



Photo provided by Kathy Wanner

Financial Statements
September 30, 2011

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and the major fund of City of Meridian, Idaho (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and the major fund of the City as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 08, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The supplementary information and 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Boise, Idaho
February 08, 2012

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, 2011. 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 at September 30, 2011 by \$304,673,357. Of this amount \$50,781,951 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2011 the City's total net assets increased \$3,559,369 as compared to an increase of \$17,956,476 during fiscal year 2010. Net assets of the governmental activities decreased \$534,686 and net assets of business-type activities increased \$4,094,055.
- Total fund balance of governmental funds at September 30, 2011 was \$27,171,632 compared to a total governmental fund balance at September 30, 2010 of \$26,199,963. Of the September 30, 2011 balance, \$3,077,450 is restricted for park, police and fire impact fee capital expenditures, \$22,297 is restricted for grant expenditures, \$119,984 is nonspendable, \$1,884,789 is assigned for budget carry forward, \$2,569,266 is assigned for capital projects, \$2,089,201 is assigned for public safety capital projects, and the remaining \$17,408,645 is unassigned.

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 Assets – Reports all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the 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 propriety 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 Assets

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). At September 30, 2011 the City's combined assets exceeded liabilities by \$304,673,357. In comparison at September 30, 2010 combined assets exceeded liabilities by \$301,113,988 and by \$283,157,512 at the end of FY2009. The largest portion of the City's net assets, 81%, 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 has remained virtually unchanged since FY2009.

Assets restricted to a particular use are 2% of net assets. The City's restricted fund is principally the park, police and fire impact fee fund (portion of building permit collected for construction of new assets to retain existing service levels). The City has established a reserved fund called the Capital Improvements Fund. The City puts excess funds generated from building permit sales into a fund marked specifically for general fund capital projects.

Unrestricted net assets equal 17% of net assets; this percentage composition is unchanged from the prior year. The City's net assets increased 1% from FY2010 to FY2011. In comparison from FY2009 to FY2010 the City's net assets increased by \$17.9 million or 6%.

Some portion of the unrestricted net asset balance has been designated by the City Council for specific purposes. The table below has been condensed from the Statement of Net Assets.

	Primary Government					
	Governmental Activities		Business - type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 49,935,109	\$ 48,111,591	\$ 36,914,877	\$ 34,016,047	\$ 86,849,986	\$ 82,127,638
Capital Assets	61,985,351	60,989,679	184,265,184	183,447,584	246,250,535	244,437,263
TOTAL Assets	111,920,460	109,101,270	221,180,061	217,463,631	333,100,521	326,564,901
Current Liabilities	21,874,536	20,913,008	3,061,562	3,439,182	24,936,098	24,352,190
Long-term Liabilities	3,344,769	952,421	146,297	146,302	3,491,066	1,098,723
TOTAL Liabilities	25,219,305	21,865,429	3,207,859	3,585,484	28,427,164	25,450,913
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	61,660,541	60,989,679	184,265,184	183,447,584	245,925,725	244,437,263
Restricted	7,965,681	4,483,946	-	-	7,965,681	4,483,946
Unrestricted	17,074,933	21,762,216	33,707,018	30,430,563	50,781,951	52,192,779
TOTAL Net Assets	\$ 86,701,155	\$ 87,235,841	\$217,972,202	\$213,878,147	\$304,673,357	\$301,113,988

Changes in Net Assets

During the year the City's financial position improved by \$3,559,369. The following condensed financial information was derived from the government-wide Statement of Activities and shows how the City's net assets changed during the year.

Changes in Net Assets for Fiscal Year Ending September 30, 2011
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	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY2011	FY2010	FY2011	FY2010	FY2011	FY2010
Revenues						
Program Revenues						
Charges for services	\$ 5,390,186	\$ 4,848,721	\$ 19,437,576	\$ 17,562,418	\$ 24,827,762	\$ 22,411,139
Operating grants and contributions	766,518	644,190	2,911,265	3,061,634	3,677,783	3,705,824
Capital Grants and Contributions	1,156,323	1,540,825	1,666,396	9,118,085	2,822,719	10,658,910
General Revenue:						
Property taxes	19,315,073	18,868,397			19,315,073	18,868,397
Franchise fees	1,351,868	1,373,872			1,351,868	1,373,872
Sales tax and other governmental	3,577,052	3,486,360			3,577,052	3,486,360
Investment Earnings	316,534	475,805	386,311	489,414	702,845	965,219
Other Revenue	14,086	3,328	(1,112,397)	261,862	(1,098,311)	265,190
Total Revenues	31,887,640	31,241,498	23,289,151	30,493,413	55,176,791	61,734,911
Expenses						
General Government						
Administration	9,062,939	6,121,229			9,062,939	6,121,229
Law Enforcement	11,173,681	10,109,081			11,173,681	10,109,081
Fire Department	8,005,424	7,434,205			8,005,424	7,434,205
Parks and Recreation	3,231,199	2,781,748			3,231,199	2,781,748
Community Planning and Devlp	2,044,533	1,782,263			2,044,533	1,782,263
Interest on long-term debt	122,844	28,675			122,844	28,675
Enterprise - sewer and water			17,976,802	15,521,234	17,976,802	15,521,234
Total Expenses	33,640,620	28,257,201	17,976,802	15,521,234	51,617,422	43,778,435
Excess of revenues over (under) expenditures before transfers	(1,752,980)	2,984,297	5,312,349	14,972,179	3,559,369	17,956,476
Transfers - internal activities	1,218,294	1,068,396	(1,218,294)	(1,068,396)	-	-
Increase (decrease) in net assets	(534,686)	4,052,693	4,094,055	13,903,783	3,559,369	17,956,476
Net Assets, Beginning of Year	87,235,841	83,183,148	213,878,147	199,974,364	301,113,988	283,157,512
Net Assets, Ending of Year	\$ 86,701,155	\$ 87,235,841	\$ 217,972,202	\$ 213,878,147	\$ 304,673,357	\$ 301,113,988

- **Governmental Charges for Services include:**
 - Building permits and filing fees
 - Court fines
 - Rural Fire District service reimbursement
 - Park and Recreation fees

- **Governmental Capital Grants and Contributions include:**
 - Impact fees for Parks, Fire, and Police
 - Park land donations
 - Grant revenues
 - Cash donations

- **Business Type Charges for Services include:**
 - Water and Sewer sales
 - Engineering review fees
 - Trash Administration fees

- **Business Type Operating Grants and Contributions include:**
 - Water and Sewer connection fees
 - Cash donations for operating expenses

- **Business Type Capital Grants and Contributions include:**
 - Developer donated water and sewer lines
 - Cash Donations for capital outlay

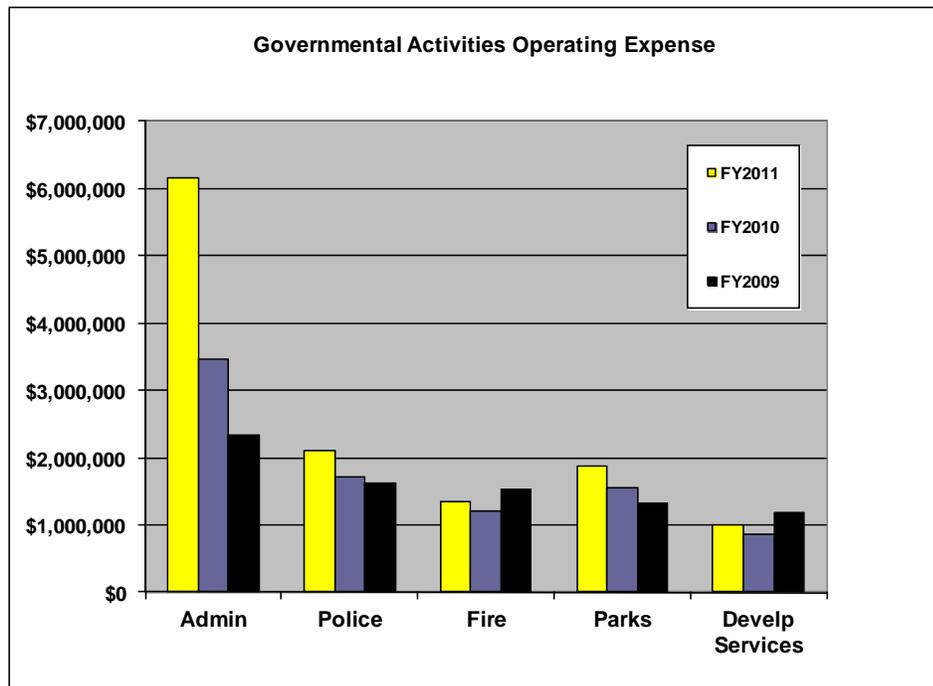
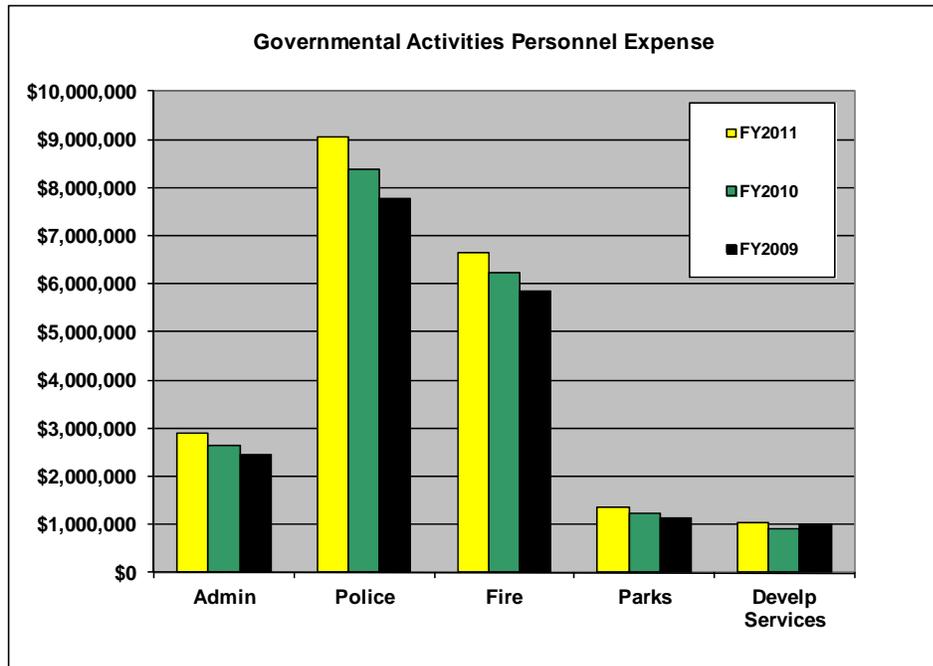
Governmental Activities:

Governmental net assets decreased \$534,686. This is in sharp contrast to the prior year over year increase of \$4 million. Total revenues increased 2% over the prior year while expenses increased 19% over the prior year. The City incurred significant one-time expenses pursuant to bringing and losing a civil lawsuit associated with the construction of the City Hall. Between interest, settlement costs to the defendant, and the City's legal fees the City incurred over \$3.5 million dollars in expense due to this case in FY2011. The City has appealed and is exposed to incurring additional interest and legal costs.

Property tax is the single greatest source of governmental revenue. During the past decade new construction resulted in substantial increases in property tax revenue in Meridian. This is because the new construction added a considerable number of new homes and businesses to the tax rolls. The highest year over year property tax revenue increase was 27% from FY2005 to FY2006. In addition to growth from construction the City can by state statute increase the amount of property tax it collects from the prior year by 3%. The last two fiscal years the City has not taken the allowable 3% increase. This coupled with the considerable late decade slow down in new construction has meant much smaller changes in property tax. Between fiscal years 2010 and 2011 property tax increased a little over 2%. In fact total Governmental revenue increased only 2%.

Governmental expenses increased \$5.4 million dollars. As mentioned previously \$3.5 million dollars of this increase can be attributed to the legal and settlement costs which are in the Administration function. Administration also includes several general support functions, Information Technology, Accounting and Finance, Human Resources, City Clerk, Mayor's Office, City Council, Other Government (general expenses not assigned to other departments), Street Lighting, and City Hall. One half of Human Resources, Information Technology, and Finance costs are transferred to the enterprise fund since these functions support all funds. The City Hall expenses are split among the departments who are housed in the building.

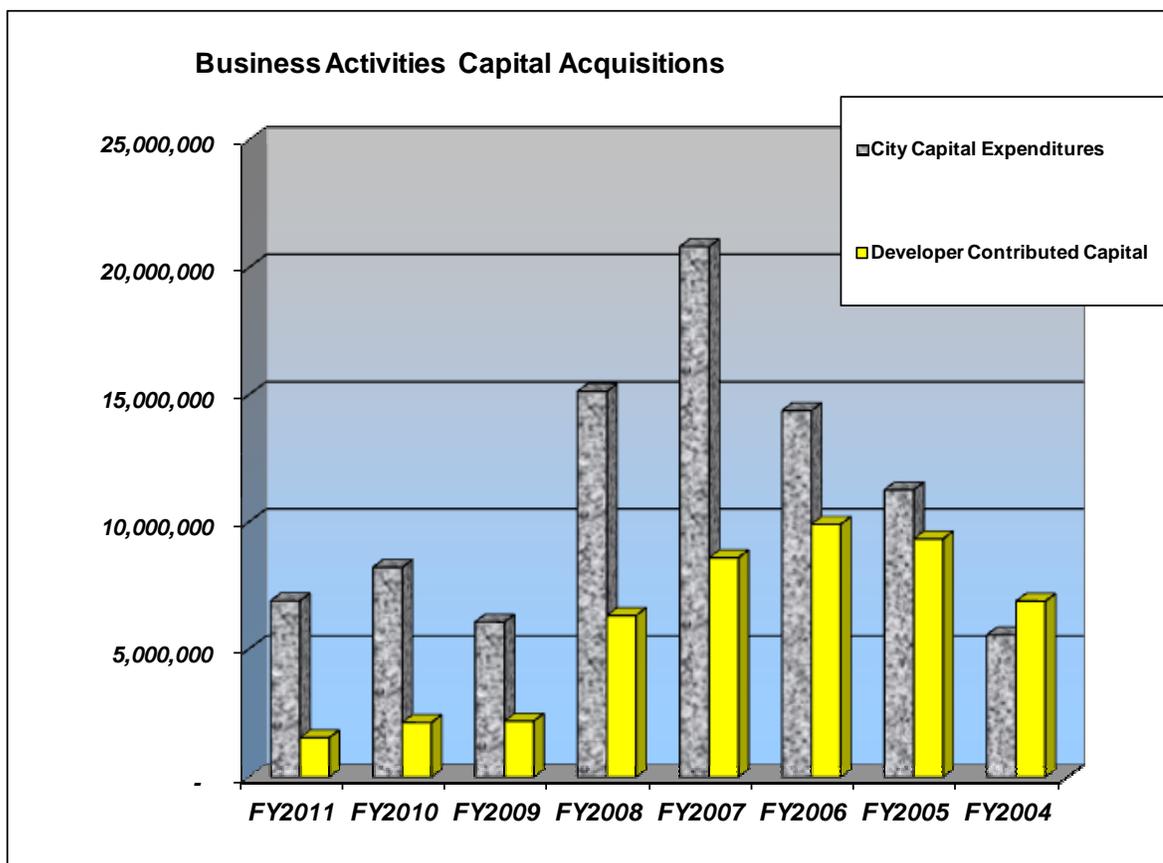
The largest percentage of total general government, 62%, is in personnel costs. All governmental functions experienced some percent of personnel cost increase. Personnel costs increased \$1.6 million dollars (8%) from FY2010 to FY2011. Additions in Police and Fire account for 69% of this increase. In addition to annual wage increases, the Police Department was budgeted for eight additional positions and the Fire Department one additional position.



Business-Type Activities:

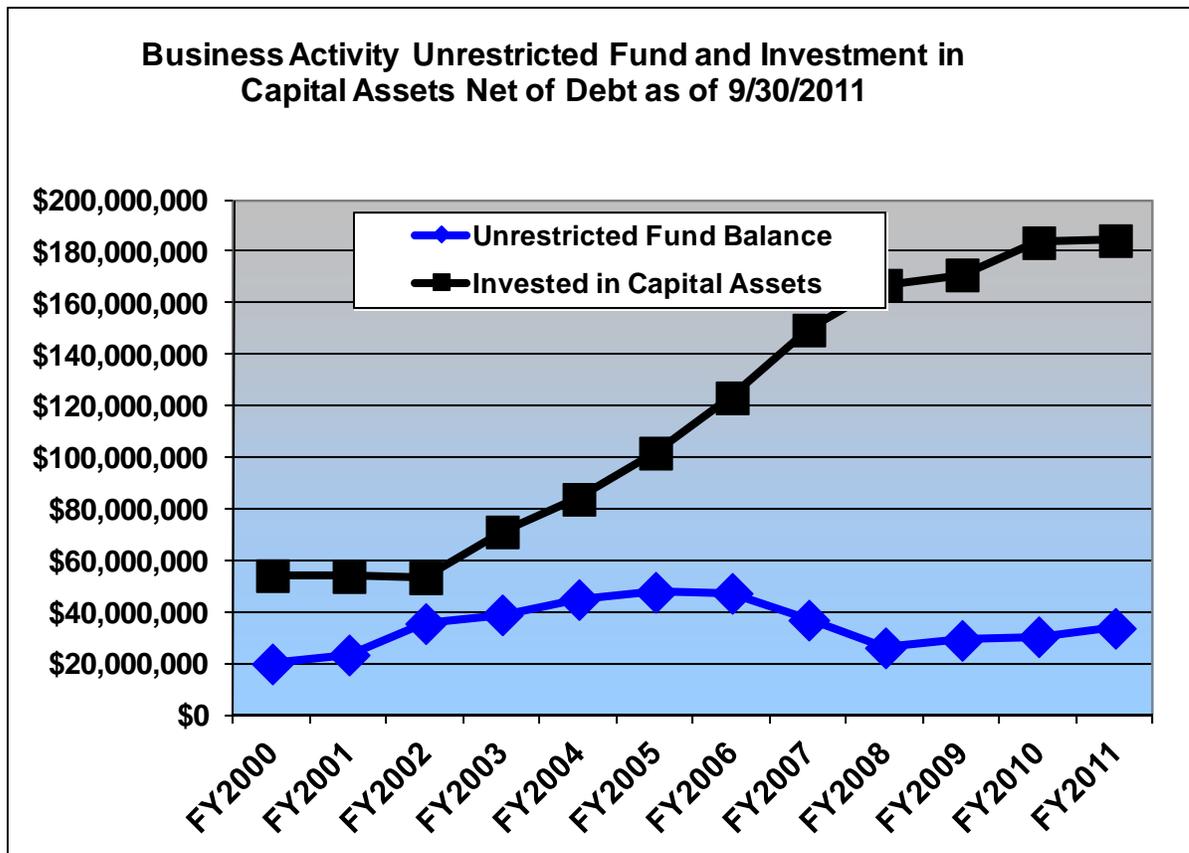
Business-type activities, the provision of water and sewer services, increased net assets by \$4 million in FY2011 compared to a \$13.9 million dollar increase in FY2010 and a \$6.8 million dollar increase in FY2009. Capital assets net of depreciation increased \$800,000 and unrestricted net assets increased \$3.3 million.

During the last decade the population in the City of Meridian more than doubled. To facilitate this growth the Utility operations rapidly expanded infrastructure such as water and sewer lines, wells, and wastewater treatment facilities. At the end of FY2001 the capital assets net of depreciation totaled \$53.8 million; at the end of fiscal year 2011 the capital assets net of depreciation totaled \$184 million. Almost half, 46%, of the capital assets are in contributed capital, water and sewer lines. This is the result of developers putting in water and sewer lines to serve subdivisions and “donating” them to the City at the end of the project. The City is responsible for the maintenance and repair of the lines. During the middle of the decade at the height of the building boom annual contributed capital was as high as \$9.9 million. During FY2011 the amount of contributed capital was down to \$1.6 million.



When the capital asset portion of net assets was reaching the peak of growth, the unrestricted fund balance was starting to decrease as it was used to fund infrastructure growth. From the end of FY2001 to the end of FY2005 the unrestricted fund balance grew by \$24.3 million dollars. The growth was fueled largely by “connection” fees. Connection or assessment fees are fees charged for businesses and residences to connect to the utility system. The increase in growth that started at the first of the decade resulted in a rapid build-up of funds available for the necessary infrastructure construction that followed.

During FY2006 the unrestricted fund balance started to decrease. FY2007 and FY2008 had unrestricted fund balance decreases of over \$10 million dollars each year. By FY2010 the level of capital expansion required by the City had diminished and the unrestricted fund balance started slowly increasing. Although the City is not using the large amounts of capital necessary as it did during the building boom, the amount of revenue collected from assessments has also dropped off and revenue from operations has played a more important role. Although internally the City accounts for operating sales and expenses, and construction revenue and costs separately there are no existing restrictions directing sources of revenue to one particular purpose.



The Utility has three principal sources of revenue. Operating revenue from selling water and sewer services (charges for services), and the previously discussed fees that new homes pay to connect to the utility system (operating grants and contributions) and “donated” revenue, the value of the developer connected lines and easements (capital grants and contributions).

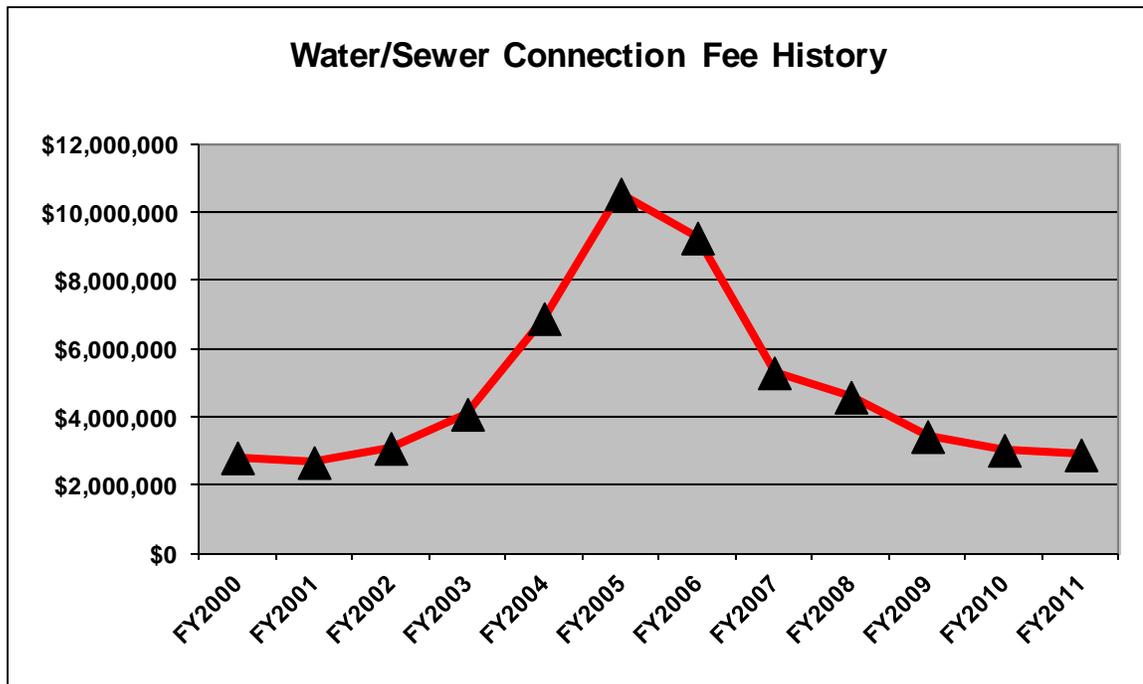
The bulk of the charges for services revenue category is utility sales. The City also receives an administrative fee for handling the trash billing for the private contractor who provides solid waste removal services for City residents. In FY2009 the City Council approved a significant rate increase for sewer and water usage to be phased in over a three year period. The percent increases were to be 19% for water usage and 42% for sewer usage. The first two stages of the increase took place as planned in the spring of FY2009 and the spring of FY2010 but the increase was not enacted the third year (FY2011) due to the improving profitability of the utility.

Charges for Services

	FY2011	FY2010	FY2009
Water Sales	\$ 6,783,014	\$ 6,415,738	\$ 5,862,448
Sewer Sales	11,933,079	10,438,103	7,862,962
Meter Sales	125,448	141,479	153,663
Trash Billing Service	511,761	483,148	475,587
Engineering & Misc Fees	84,274	83,950	71,828
	<u>\$ 19,437,576</u>	<u>\$ 17,562,418</u>	<u>\$ 14,426,488</u>

The number of water and sewer account holders grew rapidly during the building boom but the growth in the numbers started leveling out at 2% annually in FY2008. Now increases in revenue are driven largely by increases in rates. Water sales are difficult to predict because they are influenced by the weather. Newer subdivisions in Meridian use pressurized irrigation and do not need to use city water for outdoor water in the summer. Sewer usage is calculated by averaging a property owner's water usage during the winter months on the assumption that most of the water is used within the house and goes down the sewer system. The waste treatment system is more costly to operate than the water system therefore usage rates are higher.

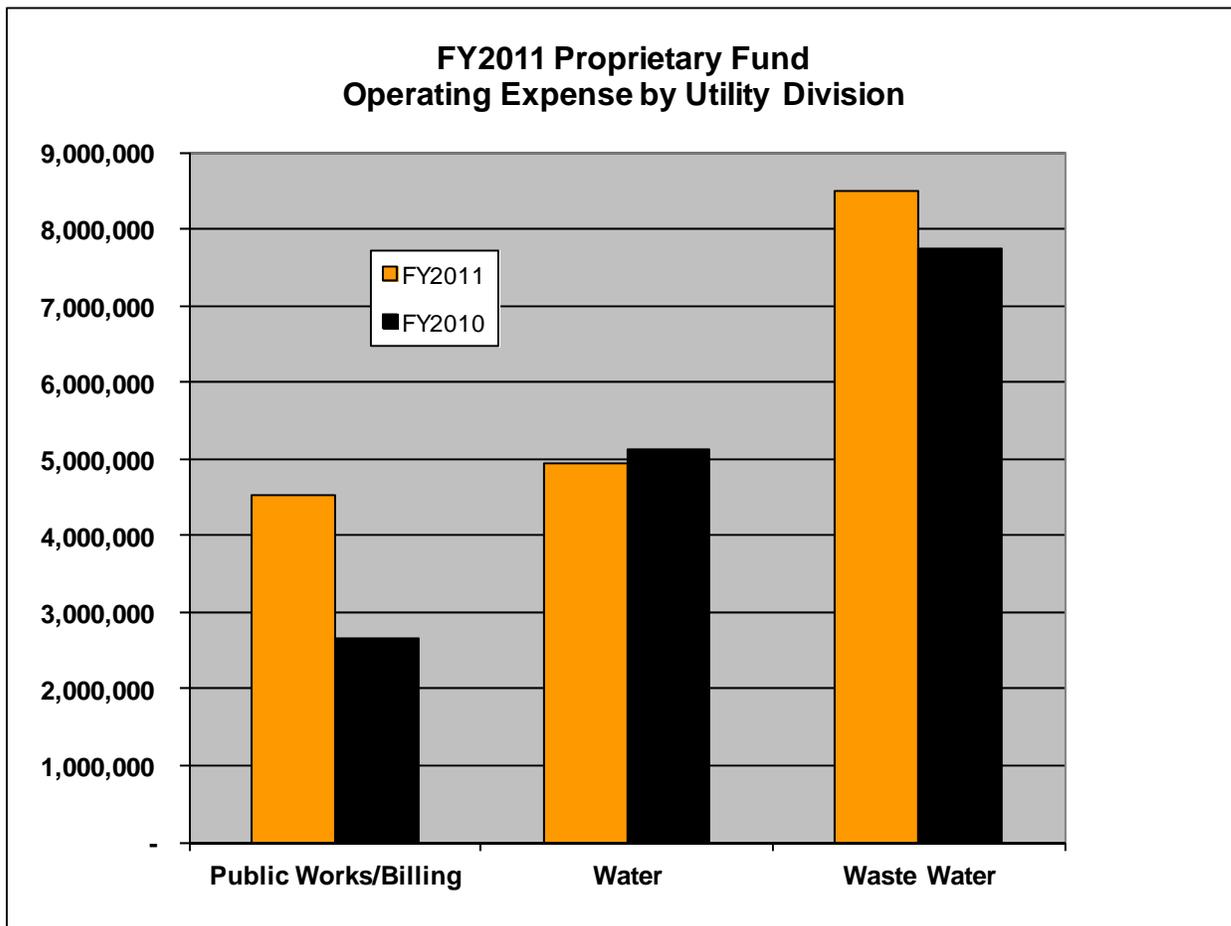
As discussed above when a new residence or commercial building connects to the City's utility system they pay a "connection" fee. Initially this fee was developed to build out infrastructure to accommodate new development. The amount of revenue collected from connection fees has decreased annually every year since FY2005.



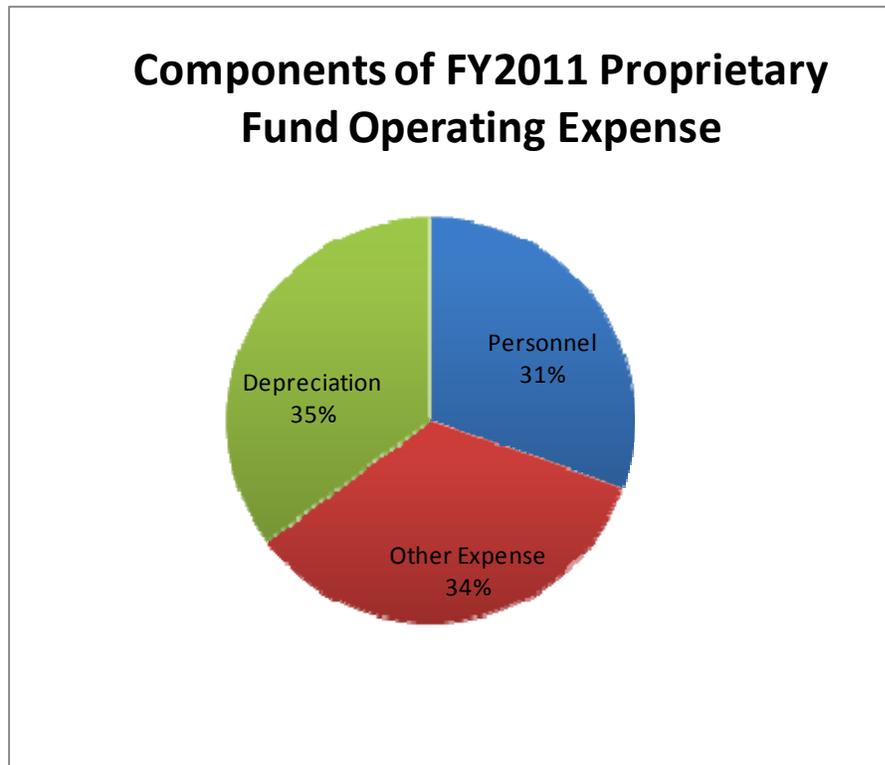
The table below illustrates the changes in expenses from FY2009 to FY2011. The proprietary fund's total operating expenses increased by 16% from FY2010 to FY2011. This mirrors the percentage from FY2009 to FY2010.

OPERATING EXPENSES	% Change		% Change		FY2009
	FY2011	FY10 to FY11	FY2010	FY09 to FY10	
Personnel	\$ 5,469,270	8%	\$ 5,070,348	9%	\$ 4,631,746
Other Services/Charges	3,658,531	17%	3,121,815	50%	2,087,738
Depreciation	6,322,956	31%	4,824,482	12%	4,316,283
Supplies	1,741,116	10%	1,581,534	13%	1,404,316
Heat, Lights, Power	784,929	-15%	923,055	4%	883,971
Total operating expense	17,976,802	16%	15,521,234	16%	13,324,054
General fund transfer	1,218,294	14%	1,068,396	3%	1,033,718
Total business-type expense	\$ 19,195,096		\$ 16,589,630		\$ 14,357,772

The Proprietary Fund is divided into four basic divisions: Waste Water, Water, Public Works, and Utility Billing. Public Works and Utility Billing provide support services to both the Water and Waste Water divisions. Waste Water is the largest Division in the fund as illustrated by the following graph.



Operating costs for the utility are divided almost equally between personnel, operating, and depreciation.



The Public Works Department had a few notable increases in operating costs between FY2011 and FY2010. Approximately a million dollars was expended on continuing consulting work on various sewer and water master plans.

During FY2011 the City was required to pay \$463,000 and release title to several assets as the result of a nullification agreement between the City and a developer. In 2006 the City entered into an agreement with a developer to jointly provide water and sewer service for a subdivision under development outside of 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. Due to the downturn in the economy only a small portion of the subdivision was developed and the agreement was no longer viable. The City paid damages to the developer and reimbursed the existing homeowners for their cost to connect to City water and also deeded back the well, the well lot, a lift station lot, and land easements which resulted in a loss on disposal of assets in the amount of \$1,364,504.

Personnel costs in the Public Works Department increased about 14% from last fiscal year. One factor contributing to this increase was filling vacant positions that resulted from an earlier reorganization.

Water Department operating expenses dropped slightly. Most significantly backflow monitoring expenses dropped as the result of changes in the way the City handles backflow devices and testing, the program that protects against cross contamination when a home owners uses City water and irrigation water for outside watering. During FY2011 the City discontinued paying for the total cost of that testing passing most of that cost back to the property owner. In FY2011 the City did make a one-time payment to property owners to remove dual connection devices (allow connection to both City water and irrigation simultaneously).

Total Waste Water Treatment operating expenses increased 10%. One category of expense went down; in FY2010 the department spent several hundred thousand dollars in consulting for various plans such as the Sewer Master Plan and a Facility Plan Update. The division did not have these expenses in FY2011 or they were moved to the Public Works Department. The recognition of a full year of depreciation expense for the \$25 million dollar Waste Water Treatment Plant expansion increased WWTP depreciation expense almost \$1.5 million dollars.

As the result of operations the Proprietary Fund ended FY2011 with \$1,772,375 in operating income and increased net assets by \$4,094,055. The difference between the two numbers is the non operating revenues and expenses. These include connection revenue as discussed above, interest income and change in investment fair market value and loss on the sale of fixed assets.

The Fund experienced an unusual loss on the disposal of fixed assets in the amount of \$1,364,504. Assets given to a developer in the nullification agreement discussed above totaled \$1,177,892. Additionally a couple of outdated lift stations were replaced and an old well abandoned.

Finally the Propriety Fund paid the general fund \$1,218,294 for half of the cost of the administrative and support functions for accounting, human resources, information technology, construction management, and a share of the costs to maintain the City Hall building.

The Water Department closed \$1.4 million out of construction in progress and the Waste Water Department closed \$3.8 million dollars out of construction in progress. Larger Water Department projects completed include well number 28, and various line and well rehabilitation projects. The Waste Water Department closed \$3 million of plant improvements, \$540,000 in lift stations and \$279,000 for various sewer line projects.

Overall the Utility spent \$6.9 million dollars on capital acquisitions. Depreciation expense increased from \$4,824,482 in FY2010 to \$6,322,956 in FY2011. The Utility still has \$6.7 million dollars in construction in progress.

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 \$27.2 million which is an increase of \$971,669.

As discussed in the Notes to the Financial Statements the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the fiscal year ended September 30, 2011. The GASB statement changes the fund balance classifications so they can be more consistently applied. Of the combined ending fund balance of \$27.2 million \$119,984 was non spendable, \$3.1 million was restricted by law, \$6.5 million assigned by the intent of the City to specific purposes, and \$17.4 million was unassigned and available for spending by the City within the purposes specified for the City's funds.

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 \$17,408,645 down from the previous year balance of \$17,779,306. The City maintains a general fund balance reserve equivalent to four months of on-going personnel and operating expense. The amount of reserve is calculated using the upcoming budget year i.e. the FY2012 budget is used to calculate the balance at the end of FY2011. For fiscal year end this amount is \$8.5 million.

The restricted impact fee fund can only be spent on police, fire and parks capital projects that sustain the level of service existing when the fees were adopted per Idaho statute. Little was spent from the fund in FY2011, the fund balance increased from \$1,964,241 at the end of fiscal year 2010 to \$3,077,450 at the end of fiscal year 2011.

The Development Services Fund is used to account for Building and Planning Department Operations. The fund is combined with the Capital Projects Fund to create the fund balance, Reserved for Capital Improvements. During FY2011 the City transferred \$600,722 from the Development Services Fund to the Capital Projects Fund.

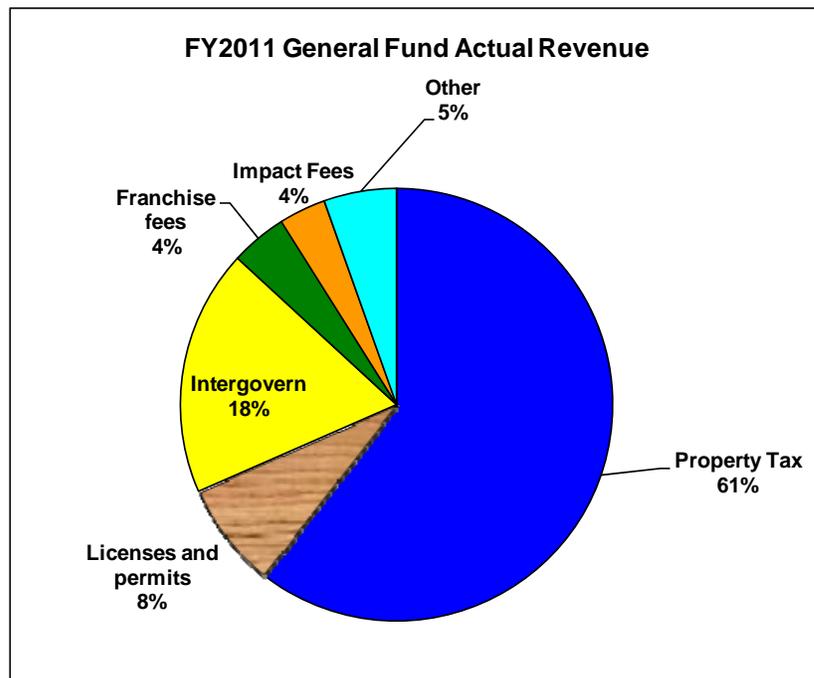
Assigned for Public Safety Purchases is a fund used to save for public safety construction or large capital purchases. At the end of FY2011 the balance is \$2 million, essentially unchanged, except for a small amount of interest, since the end of FY2010.

GOVERNMENTAL FUND BALANCES

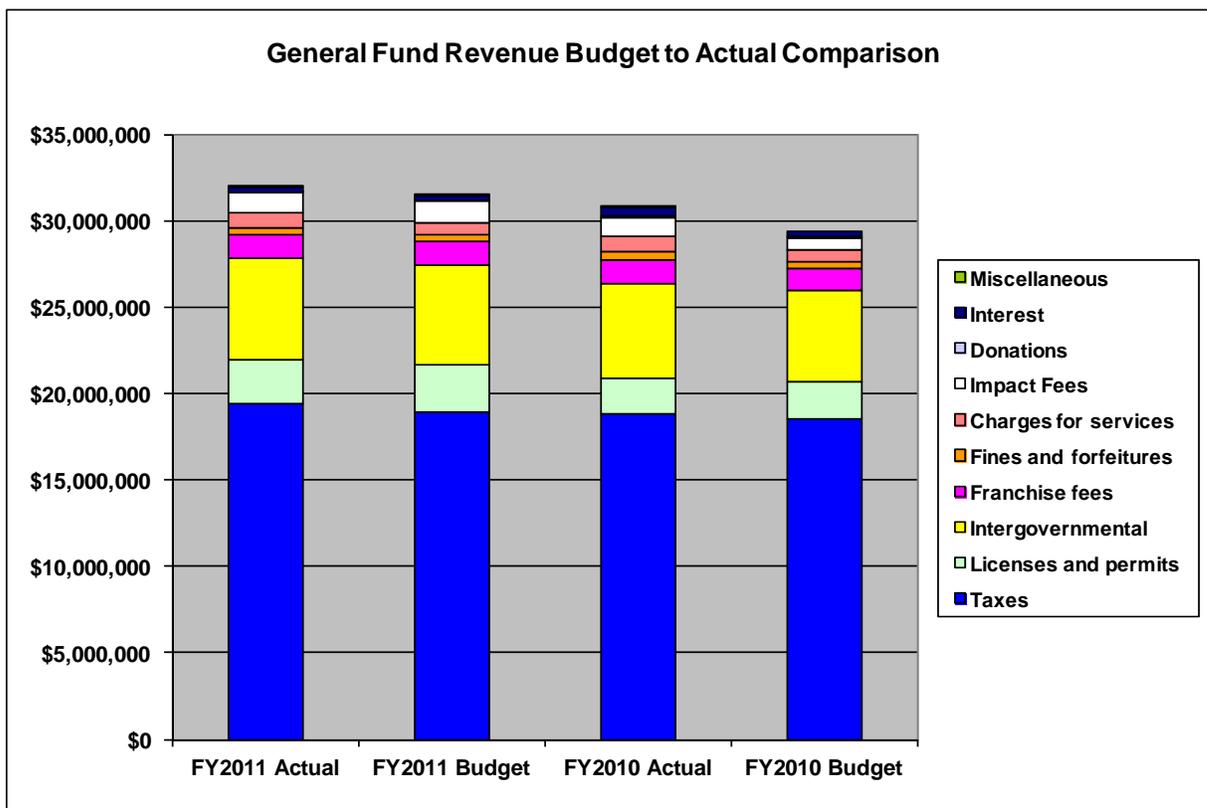
	<u>FY2011</u>	<u>FY2010</u>	<u>Change in Fund Balance</u>
<i>Nonspendable</i>			
Prepays	\$ 119,984	\$ 206,455	\$ (86,471)
<i>Restricted</i>			
Impact Fund	3,077,450	1,964,241	1,113,209
Grant Fund	22,297		22,297
<i>Assigned</i>			
Fund Bal Budget Carryforward	1,884,789	1,659,273	225,516
Capital Projects Fund	2,569,266	2,519,705	49,561
Public Safety Fund	2,089,201	2,070,983	18,218
<i>Unassigned</i>			
	<u>17,408,645</u>	<u>17,779,306</u>	<u>(370,661)</u>
TOTAL FUND BALANCE	<u>\$ 27,171,632</u>	<u>\$ 26,199,963</u>	<u>\$ 971,669</u>

General Fund Budgetary Highlights

Total actual general fund revenue exceeded the final budget amount by 2% which is a little over \$500,000. By and large the additional revenues were due to greater than budgeted property tax collections. For the year ended FY2011 61% of the general fund revenue was from property taxes. Intergovernmental is the next highest percentage of revenue, this category includes grants, sales tax revenue sharing, and a joint powers agreement with the Meridian Rural Fire District. The amount received for grant revenue varies from year to year, this year it was just over \$700,000. For the last three years sales tax revenue sharing and Meridian Rural Fire District reimbursements have been consistent at about \$3.5 million and \$1.5 million respectively. The original revenue budget was amended upward during the fiscal year to reflect about \$765,000 in additional revenue from grants, donations, licenses and permits.



Comparing actual General Fund revenue from FY2010 to FY2011 shows a \$1.3 million 4% increase. The composition between revenue sources and amounts in general was consistent between the two years.



Governmental actual personnel and operating costs increased 8% from FY2010 to FY2011. In comparison from FY2009 to FY2010 actual personnel and operating expenses increased 6%. The General Fund operating budget had a significant budget amendment for legal costs and the subsequent loss for a case involving the construction of City Hall. Legal costs of \$ 1.2 million were paid during the year; the settlement amount of \$ 2.3 million was not because the City is appealing the judgment but is accrued for under the government-wide financial statements. The City is accruing interest of 5.25% (\$330.48) per day during the appeal period.

Budgeted General Fund personnel and operating increased 19%.

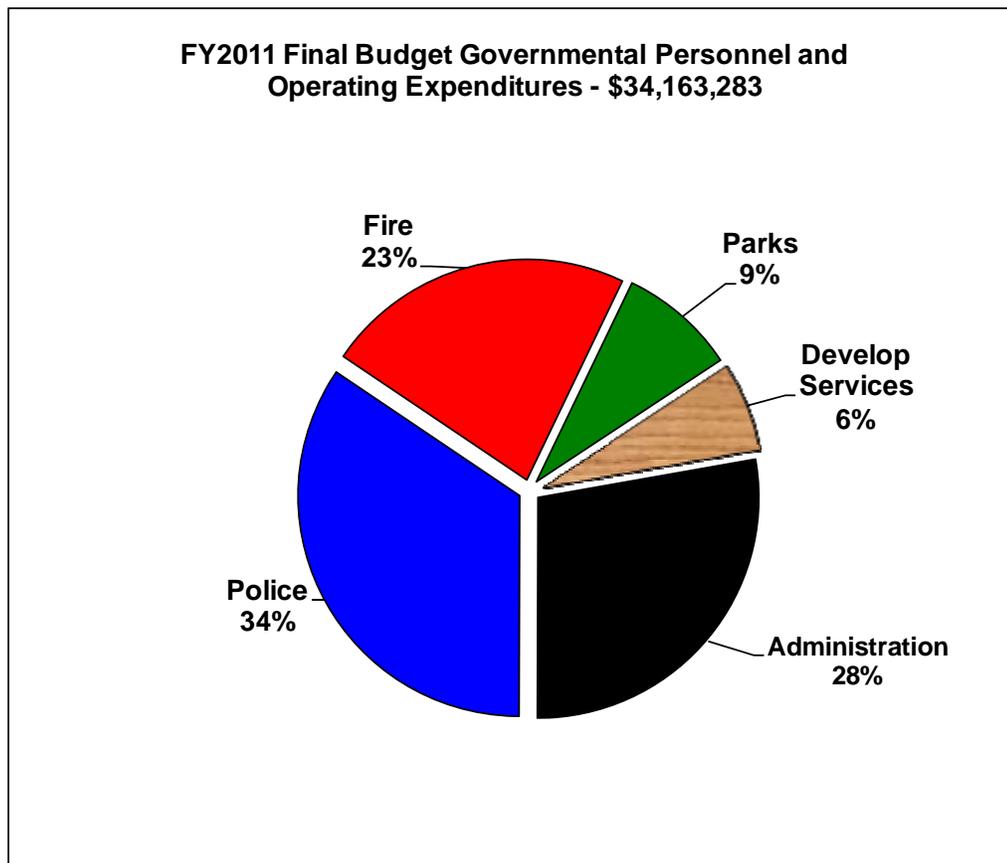
General Government Personnel Expenditures

	FY2011 Final Budget	FY2010 Final Budget	Percent Increase
Administration	\$ 3,050,850	\$ 2,932,355	4%
Police	9,681,118	8,587,718	13%
Fire	6,884,461	6,600,646	4%
Parks	1,621,334	1,371,301	18%
Develop Services	1,124,929	1,089,100	3%
TOTAL	\$ 22,362,692	\$ 20,581,120	9%

General Government Operating Expenditures

	FY2011 Final Budget	FY2010 Final Budget	Percent Increase
Administration	\$ 6,456,466	\$ 3,303,144	95%
Police	2,068,451	2,543,221	-19%
Fire	867,588	1,174,570	-26%
Parks	1,310,979	1,138,463	15%
Develop Services	1,097,107	972,060	13%
TOTAL	\$ 11,800,591	\$ 9,131,458	29%

Personnel costs make up 65% of the total on-going (personnel and operating) General Fund budget. The largest department in the General Fund as far as personnel expense is the Police Department. The second largest is the Fire Department, together they total 74% of the total General Fund personnel budget.



For the FY2011 budget the City added eight positions in the Police Department. Four of the positions are funded through FY2013 with grant monies. Several positions in the Police Department were vacant throughout FY2011 resulting in a \$678,164 salary savings. Actual Police Department operating expenses increased 31% from FY2010 to FY2011 because the City paid off the bonds for Police Building in FY2010, meaning a double payment in FY2010 and no payments in FY2011.

The Fire Department and Administration each added one position to the FY2011 budget while the Parks Department added two.

The City had a General Fund capital budget of \$5.2 million in FY2011 and spent \$3.27 million. Major projects completed were the purchase and installation of a permitting, licensing, and code enforcement software for just over \$671,000, \$440,000 for Police vehicles, \$418,000 to refurbish two fire engines, and \$827,000 to purchase land for a Park Department maintenance shop.

CAPITAL ASSET and DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011 the City had \$246.3 million invested in capital assets (net of accumulated depreciation). During fiscal year 2011 the City's total investment in net assets increased 1%. See table below:

Capital Assets as of September 30, 2011
(net of depreciation)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 15,651,367	\$ 14,819,704	\$ 1,137,275	\$ 1,037,055	\$ 16,788,642	\$ 15,856,759
Easements	217,864	217,864	6,962,968	6,921,118	7,180,832	7,138,982
Intangibles	32,919	42,324			32,919	42,324
Buildings and improvements						
other than buildings	38,283,632	39,597,535	41,060,166	39,911,428	79,343,798	79,508,963
Sewer and water lines			112,210,457	110,384,946	112,210,457	110,384,946
Equipment	5,122,616	4,108,209	16,231,044	16,707,061	21,353,660	20,815,270
Construction in progress	2,676,953	2,204,043	6,663,274	8,485,976	9,340,227	10,690,019
	<u>\$ 61,985,351</u>	<u>\$ 60,989,679</u>	<u>\$ 184,265,184</u>	<u>\$ 183,447,584</u>	<u>\$ 246,250,535</u>	<u>\$ 244,437,263</u>

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

Major capital asset events in the general government funds in FY2011 included:

- \$417,857 for refurbishing two fire engines
- \$831,695 for purchase of land for a Park Department maintenance building
- \$2.6 million in total in construction in progress account, \$2.4 million for park development.
- \$671,425 for permit , licensing, and code enforcement software
- \$439,761 for Police vehicles

Major capital asset events in the business-type funds in FY2011 included:

- \$3.5 million in sewer trunk, reclaimed, and water line expansions
- \$1.6 million in donated and contributed capital water and sewer infrastructure
- \$3 million moved out of construction in progress for waste water treatment plant improvements

The City booked \$2,763,357 in depreciation expense for governmental City functions and \$6,322,956 for business-type activities.

FY2012 Budgetary Considerations

The City of Meridian bases the budget on a revenue analysis and projection. The City starts the budget process in the spring of the year for the next fiscal year. The FY2012 revenue forecast was based on the assumption that that economic slowdown of the past few years would continue into 2012.

The City was very conservative with all revenue estimates for the budget. The City did not take the allowable 3% property tax increase and the increase from new construction is only 2%. No other revenue categories were significantly increased and sales of building permits were reduced below the FY2011 budget number.

The City did add some additional positions in the FY2012 budget. In the General Fund the Fire Department added three Division Chiefs and increased the pay for the existing Division Chiefs for additional personnel costs of \$400,000. The Information Technology Department added one and a half positions to work on GIS projects, and an additional building maintenance worker was hired for City Hall.

The Parks Department budgeted \$2.16 million dollars for various projects the largest being \$1.5 million dollars for a new maintenance building. The Police, Fire, and Parks Department received \$480,500 to replace vehicles and the City is upgrading to Microsoft Office 7 software.

The proprietary fund did not add any staff positions but added \$6.7 million for capital projects and \$833,000 for one time operating expenses. Larger Water Department projects include water main replacements, water line extensions, well development, and construction of pressure reducing valves. The majority of the capital money, \$4.7 million is for Waste Water Treatment Plant improvements including improvements to the treatment plant, sewer main replacement and sewer line extensions.

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,334,564	\$ 5,581,107	\$ 7,915,671	\$ 313,344
Restricted cash and cash equivalents	607,316	-	607,316	139,590
Investments	21,852,730	28,250,001	50,102,731	-
Restricted investments	2,470,917	-	2,470,917	-
Receivables				
Accounts (net of \$36,673 allowance for enterprise fund uncollectibles)	689,329	2,737,468	3,426,797	-
Property taxes	20,337,985	-	20,337,985	840,947
Assessments	-	-	-	-
Due from other governmental units	1,473,372	40,060	1,513,432	920
Interest	48,912	54,348	103,260	-
Deposits and prepaid expenses	119,984	251,893	371,877	1,692
Deferred financing costs, net of accumulated amortization	-	-	-	39,383
Total current assets	<u>49,935,109</u>	<u>36,914,877</u>	<u>86,849,986</u>	<u>1,335,876</u>
Noncurrent Assets				
Capital assets				
Land, infrastructure, and other assets not depreciated	18,546,184	14,763,517	33,309,701	3,362,796
Buildings, improvements and equipment, net of depreciation	<u>43,439,167</u>	<u>169,501,667</u>	<u>212,940,834</u>	<u>695,236</u>
Total noncurrent assets	<u>61,985,351</u>	<u>184,265,184</u>	<u>246,250,535</u>	<u>4,058,032</u>
	<u>\$ 111,920,460</u>	<u>\$ 221,180,061</u>	<u>\$ 333,100,521</u>	<u>\$ 5,393,908</u>

See Notes to Financial Statements

City of Meridian, Idaho
Statement of Net Assets
September 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 1,107,965	\$ 2,584,868	\$ 3,692,833	\$ 459,873
Accrued payroll and taxes	840,390	212,527	1,052,917	-
Accrued vacation, current portion	113,978	16,255	130,233	-
Interest payable	-	-	-	-
Deferred revenue	19,022,698	-	19,022,698	749,257
Customer deposits	789,505	247,912	1,037,417	-
Lease Payable - current portion				282
Note - current portion	-	-	-	1,333,996
Total current liabilities	21,874,536	3,061,562	24,936,098	2,543,408
Noncurrent Liabilities				
Accrued vacation - less current portion	1,025,804	146,297	1,172,101	-
Accrued judgment	2,318,965	-	2,318,965	-
Capital leases - less current portion	-	-	-	-
Total Liabilities	25,219,305	3,207,859	28,427,164	2,543,408
Net Assets				
Invested in capital assets, net of related debt	61,660,541	184,265,184	245,925,725	2,723,754
Restricted				139,590
Impact Funds	3,077,450	-	3,077,450	-
Capital improvements	2,569,266	-	2,569,266	-
Judgment liability	2,318,965	-	2,318,965	-
Unrestricted	17,074,933	33,707,018	50,781,951	(12,844)
	<u>\$ 86,701,155</u>	<u>\$ 217,972,202</u>	<u>\$ 304,673,357</u>	<u>\$ 2,850,500</u>

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government				
Administration	\$ 9,062,939	\$ 121,128	\$ 141,635	\$ -
Public safety				
Law enforcement	11,173,681	745,353	441,277	77,720
Fire department	8,005,424	1,602,593	26,949	359,304
Parks and recreation	3,231,199	420,704	156,657	719,299
Community planning and development	2,044,533	2,500,408	-	-
Interest on long-term debt	122,844	-	-	-
Total governmental activities	33,640,620	5,390,186	766,518	1,156,323
Business-Type Activities				
Water and wastewater	17,976,802	19,437,576	2,911,265	1,666,396
Total Primary Government Component Unit	\$ 51,617,422	\$ 24,827,762	\$ 3,677,783	\$ 2,822,719
Downtown development	\$ 550,615	\$ -	\$ -	\$ -

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 Assets

Net Assets, Beginning of Year

Net Assets, Ending of Year

City of Meridian, Idaho
Statement of Activities
Year Ended September 30, 2011

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (8,800,176)	\$ -	\$ (8,800,176)	\$ 530,751
(9,909,331)	-	(9,909,331)	-
(6,016,578)	-	(6,016,578)	-
(1,934,539)	-	(1,934,539)	-
455,875	-	455,875	-
(122,844)	-	(122,844)	19,864
(26,327,593)	-	(26,327,593)	550,615
-	6,038,435	6,038,435	-
<u>\$ (26,327,593)</u>	<u>\$ 6,038,435</u>	<u>\$ (20,289,158)</u>	<u>\$ 550,615</u>
-	-	-	(550,615)
19,315,073	-	19,315,073	874,647
1,351,868	-	1,351,868	-
3,577,052	-	3,577,052	3,538
316,534	386,311	702,845	1,068
(83,298)	(59,494)	(142,792)	-
93,503	311,601	405,104	8,990
3,881	(1,364,504)	(1,360,623)	-
1,218,294	(1,218,294)	-	-
25,792,907	(1,944,380)	23,848,527	888,243
(534,686)	4,094,055	3,559,369	337,628
87,235,841	213,878,147	301,113,988	2,512,872
<u>\$ 86,701,155</u>	<u>\$ 217,972,202</u>	<u>\$ 304,673,357</u>	<u>\$ 2,850,500</u>

City of Meridian, Idaho
Balance Sheet – Governmental Funds
September 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,686,801	\$ 647,763	\$ 2,334,564
Investments	20,764,908	1,087,822	21,852,730
Receivables			
Accounts	689,329	-	689,329
Property taxes	20,337,985	-	20,337,985
Due from other governmental units	1,473,372	-	1,473,372
Interest	48,665	247	48,912
Prepaid items	119,984	-	119,984
Restricted assets			
Cash and cash equivalents	607,316	-	607,316
Investments	2,470,917	-	2,470,917
	<u>\$ 48,199,277</u>	<u>\$ 1,735,832</u>	<u>\$ 49,935,109</u>
Liabilities and Fund Balances			
Liabilities			
Current Liabilities			
Accounts payable	\$ 898,343	\$ 209,622	\$ 1,107,965
Accrued payroll and taxes	840,390	-	840,390
Due from other government	-	-	-
Accrued vacation	-	-	-
Deferred revenue	20,025,617	-	20,025,617
Customer deposits	789,505	-	789,505
	<u>22,553,855</u>	<u>209,622</u>	<u>22,763,477</u>
Total current liabilities	<u>22,553,855</u>	<u>209,622</u>	<u>22,763,477</u>
Fund Balances			
Nonspendable			
Prepays	119,984	-	119,984
Restricted			
Impact Fund	3,077,450	-	3,077,450
Grant Fund	22,297	-	22,297
Assigned			
Commitments			
Fund Balance Budget of Carryforward	1,884,789	-	1,884,789
Capital Projects Fund	1,043,056	1,526,210	2,569,266
Public Safety Fund	2,089,201	-	2,089,201
Unassigned	17,408,645	-	17,408,645
	<u>25,645,422</u>	<u>1,526,210</u>	<u>27,171,632</u>
Total fund balances	<u>\$ 48,199,277</u>	<u>\$ 1,735,832</u>	<u>\$ 49,935,109</u>

City of Meridian, Idaho
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
September 30, 2011

Fund balance - total governmental funds	\$ 27,171,632
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	61,985,351
Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds.	1,002,919
Long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(2,318,965)
Accrued vacation is not due and payable in the current period and therefore is not reported in the funds.	(1,139,782)
	<hr/>
Net assets of governmental activities	<u><u>\$ 86,701,155</u></u>

City of Meridian, Idaho
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2011

	General	Capital Projects	Total Governmental Funds
Revenues			
Taxes	\$ 19,416,599	\$ -	\$ 19,416,599
Licenses and permits	2,511,209	-	2,511,209
Intergovernmental	5,895,076	-	5,895,076
Franchise fees	1,351,868	-	1,351,868
Fines and forfeitures	434,096	-	434,096
Charges for services	846,743	-	846,743
Interest	312,375	4,159	316,534
Miscellaneous	93,503	-	93,503
Donations	54,632	-	54,632
Impact revenues	1,124,716	-	1,124,716
Total revenues	<u>32,040,817</u>	<u>4,159</u>	<u>32,044,976</u>
Expenditures			
General government	6,178,105	-	6,178,105
Public safety	18,176,063	-	18,176,063
Parks and recreation	2,409,521	-	2,409,521
Community planning and development	2,037,884	-	2,037,884
Debt service			
Principal	-	-	-
Interest	-	-	-
Capital outlay	3,271,271	158,024	3,429,295
Total expenditures	<u>32,072,844</u>	<u>158,024</u>	<u>32,230,868</u>
Excess of Revenues Over (Under) Expenditures	(32,027)	(153,865)	(185,892)
Other Financing Sources (Uses)			
Operating transfer in	2,041,430	600,722	2,642,152
Operating transfer out	(1,423,858)	-	(1,423,858)
Unrealized gain (loss) on investments	(84,605)	1,307	(83,298)
Proceeds from sale of capital assets	22,565	-	22,565
Total other financing sources (uses)	<u>555,532</u>	<u>602,029</u>	<u>1,157,561</u>
Net Change in Fund Balances	523,505	448,164	971,669
Fund Balance, Beginning of Year	25,121,917	1,078,046	26,199,963
Fund Balance, End of Year	<u>\$ 25,645,422</u>	<u>\$ 1,526,210</u>	<u>\$ 27,171,632</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, 2011

Net change in fund balances - total governmental funds		\$ 971,669
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>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.</p>		
New capital	3,754,106	
Depreciation	(2,763,357)	
Loss on fixed asset	(18,684)	
Total	972,065	
Capital assets contributed by citizens or developers are not a source of financial resources and thus, are not recognized in the governmental funds.		23,607
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.		(101,526)
Contingent liability is recognized regardless of when financial resources are available and is not reported as a liability in the governmental funds.		(2,318,965)
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.		(81,536)
Change in net assets of governmental activities		\$ (534,686)

City of Meridian, Idaho
Statement of Net Assets – Proprietary Fund
September 30, 2011

	Enterprise Fund Fund Water and Sewer
Assets	
Current Assets	
Cash and cash equivalents	\$ 5,581,107
Investments	28,250,001
Receivables	
Accounts (net of \$36,673 allowance for uncollectibles)	2,737,468
Due from other governmental units	40,060
Interest	54,348
Prepaid items	251,893
	36,914,877
Noncurrent Assets	
Capital assets	
Land	1,137,275
Easements	6,962,968
Construction in progress	6,663,274
Buildings and improvements other than buildings	54,263,073
Sewer and water lines	136,881,887
Machinery and equipment	25,249,813
Less accumulated depreciation	(46,893,106)
	\$ 221,180,061
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 2,584,868
Accrued payroll and taxes	212,527
Accrued vacation, current portion	16,255
Customer deposits	247,912
	3,061,562
Noncurrent Liabilities	
Accrued vacation - less current portion	146,297
Net Assets	
Invested in capital assets, net of related debt	184,265,184
Unrestricted	33,707,018
	217,972,202
	\$ 221,180,061

City of Meridian, Idaho
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund
Year Ended September 30, 2011

	Enterprise Fund Water and Sewer
Operating Revenues	
Charges for services	
Water revenues	\$ 6,783,014
Sewer revenues	11,933,079
Sale of meters	125,448
Trash billing service	511,761
Engineering fees	84,274
Miscellaneous	311,601
	19,749,177
 Operating Expenses	
Personnel services	5,469,270
Other services and charges	3,658,531
Depreciation	6,322,956
Supplies	1,741,116
Heat, lights and power	784,929
	17,976,802
 Operating Income	1,772,375
 Nonoperating Revenues (Expenses)	
Interest revenue	386,311
Connection assessment fees and donations	2,996,293
Loss on sale of fixed assets	(1,364,504)
Net decrease in fair value of investments	(59,494)
	1,958,606
 Income before Contributions and Transfers	3,730,981
Donated waterlines and sewerlines	1,581,368
Operating transfers out	(1,218,294)
	4,094,055
 Change in Net Assets	4,094,055
 Net Assets, Beginning of Year	213,878,147
 Net Assets, End of Year	\$ 217,972,202

City of Meridian, Idaho
Statement of Cash Flows – Proprietary Fund
Year Ended September 30, 2011

	Enterprise Fund Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 19,610,318
Payments to suppliers	(6,565,561)
Payments to employees	(5,447,433)
	<u>7,597,324</u>
Cash Flows from Noncapital Financing Activities	
Operating transfer to general fund	(1,218,294)
	<u>(1,218,294)</u>
Cash Flows from Capital and Related Financing Activities	
Connection assessment fees	2,996,293
Proceeds from sale of capital assets	18,256
Cost to dispose of capital assets	(47,660)
Acquisition of capital assets	(6,894,288)
	<u>(3,927,399)</u>
Cash Flows from Investing Activities	
Purchase of investments	(28,983,644)
Sale of investments	30,247,533
Interest received	436,656
	<u>1,700,545</u>
Net Increase in Cash	4,152,176
Cash, Beginning of Year	1,428,931
Cash, End of Year	<u>\$ 5,581,107</u>

City of Meridian, Idaho
Statement of Cash Flows – Proprietary Fund
Year Ended September 30, 2011

	<u>Enterprise Fund Water and Sewer</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,772,375
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation	6,322,956
Changes in assets and liabilities	
Accounts receivable	(105,228)
Due from other governments	(33,631)
Prepaid items	18,477
Accounts payable	(282,545)
Accrued payroll and taxes	21,837
Customer deposits	<u>(116,917)</u>
Net Cash from Operating Activities	<u>\$ 7,597,324</u>
Supplemental Disclosure of Cash Flow Information	
Developer and customer contributed sewer and water lines	<u>\$ 1,581,368</u>

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, and general administrative services.

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

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* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Financial Reporting Entity

As required by generally accepted accounting principles, these basic financial statements present the City in conformance with GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units.*" Under Statement No. 39, 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 provides urban 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 Employer 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 assets and the statement of changes in net assets) 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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 when 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, or the governing body has 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.

Investments

Idaho Code provides authorization for the investment of funds as well as specific direction as to what constitutes an allowable investment. City policy is consistent with this direction. The City currently invests in interest bearing bank accounts, certificates of deposit and U.S. Government and U.S. Government Agency bonds.

Property Taxes Receivable and Deferred Revenue

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 revenue 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.

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 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 City implemented GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets in FY2010. This statement 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, and 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’ termination, retirement, or 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.

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.

Fund Balances

The City has changed accounting policies due to the implementation of GASB No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions* in FY2011. This statement redefines the elements of fund balance in governmental funds and more clearly describes the different types of governmental funds to make the nature and extent of the constraints placed on a government's fund balance more transparent. Accordingly, the beginning fund balance of certain governmental funds has been restated. The governmental fund types classify fund balances as follows:

Fund balance is reported as 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.

Fund balance is reported as 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.

Fund Balance is reported as 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.

Fund Balance is reported as 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.

Net Assets

The proprietary fund’s contributed capital represents equity acquired through capital grants and capital contributions from developers, customer’s or other funds.

In the government-wide financial statements, restrictions of net assets are limited to enabling legislation or outside third-party restrictions.

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 American requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Note 2 - Cash and Investments

Cash and investments as of September 30, 2011 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 7,915,671
Cash and cash equivalents - restricted	<u>607,316</u>
Total cash and cash equivalents	<u><u>\$ 8,522,987</u></u>
Investments	\$ 50,102,731
Investments - restricted	<u>2,470,917</u>
Total investments	<u><u>\$ 52,573,648</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 and State Agency Bonds
2. U. S. Agency Bonds
3. U. S. Agency Securities
4. Certificates of Deposit

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. One of the ways the City manages its exposure to interest rate risk is by purchasing a combination of long and short-term investments. The City keeps funds needed for operations in short-term liquid investments while also maintaining a stable longer-term investment portfolio with duration matched to expected completion of larger capital projects. Generally, overall portfolio duration is maintained between 3 and 3.5 but in the current economic climate with the lack of availability for higher interest longer term investment vehicles, the City's duration has fallen to 2.4.

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 requires a rating of A or better by Standard & Poor's or other nationally recognized rating agency, unless the investment is a local government bond, in which no rating is required. The ratings of investments subject to credit risk are as follows:

	Fair Value	Rating
Investments subject to credit risk		
Agency bonds	\$ 36,444,154	AAA
Municipal bonds	1,437,951	BAA1
Idaho Local Government Investment Pool (LGIP)	10,675,309	Not rated
Certificates of deposit	4,016,234	Not rated
Money market fund	4,848,512	Not rated
Total deposits and investments subject to duration measurement	\$ 57,422,160	

Concentration of Credit Risk

	Fair Value	Duration
Deposit and investments subject to duration measurement		
Agency bonds	\$ 36,444,154	2.9
Municipal bonds	1,437,951	3.0
Certificates of deposit	4,016,234	3.0
Idaho Local Government Investment Pool (LGIP)	10,675,309	0.3
Total deposits and investments subject to duration measurement	52,573,648	2.4
Deposits and investments not subject to duration measurement		
Money market fund	4,848,512	
Other cash and cash equivalents	3,674,475	
Total deposits and investments not subject to duration measurement	8,522,987	
Total deposits and investments	\$ 61,096,635	

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	\$ 10,350,091	20%
Fannie Mae	U.S. Agency Bond	12,610,618	24%
Freddie Mac	U.S. Agency Bond	10,365,152	20%
Federal Farm Credit Bank	U.S. Agency Bond	3,118,293	6%

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 \$8,522,987 and the bank balance was \$9,125,614. Of the bank balance, \$4,279,150 was covered by federal depository insurance, \$2,000,510 was secured by federal home loan mortgage backed securities and \$2,845,954 held in six distinct money market accounts with Charles Schwab as the custodian is covered by the Securities Investor Protection Corporation (SIPC). In addition to the SIPC protection Charles Schwab carries insurance with Lloyds of London in the event of a fraud or failure. No amount of the bank balance was uninsured. All cash is held in The Bank of the Cascades, Washington Federal Savings Bank and Charles Schwab & Co.

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

Investment in State Investment Pools

The City is a voluntary participant in the State of Idaho Local Government Investment Pool (LGIP) which is regulated by State of Idaho Code under the oversight of the Treasurer of the State of Idaho. The fair value of the City's investment in the pool is reported in the accompanying financial statements at amounts based on the City's pro-rata share of the fair market value provided by the fund for the entire portfolio. The LGIP is not rated by a nationally recognized statistical rating organization.

The LGIP is managed by the State of Idaho Treasurer's office. The funds of the pool are invested in certificates of deposit, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank. Interest income earned on pooled investments is allocated to the various funds of the City in proportion to each fund's respective investment balances.

Note 3 - Due from Other Governmental Units

The following summarizes the intergovernmental receivables at September 30, 2011:

State of Idaho		
State Liquor Dispensary	\$	98,612
State Tax Commission		718,953
Idaho Transportation Department		3,500
Federal agencies		163,353
Other Governmental Agencies		
Meridian Rural Fire District		294,080
Ada County Highway District		40,060
Ada County		194,874
		<u>194,874</u>
Total Due from Other Governmental Units	\$	<u>1,513,432</u>

Note 4 - Capital Assets

Changes to capital assets are as follows:

	Balance Oct. 1, 2010	Additions	Deletions	Transfers	Balance Sept. 30, 2011
Governmental Activities					
Capital assets, not depreciated:					
Land	\$14,819,704	\$ 832,756	\$ 1,093	\$ -	\$ 15,651,367
Easements	217,864	-	-	-	217,864
Construction in progress	2,204,043	472,910	-	-	2,676,953
Total capital assets, not depreciated	17,241,611	1,305,666	1,093	-	18,546,184
Capital assets, depreciated					
Buildings	30,726,926	324,808	-	-	31,051,734
Improvements other than buildings	14,641,141	109,319	-	-	14,750,460
Internally developed software	47,027	-	-	-	47,027
Equipment	9,631,111	2,037,920	420,026	-	11,249,005
Total capital assets, depreciated	55,046,205	2,472,047	420,026	-	57,098,226
Less accumulated depreciation for					
Buildings	3,078,027	1,020,407	-	(5,505)	4,092,929
Improvements other than buildings	2,692,505	729,891	-	3,237	3,425,633
Internally developed software	4,703	9,405	-	-	14,108
Equipment	5,522,902	1,003,654	402,435	2,268	6,126,389
Total accumulated depreciation	11,298,137	2,763,357	402,435	-	13,659,059
Total net capital assets, depreciated	43,748,068	(291,310)	17,591	-	43,439,167
Governmental activities capital assets, net	\$60,989,679	\$1,014,356	\$ 18,684	\$ -	\$ 61,985,351

City of Meridian, Idaho
Notes to Financial Statements
September 30, 2011

	Balance Oct. 1, 2010	Additions	Deletions	Transfers	Balance Sept. 30, 2011
Business-type activities					
Capital assets, not depreciated					
Land	\$ 1,037,055	\$ 31,861	\$ 100,000	\$ 168,359	\$ 1,137,275
Easements	6,921,118	315,827	273,977	-	6,962,968
Construction in progress	8,485,976	3,386,683	-	(5,209,385)	6,663,274
Total capital assets, not depreciated	16,444,149	3,734,371	373,977	(5,041,026)	14,763,517
Capital assets, depreciated					
Buildings and improvements other than buildings	50,938,065	327,828	-	2,997,180	54,263,073
Sewer and water lines	132,364,700	3,718,293	-	798,894	136,881,887
Machinery and equipment	24,634,039	695,164	1,324,342	1,244,952	25,249,813
Total capital assets, depreciated	207,936,804	4,741,285	1,324,342	5,041,026	216,394,773
Less accumulated depreciation for					
Buildings and improvements other than buildings	11,026,637	2,182,493	-	(6,223)	13,202,907
Sewer and water lines	21,979,754	2,691,676	-	-	24,671,430
Machinery and equipment	7,926,978	1,448,787	363,219	6,223	9,018,769
Total accumulated depreciation	40,933,369	6,322,956	363,219	-	46,893,106
Total net capital assets, depreciated	167,003,435	(1,581,671)	961,123	5,041,026	169,501,667
Business-type activities capital assets, net	<u>\$ 183,447,584</u>	<u>\$ 2,152,700</u>	<u>\$ 1,335,100</u>	<u>\$ -</u>	<u>\$ 184,265,184</u>

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

Governmental activities	
General government	\$ 997,798
Public safety	945,458
Community planning and development	6,719
Parks and recreation	813,382
Total depreciation expense - governmental activities	<u>\$ 2,763,357</u>
Business-type activities	
Water and Sewer	<u>\$ 6,322,956</u>
Total depreciation expense - business-type activities	<u>\$ 6,322,956</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	\$ -	\$ 600,722	\$ 600,722
Enterprise fund	1,218,294	-	1,218,294
	<u>\$ 1,218,294</u>	<u>\$ 600,722</u>	<u>\$ 1,819,016</u>
Total transfers	<u>\$ 1,218,294</u>	<u>\$ 600,722</u>	<u>\$ 1,819,016</u>

The transfer from the general fund to the capital projects fund was a transfer of cash funds requested by City Council. 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 FY2011.

As of September 30, 2011, there were no internal balances due to or from other funds.

Note 6 - Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended September 30, 2011.

	Balance Oct. 1, 2010	Debt Issued	Debt Retired	Sept. 30, 2011	Due Within One Year
Governmental activities					
Accrued vacation	<u>\$ 1,058,246</u>	<u>\$ 81,536</u>	<u>\$ -</u>	<u>\$ 1,139,782</u>	<u>\$ 113,978</u>
Business-type activities					
Accrued vacation	<u>\$ 162,558</u>	<u>\$ -</u>	<u>\$ (6)</u>	<u>\$ 162,552</u>	<u>\$ 16,255</u>

Note 7 - Fund Balances – Governmental Funds

As of September 30, 2011 fund balances were classified as follows:

Nonspendable - the City's nonspendable fund balance was for prepaid expenses in the amount of \$119,984.

Restricted - the City had restricted fund balances of: \$3,077,450 for impact fees as mandated by the State of Idaho and \$22,297 for grant revenues per the grant agreement.

Assigned - \$1,884,789 is assigned for the budget of fund balance to be spent in FY2012 (carry forward amounts), \$2,569,266 is assigned for the Capital Projects Funds (General Fund capital construction projects), and \$2,089,201 is assigned for the public safety capital projects or purchases.

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

Note 8 - Lease Agreements

The City leases land and office equipment, under operating leases. The equipment lease agreements cover various periods starting July 25, 2006 through July 22, 2014 and the minimum annual payments range from \$2,166 to \$5,599. The land lease was entered into July 24, 2007 and is year to year with an annual payment of \$16,355. Total rental expense in FY2011 for all operating leases (which include rental, maintenance and usage) was approximately \$160,000. Future minimum annual lease payments for operating leases with remaining lease terms in excess of one year are as follows:

Operating Leases	
2012	\$ 52,125
2013	33,430
2014	<u>7,561</u>
 Total minimum obligations	 <u><u>\$ 93,116</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 administered by the State of Idaho. It is a defined benefit plan requiring contributions from the covered member and the employer. 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. Financial reports for the plan are available on the PERSI website or in print upon request.

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.

The contribution requirements of the City of Meridian and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2011, the required contribution rates as a percentage of covered payroll for members are as follows:

	Employee	Employer
General Member	6.23%	10.39%
Police and Fire Member	7.69%	10.73%

Contributions required and paid for the last three years were:

FY2009	FY2010	FY2011
\$ 1,699,494	\$ 1,812,183	\$ 1,948,165

Note 10 - Other Commitments

The City has the following commitments at September 30, 2011:

<u>Commitment</u>	<u>Purpose of Agreement</u>	<u>Amount</u>
ACHD	Cooperative agreements for water and sewer lines	\$ 144,875
Alloway Electric	Pedestrian lighting	29,016
APSCO, Inc	WWTP turbo blowers	280,000
BBC Research	Fair housing study	20,380
Brown & Caldwell	Engineering services for water and sewer projects	138,050
CH2MHill	Engineering services for water and sewer projects	70,679
Civil Survey	Engineering services for water and sewer projects	99,920
Clima-Tech Corp	City Hall HVAC digital control installation	338,583
Ewing Co, Inc	Construction of WWTP filter building	448,863
Bethany Gadzinski	Professional services for grant project	13,500
HDR Engineering	Engineering services for water and sewer projects	95,649
HydroLogic	Hydrogeologic engineering for water projects	162,641
Interact Business	Professional services for training facility business plan	10,700
JUB Engineers	Engineering services for water and sewer projects	54,995
Keller Associates	Engineering services for water and sewer projects	14,602
Kreizenbeck Construction	Construction management for City Hall repairs	93,161
Lawn Co	Landscape maintenance service for parks and fire	134,620
Lynda Friesz Public Relations	Professional services for South Meridian outreach	20,020
Murray, Smith & Associates	Engineering services for water and sewer projects	203,438
Parametrix	Engineering services for water and sewer projects	77,317
Performance Systems	Construction of WWTP clarifier retrofit	557,519
Power Plus, Inc	Street lighting for grant project	132,621
Resource Data, Inc	Professional services for GIS easement conversion	14,623
Star Construction	Construction of WWTP grit system improvements	39,779
Titan Technologies	Construction of 8th Street sewer rehab project	160,908
Treasure Valley Drilling	Construction of Well 29	34,230
Varsity Contractors	Janitorial services for city buildings	108,579
		<u>\$ 3,499,268</u>
Total Commitments		<u>\$ 3,499,268</u>

Note 11 - Other Post-Employment Benefits

The City provides post employment health care to retirees of the Fire Union members only. To be eligible for the benefits, a fire union employee must qualify 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. This post employment health care benefit is the value of 25% of their sick leave balance at the time of retirement, set aside to pay the health insurance premium for the employee only until the cash value is depleted.

With such a small pool of employees eligible for this post employment benefit, it is 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. The cumulative amount for fiscal year 2011 is immaterial; therefore the City did not accrue a liability for this fiscal year.

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.

The City has a contingent liability where the probability of loss is high and the amount is determinable. The City entered into litigation with the City Hall construction manager concerning the scope and quality of the construction manager's work. The City lost the case and The District Court of the Fourth Judicial District awarded the plaintiff disputed construction management fees, along with attorney fees, costs and interest. The District Court stayed the need to pay the judgment until conclusion of the City's appeal to the Idaho Supreme Court which may not occur for several months subsequent to the fiscal year end.

At year-end September 30, 2011 in the government-wide statements the City has recorded the additional construction management fees in the amount of \$324,800 and the Plaintiff's costs, interest, and legal fees in the amount of \$1,994,156. The City is incurring interest at 5.25% or \$330.48 per day on these amounts until they are paid or the City prevails at the conclusion of the appeal.

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.

Note 13 - Related Party

The City partners with Meridian Development Corporation (MDC) for various downtown improvements. During the year ended September 30, 2011, the City reimbursed MDC \$8,836 for a CDBG street lighting grant project and received \$1,637 for various items reimbursed by MDC.

Note 14 - 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.

The following is a summary of the significant disclosures required for a fair presentation of the component unit in the City's financial statements.

Note 14A - MDC – Capital Assets

Changes to capital assets are as follows:

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

Note 14B - MDC - Changes in Long-Term Debt

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

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

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

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

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

Note 14C - MDC - Commitments

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

Note 14D - MDC - Related Party Transactions

MDC partners with the City of Meridian for various downtown improvements. As of September 30, 2011, total expenditures were \$1,637. In addition, MDC had a contract with Red Sky Public Relations for administrative services and a contract for public relations and marketing. Pursuant to the agreement, MDC paid \$8,333 per month for administration, which accounted for about \$100,000 in expenses for the year. In addition, \$31,752 was paid to Red Sky Public Relations for public relations and marketing expenses. As of September 30, 2011, \$12,314 was outstanding as a payable to Red Sky Public Relations.



Required Supplementary Information
September 30, 2011

City of Meridian, Idaho

City of Meridian, Idaho

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 18,950,000	\$ 18,950,000	\$ 19,416,599	\$ 466,599
Licenses and permits	2,180,000	2,693,211	2,511,209	(182,002)
Intergovernmental	5,546,097	5,824,015	5,895,076	71,061
Franchise fees	1,325,000	1,325,000	1,351,868	26,868
Fines and forfeitures	405,000	405,000	434,096	29,096
Charges for services	721,000	672,920	846,743	173,823
Impact revenues	1,255,000	1,255,000	1,124,716	(130,284)
Donations	12,000	24,030	54,632	30,602
Interest	325,000	325,000	312,375	(12,625)
Miscellaneous	-	10,000	93,503	83,503
Total revenues	30,719,097	31,484,176	32,040,817	556,641
Expenditures				
General government personnel costs	3,053,156	3,050,850	2,886,584	164,266
General government operating expense	2,637,802	6,456,466	3,291,521	3,164,945
Public safety				
Police personnel costs	9,667,344	9,681,118	9,002,954	678,164
Police operating expenses	1,823,170	2,068,451	1,669,748	398,703
Fire personnel costs	6,884,461	6,884,461	6,653,712	230,749
Fire operating expenses	866,088	867,588	849,649	17,939
Parks and recreation personnel costs	1,621,334	1,621,334	1,354,617	266,717
Parks and recreation operating expenses	1,310,979	1,310,979	1,054,904	256,075
Community planning and development personnel costs	1,103,697	1,124,929	1,033,123	91,806
Community planning and development operating expenses	910,376	1,097,107	1,004,761	92,346
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay				
General government	796,580	812,926	610,015	202,911
Public safety				
Police	905,431	727,950	617,282	110,668
Fire	450,000	460,800	482,343	(21,543)
Parks and recreation	2,336,066	3,060,643	1,411,631	1,649,012
Community planning and development	150,000	150,000	150,000	-
Total expenditures	34,516,484	39,375,602	32,072,844	7,302,758
Excess (Deficiency) of Revenues over (Under) Expenditures	(3,797,387)	(7,891,426)	(32,027)	7,859,399

City of Meridian, Idaho

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
Year Ended September 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Operating transfer in	2,115,218	2,115,456	2,041,430	(74,026)
Operating transfer out	(804,921)	(1,405,881)	(1,423,858)	(17,977)
Unrealized gain (loss) on investments	-	-	(84,605)	(84,605)
Gain on sale of capital assets	-	-	22,565	22,565
Total Other Financing Sources (Uses)	<u>1,310,297</u>	<u>709,575</u>	<u>555,532</u>	<u>(154,043)</u>
Excess (Deficiency) of Revenues and Other Sources (Uses) over (Under) Expenditures	<u>(2,487,090)</u>	<u>(7,181,851)</u>	<u>523,505</u>	<u>7,705,356</u>
Fund Balance, Beginning of Year	<u>25,121,917</u>	<u>25,121,917</u>	<u>25,121,917</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 22,634,827</u></u>	<u><u>\$ 17,940,066</u></u>	<u><u>\$ 25,645,422</u></u>	<u><u>\$ 7,705,356</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, 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, 2011

City of Meridian, Idaho

City of Meridian, Idaho

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Improvement
Fund
Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Interest	\$ -	\$ -	\$ 4,159	\$ 4,159
Miscellaneous				-
Total revenues	-	-	4,159	4,159
Expenditures				
General government capital outlay	-	1,678,768	158,024	1,520,744
Total expenditures	-	1,678,768	158,024	1,520,744
Excess (Deficiency) of Revenues over (Under) Expenditures	-	(1,678,768)	(153,865)	1,524,903
Other Financing Sources (Uses)				
Operating transfer in	-	600,722	600,722	-
Operating transfer out	-	-	-	-
Unrealized gain (loss) on investments	-	-	1,307	1,307
Total Other Financing Sources	-	600,722	602,029	1,307
Excess (Deficiency) of Revenues and Other Sources (Uses) over (Under) Expenditures	-	(1,078,046)	448,164	1,526,210
Fund Balance, Beginning of Year	1,078,046	1,078,046	1,078,046	-
Fund Balance, End of Year	\$ 1,078,046	\$ -	\$ 1,526,210	\$ 1,526,210

City of Meridian, Idaho

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Enterprise Fund
Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Water sales	\$ 7,200,000	\$ 7,200,000	\$ 6,783,014	\$ (416,986)
Sewer sales	12,000,000	12,000,000	11,933,079	(66,921)
Sale of meters	150,000	100,000	125,448	25,448
Trash billing service	480,000	480,000	511,761	31,761
Engineering fees	35,000	35,000	84,274	49,274
Assessment revenue and cash donations	3,075,000	3,075,000	2,996,293	(78,707)
Interest	500,000	500,000	386,311	(113,689)
Miscellaneous	-	8,480	311,601	303,121
Total revenues	23,440,000	23,398,480	23,131,781	(266,699)
Expenditures				
Administration personnel costs	2,445,090	2,445,091	2,319,780	125,311
Administration operating expenses	1,977,978	2,871,979	2,216,525	655,454
Water personnel costs	1,396,018	1,396,018	1,205,508	190,510
Water operating expenses	4,797,877	4,202,616	3,745,609	457,007
Wastewater personnel costs	2,153,542	2,153,542	1,943,982	209,560
Wastewater operating expenses	6,189,545	5,128,339	6,545,398	(1,417,059)
Capital outlay	14,786,731	12,122,122	6,894,288	5,227,834
Capital reimbursements				-
less depreciation & loss on disposals	(4,316,283)	(4,316,283)	(7,658,056)	3,341,773
Total expenditures	29,430,498	26,003,423	17,213,034	8,790,389
Excess (Deficiency) of Revenues over (Under) Expenditures	(5,990,498)	(2,604,943)	5,918,747	8,523,690
Other Financing Sources (Uses)				
Operating transfer out	(1,310,298)	(1,310,298)	(1,218,294)	92,004
Unrealized gain(loss) on investments	-	-	(59,494)	(59,494)
Gain(loss) on Sale of capital assets	-	-	(1,364,504)	(1,364,504)
Total Other Financing Sources (Uses)	(1,310,298)	(1,310,298)	(2,642,292)	(1,331,994)
Excess (Deficiency) of Revenues and Other Sources (Uses) over (Under) Expenditures	(7,300,796)	(3,915,241)	3,276,455	7,191,696
Fund Balance, Beginning of Year	30,430,563	30,430,563	30,430,563	-
Fund Balance, End of Year	\$ 23,129,767	\$ 26,515,322	\$ 33,707,018	\$ 7,191,696

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and the major fund of the City of Meridian, Idaho (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 08, 2012. The auditor's opinion included an explanatory paragraph on the adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and other Matters

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

This report is intended solely for the information and use of the Mayor and members of City Council, federal awarding agencies and pass-through entities, and management of the City of Meridian, Idaho and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

Boise, Idaho
February 08, 2012

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the City of Meridian, Idaho's (the City's) 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 each of the City's major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 types of 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Meridian, Idaho, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor and the members of City Council, federal awarding agencies and pass-through entities, and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

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

Boise, Idaho
February 08, 2012



Single Audit Section
September 30, 2011

City of Meridian, Idaho

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
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)?	None Reported
Type of auditors’ report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in Accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Housing & Urban Development Cluster	
Community Development Block Grant – entitlement grant	14.218
ARRA – Community Development Block Grant	14.253
ARRA – Public Safety Partnership and Community Policing Grants	16.710
Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings None

Section III - Federal Award Findings and Questioned Costs None

City of Meridian, Idaho
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Federal Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
US Dept of Agriculture Forest Service <i>Passed Through Idaho State Department of Lands</i> ARRA - Wildland Fire Management	10.688	10-DG-110482B1-023	\$ 44,470 <u>44,470</u>
US Dept of Energy ARRA - Energy Efficiency and Conservation Block Grant Total US Dept of Energy	81.128		<u>72,158</u> 72,158
US Dept of Health & Human Services Drug Free Communities Support Program Total US Dept of Health & Human Services	93.276		<u>129,415</u> 129,415
US Dept of Housing & Urban Development Community Development Block Grant - entitlement grant ARRA Community Development Total US Dept of Housing & Urban Development	14.218 14.253		175,301 <u>6,056</u> 181,357
US Dept of Homeland Security <i>Passed Through Idaho State Dept Military Division</i> Homeland Security Grant Program Homeland Security Grant Program Total US Dept of Defense	97.067 97.067	2007GET70014 2008GET80044	1,365 <u>22,242</u> 23,607
US Dept of Justice ARRA - Public Safety Partnership and Community Policing Grants Edward Byrne Memorial Justice Assistance Grant <i>Passed Through Ada County Sheriff's Office</i> ARRA - Edward Byrne Memorial Justice Assistance Grant Edward Byrne Memorial Justice Assistance Grant <i>Passed Through Idaho State Dept of Juvenile Corrections</i> Enforcing Underage Drinking Laws Program Total US Dept of Justice	16.710 16.738 16.804 16.738 16.727	2009-G0551-ID-SB 2009-H2763-ID-DJ 08-LE42-01	147,343 31,281 50,920 32,005 <u>4,404</u> 265,953
US Dept of Transportation <i>Passed Through Idaho State Dept of Transportation</i> State and Community Highway Safety Seat Belts/Aggressive Driving Aggressive Driving Mobilization Seat Belt Mobilization Aggressive Driving Mobilization Total US Dept of Transportation	20.600 20.600 20.600 20.600	PT-2011-21-00-00 PT-2011-01-00-00 SB-2011-01-00-00 SP-2011-01-00-00	2,570 3,500 6,000 3,500 <u>15,570</u>
Total Expenditures of Federal Awards			<u>\$ 732,530</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 under programs of the federal government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Note 2 - Basis of Presentation

- a) Expenditures reported on the Schedule are reported on an accrual basis of accounting.
- b) Pass-through entity identifying numbers are presented where available.

Note 3 - Subrecipients

The City administers certain federal awards programs through sub recipients. Of the federal expenditures presented in this schedule, City of Meridian provided federal awards to sub recipients as follows:

Program Title	CFDA Number	Amount Provided to Sub- Recipients
Community Development Block Grant - Entitlement	14.218	\$ 76,523
Subrecipient	Amount to Sub-Recipients	
BCACHA -Ada County Housing Authority	\$ 5,000	
Boys & Girls Club	6,282	
Homeownership Assistance	10,000	
Meridian Food Bank	40,103	
Neighborhood Housing Services	14,119	
Senior Center	1,019	
Total provided to sub-recipients	\$ 76,523	