water and Sewer	<u>\$ 7,207,850</u>
Total depreciation expense - business-type activities	<u>\$ 7,207,850</u>

Note 5 - Interfund Balances and Transfers

The following transfers were made for the purpose of funding operations:

	Transfer In		
	General Fund	Capital Projects Fund	Total
Transfer out			
General fund	\$ -	\$ 1,592,539	\$ 1,592,539
Enterprise fund	2,393,712	-	2,393,712
Total transfers	<u>\$ 2,393,712</u>	<u>\$ 1,592,539</u>	<u>\$ 3,986,251</u>

The transfer from the enterprise fund to the general fund was related to personnel and operating costs that were paid by the general fund during FY2014.

The transfer from general fund to capital projects fund was the excess revenues from the community development division from the prior years.

As of September 30, 2014, there were no internal balances due to or from other funds.

Note 6 - Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended September 30, 2014:

	Balance Oct.1, 2013	Debt Issued	Debt Retired	Balance Sept. 30, 2014	Due Within One Year
Governmental Activities					
Accrued vacation	<u>\$ 1,368,174</u>	<u>\$ 44,646</u>	<u>\$ -</u>	<u>\$ 1,412,820</u>	<u>\$ 171,253</u>
Business-type activities					
Accrued vacation	\$ 203,630	\$ 38,959	\$ -	\$ 242,589	\$ 24,259
Settlement payable	-	200,000	-	200,000	-
	<u>\$ 203,630</u>	<u>\$ 238,959</u>	<u>\$ -</u>	<u>\$ 442,589</u>	<u>\$ 24,259</u>

Note 7 - Fund Balances – Governmental Funds

As of September 30, 2014 fund balances were classified as follows:

Nonspendable - the City's nonspendable fund balance was for prepaid expenses.

Restricted - the City had restricted fund balances for impact fees as mandated by the State of Idaho and for grant revenues per the grant agreement.

Assigned - Includes; carry forward of FY2014 balance to be spent in FY2015 (carry forward amounts), Capital Projects Funds (General Fund capital construction projects), and an assignment of fund balance for public safety capital projects or purchases.

Unassigned - this classification represents fund balance that has not been restricted, committed, or assigned within the General Fund.

	Balance Oct. 1, 2013	Net Change	Balance Sept. 30, 2014
Fund Balances			
Nonspendable			
Prepays	\$ 130,119	\$ 166,336	\$ 296,455
Restricted			
Impact fund	5,278,872	1,288,135	6,567,007
Impact fund budget carryforward	1,125,156	(23,952)	1,101,204
Grant fund	4,824	-	4,824
Assigned			
General fund budget carryforward	4,120,975	2,276,232	6,397,207
Capital projects fund	3,326,274	592,067	3,918,341
Capital projects fund budget carryforward	482,535	800,001	1,282,536
Public safety fund	2,099,204	(1,994,790)	104,414
Public safety fund budget carryforward	-	1,371,783	1,371,783
Unassigned	16,301,805	(893,884)	15,407,921
Total fund balances	<u>\$ 32,869,764</u>	<u>\$ 3,581,928</u>	<u>\$ 36,451,692</u>

Note 8 - Lease Agreements

The City has operating leases for land and office equipment. In FY2014 the City entered into a prepaid irrevocable use 20 year agreement with Syringa Networks, LLC for the right to use certain dark fiber in the Syringa Networks System. The City was required to make an initial payment of \$1,367,000 to Syringa to install the fiber. The City has no ownership rights now or in the future in the fiber but prepayment is considered an asset and recorded as capital. The agreement also requires that the City pay annual maintenance and operating costs for a period of twenty years.

The various equipment lease agreements cover periods from July 27, 2007 through August 8, 2034, and the minimum annual payments range from \$1,579 to \$18,588. The land lease was entered into July 24, 2007 and is year to year with an annual payment of \$18,588 plus an annual increase. Total rental expense in FY2014 for all operating leases (which include rental, maintenance and usage) was approximately \$96,931.

Future minimum annual lease payments for operating leases with remaining lease terms in excess of one year are as follows:

Operating Leases		
2015	\$	85,633
2016		56,644
2017		37,177
2018		34,721
2019		35,349
Thereafter		619,804
 Total minimum obligations	 \$	 <u><u>869,328</u></u>

Note 9 - Defined Benefit Pension Plan

The City participates in the Public Employee Retirement System of Idaho (PERSI) - The PERSI Base Plan, a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand-alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarial determined contribution requirements of the City and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2014, the required contribution rate as a percentage of covered payrolls for members are as follows:

PERSI Required Rates	Employee	Employer
General Member	6.79%	11.32%
Police and Fire Member	8.36%	11.66%

Contributions required and paid for the last three years were:

	FY2012	FY2013	FY2014
City paid contributions	\$ 2,136,900	\$ 2,206,081	\$ 2,472,946

Note 10 - Other Commitments

The City had the following commitments at September 30, 2014:

Commitment	Amount
Animal control services	\$ 357,615
Building improvements & maintenance	50,198
Dues & contributions	594,511
Equipment and electronics	104,985
Janitorial services	112,887
MHWSD improvements	348,967
Park improvements	195,575
Parks maintenance	176,414
Professional services	1,224,185
Public Safety Training Center	3,360,102
Sidewalk improvements	16,710
Wastewater buildings	1,333,916
Wastewater improvements	608,835
Water & Sewer line replacements	522,916
Water ground reservoir construction	409,118
Water well improvements	1,341,671
Total commitments	\$ 10,758,605

Note 11 - Other Post-Employment Benefits

The City's Fire Union contract, effective October 1, 2015 changed the way post-employment health care benefits are paid to Fire Union retirees. Prior to this date, Fire Union retirees, who qualified under PERSI's rule of 80 by points, age, medical disability, or by any method in existence at the time of retirement allowed by PERSI were allowed to a health care benefit of the value of 25% of their sick leave balance at the time of retirement. This was used to pay the health insurance premium for the employee until the cash value was depleted. With such a small pool of employees eligible for this post-employment benefit, it has been the City's position that it is not cost effective to have an actuarial determination performed to calculate the ARC (Annual Required Contribution) as required by GASB 45. In accordance with GASB 45 the City has 30 years to accrue the unfunded portion of any existing liability. At no time was the amount material enough to have an actuarial determination performed to calculate the ARC (Annual Required Contribution) as required by GASB 45.

From October 1, 2015 forward Fire Union employees will receive a one-time cash payout of 25% of qualifying sick leave accrual. This means the City has no post-employment benefits to report in accordance with GASB 45.

Note 12 - Contingent Liabilities

The City has been named as a defendant in various legal actions, the results of which are not presently determinable, except as described below. However, in the opinion of the City Attorney, the amount of losses that might be sustained, if any, would not materially affect the City's financial position.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Any disallowed claims, including amounts already collected, could become a liability of the City. City management believes disallowances, if any, will not be material.

In 2006, the City entered into an agreement with a developer to jointly provide water and sewer services for a subdivision under development (Bittercreek Meadows Subdivision Homeowners Association), outside the City limits. The developer put in a well and turned it over to the City so that homeowners could connect to the City water system. Since the development did not grow beyond 24 lots the City was not able to provide sewer and water services. In 2011, the agreement was nullified and the City paid damages to the developer, reimbursed the existing homeowners for their cost to connect to City water, deeded back the well, the well lot, a lift station lot, and land easements to the homeowners.

In 2014, the City of Meridian entered into a Settlement and Mutual Release Agreement with Bittercreek Meadows Subdivision Homeowners Association in which the City agreed to connect 24 lots to the City of Kuna's waste water treatment plant. The cost to do this is not known since it is dependent on development of adjoining vacant land but an estimated cost of \$200,000 was recorded and is reflected in the Statement of Net Position for our Proprietary Fund.

Note 13 - Subsequent Event

The City entered into an agreement to annex the homes in a subdivision outside of city limits and provide them with water and sewer service because their systems were failing. The homes were served by a small utility district, Meridian Heights Water and Sewer District. On December 16, 2014, the District Court approved the dissolution of the District and the transfer of assets and liabilities to the City of Meridian effective December 19, 2014. The assets totaled \$658,312 and the liabilities totaled \$1,918,899. This deficit of \$1,260,587 will be borne by the homeowners in this District.

Prior to the transfer of assets and liabilities the City agreed to issue the Meridian Heights Water and Sewer District a loan in the amount of \$622,803. The District requested draws totaling \$354,105 prior to fiscal year end, September 30, 2014. This note along with the remaining liabilities or debt transferred to the City from the District will be paid by the 286 water users within this district over the next 20 years with an interest rate of 3.5%.

Note 14 - Related Party

The City partners with Meridian Development Corporation (MDC) for various downtown improvements. During the year ended September 30, 2014, the City reimbursed MDC \$9,379 for a CDBG façade improvement grant project, \$75,000 for street lighting improvements and received \$42,712 for utility payments and various items reimbursed by MDC.

Note 15 - Component Unit

The MDC is created by and exists under the Idaho Urban Renewal Law of 1965, as amended, and is a separate and legal entity.

MDC – Capital Assets

Changes to capital assets are as follows:

	Balance Oct. 1, 2013	Additions	Deletions	Transfers	Balance Sept. 30, 2014
Governmental Activities					
Capital assets, not depreciated					
Land	\$ 845,067	\$ -	\$ -	\$ -	\$ 845,067
Total capital assets, not depreciated	845,067	-	-	-	845,067
Capital assets, depreciated					
Buildings	579,710	18,981	-	-	598,691
Equipment	105,495	-	-	-	105,495
Intangibles	180,161	-	-	-	180,161
Total capital assets, depreciated	865,366	18,981	-	-	884,347
Less accumulated depreciation for					
Buildings	(80,095)	(19,956)	-	-	(100,051)
Equipment	(64,430)	(16,150)	-	-	(80,580)
Intangibles	(126,892)	(36,812)	-	-	(163,704)
Total accumulated depreciation	(271,417)	(72,918)	-	-	(344,335)
Total net capital assets, depreciated	593,949	(53,937)	-	-	540,012
Governmental activities capital assets, net	<u>\$ 1,439,016</u>	<u>\$ (53,937)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,385,079</u>

MDC – 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.

The following is a summary of changes in debt of MDC for the year ended September 30, 2014.

	2013	Debt Issued	Debt Retired	2014
Governmental Activities				
Note payable - building	\$ 902,233	\$ -	\$ (99,213)	\$ 803,020
Governmental activities long-term liabilities	<u>\$ 902,233</u>	<u>\$ -</u>	<u>\$ (99,213)</u>	<u>\$ 803,020</u>

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

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 87,134	\$ 27,234	\$ 114,368
2016	98,727	26,101	124,828
2017	102,638	22,192	124,830
2018	106,703	18,127	124,830
2019	110,928	13,901	124,829
2020-2022	<u>296,890</u>	<u>29,054</u>	<u>325,944</u>
Totals	<u>\$ 803,020</u>	<u>\$ 136,609</u>	<u>\$ 939,629</u>

MDC - Related Party Transactions

MDC partners with the City for various downtown improvements. During the fiscal year, total expenditures were \$42,712.

MDC – Line of Credit

MDC has entered into a revolving line of credit with Washington Trust Bank that provides for available borrowings up to \$100,000. The agreement matures on July 30, 2015. Borrowings under the line of credit bear variable interest rate at 3.25% per annum. There were no amounts outstanding on the line as of September 30, 2014. Borrowings under the line of credit are subject to certain covenants and restrictions on indebtedness and dividend payments.



Required Supplementary Information
September 30, 2014

City of Meridian, Idaho

City of Meridian, Idaho

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
September 30, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 22,008,232	\$ 22,008,232	\$ 22,534,302	\$ 526,070
Licenses and permits	3,099,890	3,174,890	4,225,502	1,050,612
Intergovernmental	5,535,392	5,946,180	6,826,466	880,286
Franchise fees	1,230,000	1,230,000	1,566,048	336,048
Fines and forfeitures	455,000	455,000	490,106	35,106
Charges for services	897,000	902,530	1,443,208	540,678
Impact revenues	1,473,321	1,473,321	2,535,597	1,062,276
Donations	8,250	51,627	33,807	(17,820)
Interest	152,000	152,000	174,634	22,634
Miscellaneous	5,000	5,000	9,397	4,397
Total revenues	34,864,085	35,398,780	39,839,067	4,440,287
Expenditures				
General government personnel costs	4,013,932	4,007,753	3,573,761	433,992
General government operating expense	2,239,143	2,775,506	2,013,238	762,268
Public safety				
Police personnel costs	10,322,462	10,493,303	10,264,283	229,020
Police operating expense	2,030,768	2,391,440	1,799,603	591,837
Fire personnel costs	7,920,663	7,920,663	7,832,735	87,928
Fire operating expense	1,091,776	1,127,000	1,077,612	49,388
Parks and recreation personnel costs	1,788,542	1,832,309	1,710,805	121,504
Parks and recreation operating expense	1,562,477	2,131,160	1,463,391	667,769
Community development personnel costs	1,225,132	1,219,017	1,147,160	71,857
Community development operating expense	1,594,571	1,707,368	2,064,536	(357,168)
Capital outlay				
General government	1,908,011	2,244,569	2,107,936	136,633
Public safety				
Police	5,001,107	5,444,479	1,755,026	3,689,453
Fire	1,005,890	1,049,463	414,415	635,048
Parks and recreation	4,180,057	4,893,509	1,679,827	3,213,682
Community development	31,602	31,602	-	31,602
Total expenditures	45,916,133	49,269,141	38,904,328	10,364,813
Excess (Deficiency) of Revenues over (Under) Expenditures	(11,052,048)	(13,870,361)	934,739	14,805,100

City of Meridian, Idaho

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund
September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Operating transfer in	2,892,230	2,892,230	2,393,712	(498,518)
Operating transfer out	(205,694)	(205,694)	(1,592,539)	(1,386,845)
Unrealized gain (loss) on investments	-	-	30,764	30,764
Gain on sale of capital assets	-	22,145	222,321	200,176
Total other financing sources (uses)	<u>2,686,536</u>	<u>2,708,681</u>	<u>1,054,258</u>	<u>(1,654,423)</u>
Excess (Deficiency) of Revenues				
Other Sources (Uses) over (Under)				
Expenditures	<u>(8,365,512)</u>	<u>(11,161,680)</u>	<u>1,988,997</u>	
Fund Balance, Beginning of Year	<u>30,653,494</u>	<u>30,653,494</u>	<u>30,653,494</u>	
Fund Balance, End of Year	<u><u>\$ 22,287,982</u></u>	<u><u>\$ 19,491,814</u></u>	<u><u>\$ 32,642,491</u></u>	

Note 1 - Budgets and Budgetary Accounting

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

- Prior to September 1, the CFO, Department Directors, Mayor, and City Council 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 not adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. Budgets for enterprise funds are not legally required but are adopted on a non-GAAP basis. All annual appropriations lapse at fiscal year-end. Revisions that alter the total expenditure appropriation of any fund must be approved by the City Council. State law does not allow fund expenditures to exceed fund appropriations. The budget presented in the report has been amended.

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



Other Information
September 30, 2014

City of Meridian, Idaho

City of Meridian, Idaho

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund
Year Ended September 30, 2014

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest	\$ -	\$ -	\$ 2,358	\$ 2,358
Total revenues	<u>-</u>	<u>-</u>	<u>2,358</u>	<u>2,358</u>
Expenditures				
General government capital outlay	<u>557,378</u>	<u>1,282,535</u>	<u>-</u>	<u>1,282,535</u>
Total expenditures	<u>557,378</u>	<u>1,282,535</u>	<u>-</u>	<u>1,282,535</u>
Excess (Deficiency) of revenues over (Under) Expenditures	<u>(557,378)</u>	<u>(1,282,535)</u>	<u>2,358</u>	<u>1,284,893</u>
Other Financing Sources (Uses)				
Operating transfer in	-	-	1,592,539	1,592,539
Operating transfer out	-	-	-	-
Unrealized gain (loss) on investments	<u>-</u>	<u>-</u>	<u>(1,966)</u>	<u>(1,966)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,590,573</u>	<u>1,590,573</u>
Excess (Deficiency) of Revenues and Other Sources (Uses) over (Under) Expenditures	<u>(557,378)</u>	<u>(1,282,535)</u>	<u>1,592,931</u>	
Fund Balance, Beginning of Year	<u>2,216,270</u>	<u>2,216,270</u>	<u>2,216,270</u>	
Fund Balance, End of Year	<u>\$ 1,658,892</u>	<u>\$ 933,735</u>	<u>\$ 3,809,201</u>	

City of Meridian, Idaho

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Enterprise Fund
Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Water sales	\$ 7,004,000	\$ 7,004,000	\$ 7,474,033	\$ 470,033
Sewer sales	13,015,758	13,015,758	13,012,886	(2,872)
Other service revenues	300,000	300,000	422,553	122,553
Sale of meters	200,000	200,000	243,719	43,719
Trash billing service	540,000	540,000	604,871	64,871
Engineering fees	80,000	80,000	272,284	192,284
Assessment revenue and cash donations	3,950,000	3,950,000	6,356,219	2,406,219
Interest	225,000	225,000	357,245	132,245
Miscellaneous	10,000	10,000	32,477	22,477
Total revenues	25,324,758	25,324,758	28,776,287	3,451,529
Expenditures				
Administration personnel costs	2,802,264	3,161,795	2,717,984	443,811
Administration operating expenses	2,474,822	2,385,962	2,109,590	276,372
Water personnel costs	1,490,878	1,553,753	1,309,178	244,575
Water operating expenses	2,435,564	2,418,306	2,189,602	228,704
Wastewater personnel costs	2,329,425	2,331,090	2,022,798	308,292
Wastewater operating expenses	2,578,951	2,577,394	2,514,073	63,321
Capital outlay	28,700,553	26,505,226	18,986,999	7,518,227
Total expenditures	42,812,457	40,933,526	31,850,224	9,083,302
Excess (Deficiency) of Revenues over (Under) Expenditures	(17,487,699)	(15,608,768)	(3,073,937)	12,534,831
Other Financing Sources (Uses)				
Operating transfer out	(2,686,536)	(2,686,536)	(2,393,712)	292,824
Unrealized gain on investments	-	-	(1,367)	(1,367)
Gain (loss) on sale of capital assets	-	-	16,277	16,277
Total other financing sources (uses)	(2,686,536)	(2,686,536)	(2,378,802)	307,734
Excess (Deficiency) of Revenues and Other Sources (Uses) over (Under) Expenditures	(20,174,235)	(18,295,304)	(5,452,739)	
Fund Balance, Beginning of Year	44,574,262	44,574,262	44,574,262	
Fund Balance, End of Year	\$ 24,400,027	\$ 26,278,958	\$ 39,121,523	



Independent Auditor’s 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*

Mayor and Member of the City
Council City of Meridian, Idaho
Meridian, Idaho

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of City of Meridian, Idaho (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated February 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
February 10, 2015



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Mayor and Members of the City
Council City of Meridian, Idaho
Meridian, Idaho

Report on Compliance for Each Major Federal Program

We have audited City of Meridian, Idaho's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2014. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The City's responses to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
February 10, 2015

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Single Audit Section
September 30, 2014

City of Meridian, Idaho

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weakness(es)?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

Name of Federal Program or Cluster CFDA Number

U.S. Department of Housing & Urban Development Community Development Block Grant	14.218
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Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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Section II – Financial Statement Findings	None
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Section III - Federal Award Findings and Questioned Costs

2014-001
CFDA #14.218
Community Development Block Grant

Reporting
Significant Deficiency in Internal Control over Compliance

Criteria: The Community Development Block Grant's Compliance Supplement requires subaward reporting under the Transparency Act. This reporting requires the City submit to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FFATA) any subaward amounts in excess of \$25,000 within one month subsequent to the subaward.

Condition: During our testing over the Community Development Block Grants/Entitlement Grants (CFDA# 14.218) it was noted that the City did not timely file with the FFATA a subaward that met the \$25,000 reporting requirement.

Questioned costs: N/A

Effect: The City did not timely submit the required reports with the Federal Funding Accountability and Transparency Act Subaward Reporting System (FFATA).

Cause: The City of Meridian does not have a process in place to ensure that the subaward reporting is being submitted timely per the grant agreement.

Recommendation: It is recommended that the City initiate a process to ensure that all reporting requirements of grants are complied with in an accurate and timely manner as required per the grant agreement.

Management's response: We agree with the finding and will implement the proper procedures to ensure this is managed correctly in the future.

Corrective Action Plan (CAP)

Action Planned in Response to Finding: Community Development is developing written procedures specific to the CDBG grant. Those procedures will be incorporated into the Finance Department grant policy.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: CDBG Grant Administrator, Director of Community Development, Chief Financial Officer

Planned Completion for Corrective Action: 3/31/2015

Plan to Monitor Completion of Corrective Action: The Accounting Department will require that proof of posting to the FSRS be submitted with request for sub grant payment. If the required 30 day post signature reporting is not done the Accounting Department will not request federal reimbursement for the amount.

No findings noted in the prior year.

City of Meridian, Idaho
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
US Dept of Health & Human Services			
Drug Free Communities Support Program	93.276		\$ 16,068
Total US Dept of Health & Human Services			<u>16,068</u>
US Dept of Housing & Urban Development			
Community Development Block Grant - entitlement grant	14.218		296,174
Total US Dept of Housing & Urban Development			<u>296,174</u>
US Dept of Justice			
ARRA - Public Safety Partnership and Community Policing <i>Passed Through Idaho State Attorney General</i>	16.710		48,680
Idaho Internet Crimes Against Children (ICAC) Task Force <i>Passed Through Idaho State Dept of Juvenile Corrections</i>	16.543	10-MC-CX-K017	2,162
Enforcing Underage Drinking Laws Program	16.727	11-LE42-01	7,410
Total US Dept of Justice			<u>58,252</u>
US Dept of Transportation			
<i>Passed Through Idaho State Dept of Transportation</i>			
Highway Planning and Construction			
Alive at 25 Program	20.205	A012(536)(537)	45,387
Traffic Enforcement Mobilization	20.205	A012(536)(537)	12,615
Traffic Enforcement Mobilization	20.205	A010(660)	1,249
State and Community Highway Safety			
Alive at 25 Program	20.600	TSP-2014-03-00-00	500
Traffic Enforcement Mobilization	20.600	AL-2014-01-00-00	6,366
Traffic Enforcement Mobilization	20.600	PT-2014-01-00-00	4,902
Traffic Enforcement Mobilization	20.600	OP-2014-01-00-00	12,388
Alcohol Traffic Safety & Drunk Driving			
Traffic Enforcement Mobilization	20.601	K8-2014-01-00-00	5,422
Traffic Enforcement Mobilization	20.616	M2HVE-2014-01-00-00	13,215
Federal-Aid Project No A013 (817)			
Rail with Trail Arterial Study			47,077
<i>Passed through Idaho Chapter of The American Academy of Pediatrics</i>			
Idaho Child Passenger Safety Program			
Car Seat Grant	20.507	KN13817	10,479
Total US Dept of Transportation			<u>159,600</u>
US Dept of Homeland Security			
<i>Passed through Ada City County Emergency Management</i>			
Idaho Bureaus of Homeland Security HSGP			
Diaster Preparedness	97.067	EMW-2012-SS-00136	31,813
Total US Dept of Homeland Security			<u>31,813</u>
<i>Passed through Boise Fire Department</i>			
Assistance to FireFighters Grant			
2012 AFG Mobile Radios Grant	97.044	EMW-2012-FR-00397	149,185
Total Boise Fire Department			<u>149,185</u>
Total Expenditures of Federal Awards			<u>\$ 711,092</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal grant activity of the City, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*. The City received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a sub recipient is treated as expenditure when it is paid to the sub recipient.

Note 2 - Basis of Presentation

Governmental fund types account for the City’s federal grant activity. Therefore, expenditures are recognized on the modified accrual basis – when they become a demand on current available resources. The City’s summary of significant accounting policies is presented in Note 1 in the City’s basic financial statements.

Note 3 - Subrecipients

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provides federal awards to sub recipients as follows:

Program Title	CFDA Number	Amount Provided to Sub-Recipients
Community Development Block Grant - entitlement	14.218	\$ 89,975
Sub-Recipients		Amount to Sub-Recipients
Ada County Housing Authority		\$ 21,000
Boys and Girls Club		8,596
Meridian Development Corp		9,379
Meridian Food Bank		30,000
Neighborhood Housing Services		21,000
Total provided to Sub-recipients		\$ 89,975