

Financial Statements
September 30, 2019
City of Meridian, Idaho



The City of Meridian is located in the center of the Treasure Valley in southwest Idaho. Founded in 1893, and incorporated as a city in 1903, Meridian is now one of Idaho's largest and fastest growing communities. Meridian is cited by *Money Magazine* as one of its Top 50 Best Places to Live, and by America's Promise Alliance and ING as one of the Nation's 100 Best Communities for Young People. For more information, visit www.meridiancity.org.

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Meridian, Idaho, (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Capital Projects and Enterprise Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Capital Projects Fund and Enterprise Fund, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
February 24, 2020

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, 2019. Please use this information in conjunction with the information furnished in the City's financial statements.

Financial Highlights

- The total assets and deferred outflows of the City exceeded its liabilities and deferred inflows at September 30, 2019 by \$555,042,847. Of this amount \$92,336,803 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- Net position of the Governmental activities finished the fiscal year 2019 at \$172,598,425 and the net position of Business-type activities finished fiscal year 2019 at \$382,444,422.
- Total fund balance of governmental funds at September 30, 2019 was \$75,970,506 as compared to a total governmental fund balance at September 30, 2018 of \$64,386,398.
 - Of the September 30, 2019 fund balance, \$39,762,673 is unassigned and available to meet the entities on-going obligations.
- The City has no outstanding long-term debt at September 30, 2019.

Overview of the Financial Statements

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

Government - Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

The City has the following funds:

Governmental Funds: These funds encompass the City's basic services, public safety, community planning and development, administration, and parks and recreation. Governmental fund financial statements focus on short-term inflows and outflows of spendable resources, an accounting approach known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. Information provided by these statements provides a short-term view of what resources will be available to meet needs.

The City has two governmental funds:

General Fund – The general fund is the general operating fund of the City. It derives most of its income from property tax and funds the operations of the City. It includes the Community Development Services, that 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.

The City has one proprietary fund:

Enterprise Fund: User fees finance activities in this 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, as well as the City's schedule of employer's share of net pension liability and the City's Schedule of employer contributions.

FINANCIAL ANALYSIS OF THE CITY OF MERIDIAN AS A WHOLE

Net Position

Net position measures the difference between what the City owns (assets and deferred outflows) and what the City owes (liabilities and deferred inflows). At September 30, 2019, the City's combined assets and deferred outflows exceeded liabilities and deferred inflows by \$555,042,847 as compared to the net position as of September 30, 2018 of \$504,404,579.

The largest portion of the City's net position is invested in capital assets. Capital assets include land, building, equipment and machinery, and sewer and water utility infrastructure.

The City's unrestricted net position equals \$92,336,803 of total net position. This is an increase from FY2018 to FY2019. Assets restricted to a particular use equaled \$15,975,530 of the City's total net position. This is an increase from FY2018 to FY2019.

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

| | Primary Government | | | | Total | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Governmental | | Business - type | | | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current and Other Assets | \$119,951,091 | \$105,169,060 | \$ 55,744,343 | \$ 46,339,422 | \$175,695,434 | \$151,508,482 |
| Capital Assets | 107,626,455 | 99,717,376 | 339,663,381 | 316,377,051 | 447,289,836 | 416,094,427 |
| Deferred Outflows of Resources | 2,812,096 | 2,989,374 | 706,914 | 747,373 | 3,519,010 | 3,736,747 |
| TOTAL Assets and Deferred Outflows of Resources | <u>230,389,642</u> | <u>207,875,810</u> | <u>396,114,638</u> | <u>363,463,846</u> | <u>626,504,280</u> | <u>571,339,656</u> |
| Current Liabilities | 7,365,379 | 7,035,713 | 9,765,857 | 9,381,806 | 17,131,236 | 16,417,519 |
| Long-term Liabilities | 10,219,715 | 11,748,184 | 2,966,969 | 3,040,339 | 13,186,684 | 14,788,523 |
| Deferred Inflows of Resources | 40,206,123 | 35,250,413 | 937,390 | 478,622 | 41,143,513 | 35,729,035 |
| TOTAL Liabilities and Deferred Inflows of Resources | <u>57,791,217</u> | <u>54,034,310</u> | <u>13,670,216</u> | <u>12,900,767</u> | <u>71,461,433</u> | <u>66,935,077</u> |
| Net Investment in Capital Assets | 107,626,455 | 99,717,376 | 339,104,059 | 315,721,610 | 446,730,514 | 415,438,986 |
| Restricted | 15,975,530 | 13,082,594 | - | - | 15,975,530 | 13,082,594 |
| Unrestricted | 48,996,440 | 41,041,530 | 43,340,363 | 34,841,469 | 92,336,803 | 75,882,999 |
| TOTAL Net Position | <u>\$172,598,425</u> | <u>\$153,841,500</u> | <u>\$382,444,422</u> | <u>\$350,563,079</u> | <u>\$555,042,847</u> | <u>\$504,404,579</u> |

Changes in Net Position

During the year the City's financial position improved by \$50,638,268. The following condensed financial information was derived from the government-wide Statement of Activities and shows how the City's net position changed during the year.

| Changes in Net Position for Fiscal Year Ending September 30, 2019 | | | | | | |
|--|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | FY2019 | FY2018 | FY2019 | FY2018 | FY2019 | FY2018 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 13,668,208 | \$ 12,837,399 | \$ 27,273,239 | \$ 26,382,236 | \$ 40,941,447 | \$ 39,219,635 |
| Operating grants and contributions | 981,547 | 1,280,202 | 20,536,811 | 21,306,238 | 21,518,358 | 22,586,440 |
| Capital grants and contributions | 10,210,696 | 6,752,592 | 12,337,137 | 13,213,186 | 22,547,833 | 19,965,778 |
| General Revenue | | | | | | |
| Property taxes | 34,287,294 | 31,363,924 | - | - | 34,287,294 | 31,363,924 |
| Franchise fees | 1,501,393 | 1,543,952 | - | - | 1,501,393 | 1,543,952 |
| Sales tax and other governmental | 8,942,190 | 7,968,750 | - | - | 8,942,190 | 7,968,750 |
| Investment Earnings | 1,667,409 | 962,962 | 1,003,707 | 774,039 | 2,671,116 | 1,737,001 |
| Other Revenue | 642,301 | (203,574) | 581,333 | (508,891) | 1,223,634 | (712,465) |
| Total Revenues | 71,901,038 | 62,506,207 | 61,732,227 | 61,166,808 | 133,633,265 | 123,673,015 |
| Expenses | | | | | | |
| General Government | | | | | | |
| Administration | 9,783,817 | 9,354,037 | - | - | 9,783,817 | 9,354,037 |
| Law Enforcement | 19,486,967 | 17,039,536 | - | - | 19,486,967 | 17,039,536 |
| Fire Department | 12,852,877 | 11,637,651 | - | - | 12,852,877 | 11,637,651 |
| Parks and Recreation | 7,566,494 | 6,654,225 | - | - | 7,566,494 | 6,654,225 |
| Community Planning and Devlp | 6,083,165 | 4,789,906 | - | - | 6,083,165 | 4,789,906 |
| Enterprise - sewer and water | - | - | 27,221,677 | 24,653,860 | 27,221,677 | 24,653,860 |
| Total Expenses | 55,773,320 | 49,475,355 | 27,221,677 | 24,653,860 | 82,994,997 | 74,129,215 |
| Excess of revenues over expenditures before transfers | 16,127,718 | 13,030,852 | 34,510,550 | 36,512,948 | 50,638,268 | 49,543,800 |
| Transfers - internal activities | 2,629,207 | 2,765,353 | (2,629,207) | (2,765,353) | - | - |
| Change in net position | 18,756,925 | 15,796,205 | 31,881,343 | 33,747,595 | 50,638,268 | 49,543,800 |
| Net Position, Beginning of Year | 153,841,500 | 138,045,295 | 350,563,079 | 316,815,484 | 504,404,579 | 454,860,779 |
| Net Position, Ending of Year | \$ 172,598,425 | \$ 153,841,500 | \$ 382,444,422 | \$ 350,563,079 | \$ 555,042,847 | \$ 504,404,579 |

The following list details how items are categorized in various revenue categories listed on the Changes in Net Position report:

- Governmental Activities program revenues such as "Charges for services" includes building permits and filing fees, court fines, Rural Fire District proportionate share, and Parks and Recreation fees.
- Governmental Activities program revenues such as "Capital Grants and Contributions" includes Parks, Police, and Fire impact fees, grant revenue, and donations.
- Business-Type Activities program revenues such as "Charges for services" include water and sewer sales, engineering fees, and solid waste pickup administration fees.
- Business-Type Activities program revenues such as "Operating Grants and Contributions" include water and sewer connection fees and cash donations for operating expenses.
- Business-Type Activities program revenues such as "Capital Grants and Contributions" include developer donated water and sewer lines and donations for capital outlay.

Governmental Activities:

Governmental net position in FY2019 increased from \$153,841,500 to \$172,598,425.

Governmental revenue finished the fiscal year at \$71,901,038 resulting in an increase over last fiscal year. Property tax revenue increased from last year to finish the fiscal year at \$34,287,294. This increase in property tax revenue was the result of new residential and commercial construction growth along with the City exercising its ability to increase property tax revenue by up to 3.0% as allowed by State statute. This result in property tax revenue has been consistent for the City over the past few years.

The second significant source of governmental revenue in FY2019 was in the category Charges for Services. A majority of this category's revenues were development related; commercial and residential building permits and filing fees. Charges for Services finished FY2019 at \$13,668,208 as compared to \$12,837,399 in FY2018.

Total governmental expenses increased from last fiscal year to finish FY2019 at \$55,773,320.

The function of Administration accounted for \$9,783,817 of the total governmental expenses. Administration includes the support departments: Human Resources, Information Technology, Legal, and Finance. In the transfers section of the Statement of Activities one half of the expenses for the support departments are transferred to the Enterprise Fund. Administration also includes Mayor and Council, City Clerk, and City Hall. Most of the increase in Administration is associated to increases in benefits for personnel.

The Police Department expenses accounted for \$19,486,967 of the total governmental expenses. Police personnel and operating expenses both increased year over year. Police added 8 new positions to their staff during FY2019.

Fire Department expenses increased during FY2019 to a total of \$12,852,877 as compared to FY2018 of \$11,637,651. Similar to the Police Department, personnel and operating expenses increased year over year. The Fire Department added 1 new position to their staff during FY2019. Most of the increase in personnel costs is associated to increases in benefits and filling vacancies from the previous fiscal year.

The Parks Department expenses accounted for \$7,566,494 of the total governmental expenses. Parks personnel and operating expenses increased year over year. Parks added 1.5 new positions to their staff during FY2019.

Business-Type Activities:

The September 30, 2019 net position for the City's water and sewer utilities was \$382,444,422 as compared to the net position at September 30, 2018 of \$350,563,079. The activities of the water and sewer services, revenues minus expenses, increased the net position by \$31,881,343 in FY2019.

A majority of the increase in FY2019 can be associated to the contributed capital that the City received throughout the year. When developers complete a development project they transfer ownership of utility infrastructure (i.e. water and sewer lines) within the development to the City. The City assumes responsibility for maintenance and replacements of the utility infrastructure.

For capital expenditures, the City has consistently completed high dollar infrastructure projects year after year to keep up with City growth and regulatory requirements during the last ten years. Large, on-going construction projects include water and sewer lines, water wells and mains, and expansion and technological improvements to the wastewater treatment plant.

The Proprietary Fund is divided into three departments: Wastewater, Water, and Public Works. Within Public Works there are several support services; professional engineering support, construction management, inspections, utility billing, and environmental education.

In FY2019 the utility finished with total expenditures of \$27,221,677.

The Water Department continued to complete various capital water supply and distribution projects during FY2019 to support the growth in the City. Their personnel and operating expenditures increased about \$980 thousand year over year. Depreciation accounted for about \$365 thousand of the year over year change with the remaining increase associated to three additional staff added during FY2019 in the Water Department.

The Wastewater Department continued numerous capital construction projects in FY2019 to accommodate the increased growth demands the City has experienced over the past 10 years. The Wastewater Department has continued the expansion of the treatment plant to satisfy the requirements imposed upon the City by the Federal Government. The mandates set by the Federal Government will produce various improvements at the treatment plant for both capacity and treatment. The Wastewater Department's personnel and operating expenditures increased slightly in FY2019.

The Sewer and Water Utility have two principal sources of operating revenue; sewer usage fees and water usage fees.

- Sewer usage fees are monthly fees utility customers pay to the City for the collection and treatment of water flushed down the sewage system.
- Water usage fees are monthly fees utility customers pay to the City for the water supplied in and on their property.

Usage fees must cover basic fixed costs to keep the system operational and maintained.

Connection or assessment revenues are fees charged when a property is "connected" to the system. The end goal of the fee is to produce income to enable the City to build infrastructure that "maintains a consistent level of service" for existing customers as well as new customers. These fees are classed as non-operating revenue. When the City is growing, connection revenue provides resources to expand and improve the system to accommodate the additional demands created by growth.

For FY2019, the utility ended the fiscal year with \$61,732,227 in total revenue as compared to \$61,166,808 for FY2018. Of the major revenue sources for the utility, the sewer and water usage fees experienced a slight increase year over year while the connection/assessment fees ended the fiscal year lower than FY2018.

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 FY2019, the City's governmental funds had a combined ending fund balance of \$75,970,506, an increase of \$11,584,108 over the combined ending fund balance at the end of the prior year.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* the fund balances are classified for the year ended September 30, 2019 as follows; of the combined ending fund balance of \$75,970,506, \$370,275 is in prepaid accounts and non-spendable, \$15,975,530 is restricted by law, \$18,189,730 has been committed by City Council to specific purposes, \$1,672,298 is assigned by intent of the City to specific purposes, and \$39,762,673 is unassigned and available for spending by the City.

The General Fund is the primary operating fund of the City, used for major operations including Fire, Police, Development Services, Parks and Recreation, Elected Officials, and Administration. At the end of FY2019 the unassigned fund balance of the General Fund increased from the FY2018 balance. The City has established a best practice to always maintain a minimum balance within the unassigned fund balance to protect on-going and necessary personnel and operating expenses. Currently the City considers about \$17 million of the unassigned fund balance to be a reserve. At September 30, 2019, the City considers about \$22 million of the \$39,762,673 unassigned fund balance available for budgeting new projects.

The Impact Fee Fund is a restricted fund, and by state statute can only be spent on Police, Fire, and Parks capital projects that maintain the level of service existing when the fees were adopted. The City collects impact fees when a building permit is purchased. Park fees are collected only for residential buildings, Fire and Police fees are collected at the sale of both residential and commercial building permits. At the end of FY2019, the Impact Fund had a fund balance of \$15,973,516.

The Capital Projects Fund is restricted by City ordinance. At the end of each fiscal year, if development related permit fees exceed the costs of the Community Development Department (includes Planning Department, Building Department, Administration, and Economic Development); the excess may be transferred into the Capital Projects Fund. The funds can be used for general government construction projects or the purchase of

equipment with significant cost and a long life, i.e. a fire engine. At the end of FY2019 the Capital Projects Fund had a balance of \$14,766,460.

Assigned for Public Safety purchases is a fund used to save for public safety construction or large capital purchases, principally fire engines. At the end of FY2019 this fund had a balance of \$2,023,270.

General Fund Budgetary Highlights

Budget to Actual comparisons are found following the Notes to the Financial Statements within the Supplemental section of this Audit Report. Below is a discussion regarding the General Fund Budget to Actual comparison.

The final FY2019 General Government budget was \$65,868,048. Actual expenditures were \$56,731,554.

FY2019 General Fund actual revenue of \$67,317,399 exceeded the final budget of \$57,217,684.

The largest percentage of General Fund revenue resides in property tax and finished FY2019 at \$34,234,694. Each budget year, by state law, taxing entities are allowed to increase the amount of property tax revenue they received during the prior calendar year by 3%. The City is also allowed to apply the prior year levy rate to the net market value of new construction. Since property taxes are paid in arrears this allows the taxing entity to collect revenue generated by new development. This helps the City provide services that new growth requires. For FY2019 the City elected to apply for 3% of the property tax increase to maintain the expected services resulting from the continued growth and inflation that is occurring in the City.

Intergovernmental revenue sharing is the second largest revenue stream in FY2019 and finished the fiscal year at \$11,164,389. This category includes grants, sales tax revenue sharing, and a joint powers service agreement with the Meridian Rural Fire District. Sales tax revenue is the largest item in intergovernmental revenue. The state distributes sales tax revenue to cities and counties based on a formula that in part uses population for each taxing entity. Increases in Meridian's population coupled with a more robust economy have resulted in an increase in revenue sharing for Meridian the last number of years. The increased revenue for the City has been used to allocate the necessary resources to the departments for services to be provided to the City.

The third largest source of General Fund revenue in FY2019 was licenses and permits, namely building permit sales. At the end of FY2019, the licenses and permits revenue finished the year at \$9,156,184. The City is cautious when preparing the budget for this category because a swing in the housing market will drastically reduce permit revenue. Additionally, commercial permit revenue is difficult to predict because the fee structure is based on numerous factors such as square footage, fixtures, and value.

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

Impact fee revenue exceeded the budgeted amount by \$3,901,298. As explained above, impact fees are charged when the building permit is issued and the revenue is restricted to a narrow use by state law.

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

Personnel expenses are a combination of on-going costs like wages, income taxes, medical benefits, PERSI retirement, and worker's compensation. The total actual personnel expense was \$37,088,801 as compared to the final budget of \$41,089,783. The primary reason for the variance between actual and budget is related to the amount of vacancy positions that were not filled during the fiscal year. Overall the City added 17.5 positions to the Governmental Funds FY2019 budget; these positions were filled at various times throughout the year.

Operating expenses are a combination of on-going costs like fuel, utilities, supplies, and on-going maintenance, and one-time expenses like payments to consultants, or one time purchases of equipment. The total actual operating expense was \$13,016,696 as compared to the final budget of \$13,302,835. The largest budget to actual variance for the operating expenses is due to the City not expending grant dollars as anticipated (about \$351,000 unspent).

Capital expenditures are a combination of one-time expenses like new vehicles, park construction, software acquisition, and building improvements. The total Governmental Fund FY2019 capital expense was \$6,626,057 as compared to the final budget of \$11,475,430. The largest budget to actual variance for capital expenses is related to Fire station #6 construction. The station construction is planned for completion during FY2020. All remaining budget amounts pertaining to uncompleted capital projects will be completed in FY2020.

CAPITAL ASSET and DEBT ADMINISTRATION

Capital Assets

At the end of FY2019 the City had \$446,730,514 invested in capital assets (net of accumulated depreciation). During the fiscal year the City's total investment in net assets increased.

Major capital asset additions in the General Government Funds in FY2019 included:

- \$5,168,267 in Park Infrastructure Construction and Development
- \$2,330,467 in Land for Fuller Park transfer from Western Ada Recreation District
- \$1,241,588 in new Equipment and Vehicles
- \$3,294,226 in Capital projects still in construction and not yet completed for Fire Station #6, Pathway Construction, and Homecourt Renovations

Major capital asset additions in the Business-type Funds in FY2019 included:

- \$1,890,883 in Equipment and Well construction
- \$12,808,595 in constructed Waterlines and Sewerlines
- \$17,464,263 in Capital projects still in construction and not yet completed (includes various wastewater treatment plant construction projects to manage growth demands and treatment mandates)

The City booked \$5,230,037 in depreciation expense for Governmental City functions and \$10,842,501 for Business-type activities (See Note 5 to the financial statements).

Debt Administration

The City has no outstanding debt for the year ended September 30, 2019.

FY2020 Economic Factors and Budgetary Considerations

The City of Meridian prepares an economic forecast as a component in the process of developing the annual budget. Following local and national indicators currently affecting the City of Meridian, the City's approved FY2020 budget anticipated a level of economic activity commiserate with the prior year. Since the spring of 2012, construction and development has continued to be active and steady. The following considerations by the City Council were taken when it adopted the FY2020 Budget:

- The City provided for a compensation pool for the non-public safety employees of 4.5%.
- The City considered the current FY2019 economic conditions and trends while working on the FY2020 budget. The City maintained that a conservative approach to revenue projections was in the best interest of the City.
- The City Council elected to increase the annual property taxes by 1.5% which is allowable by State code.
- The City continued the practice of taking on no debt.
- The Fire Department labor contract negotiations were agreed upon for FY2019 for 2 years and will be open for negotiations again starting FY2021.
- The City's sewer and water customer utility accounts continue to see growth of about 4.35% annually (based on last 10 year average).

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 Department
33 E. Broadway Ave.
Meridian, Idaho 83642

Phone: (208) 888-4433

City of Meridian, Idaho
Statement of Net Position
September 30, 2019

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|-----------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 49,057,072 | \$ 27,358,180 | \$ 76,415,252 | \$ 3,103,865 |
| Restricted cash and cash equivalents | 13,596,885 | - | 13,596,885 | - |
| Investments | 12,246,137 | 24,262,218 | 36,508,355 | - |
| Restricted investments | 3,126,583 | - | 3,126,583 | - |
| Receivables | | | | |
| Accounts (net of \$30,000 allowance for enterprise fund uncollectibles) | 1,293,429 | 3,672,798 | 4,966,227 | 155,345 |
| Current portion of note receivable | - | 57,720 | 57,720 | - |
| Property taxes | 37,037,274 | - | 37,037,274 | 2,204,262 |
| Due from other governmental units | 3,056,591 | - | 3,056,591 | - |
| Interest | 165,603 | 109,359 | 274,962 | - |
| Deposits and prepaid expenses | 371,517 | 284,068 | 655,585 | 4,078 |
| Total current assets | <u>119,951,091</u> | <u>55,744,343</u> | <u>175,695,434</u> | <u>5,467,550</u> |
| Noncurrent Assets | | | | |
| Long-term note receivable | - | 559,322 | 559,322 | - |
| Capital assets | | | | |
| Land, infrastructure, and other assets not depreciated | 35,065,940 | 78,370,718 | 113,436,658 | 672,384 |
| Buildings, improvements and equipment, net of depreciation | 72,560,515 | 260,733,341 | 333,293,856 | - |
| Total noncurrent assets | <u>107,626,455</u> | <u>339,663,381</u> | <u>447,289,836</u> | <u>672,384</u> |
| Deferred Outflow of Resources | | | | |
| Pension obligations | 2,812,096 | 706,914 | 3,519,010 | - |
| | <u>\$ 230,389,642</u> | <u>\$ 396,114,638</u> | <u>\$ 626,504,280</u> | <u>\$ 6,139,934</u> |

City of Meridian, Idaho
Statement of Net Position
September 30, 2019

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-----------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 4,288,251 | \$ 7,094,331 | \$ 11,382,582 | \$ 662,027 |
| Accrued payroll and taxes | 1,327,227 | 295,641 | 1,622,868 | - |
| Customer deposits | 1,508,553 | 2,343,245 | 3,851,798 | - |
| Due within one year | | | | |
| Accrued vacation - current portion | 241,348 | 32,640 | 273,988 | - |
| Note payable - current portion | - | - | - | 115,277 |
| Total current liabilities | <u>7,365,379</u> | <u>9,765,857</u> | <u>17,131,236</u> | <u>777,304</u> |
| Noncurrent Liabilities | | | | |
| Accrued vacation - less current portion | 1,855,033 | 293,763 | 2,148,796 | - |
| Due to Developers | - | - | - | 315,912 |
| Note payable - less current portion | - | - | - | 170,599 |
| Settlement payable | - | 240,000 | 240,000 | - |
| Deferred revenue | - | 312,813 | 312,813 | - |
| Net pension liability | 8,364,682 | 2,120,393 | 10,485,075 | - |
| Total noncurrent liabilities | <u>10,219,715</u> | <u>2,966,969</u> | <u>13,186,684</u> | <u>486,511</u> |
| Deferred Inflows of Resources | | | | |
| Pension obligations | 3,870,289 | 937,390 | 4,807,679 | - |
| Unavailable revenues - property taxes | 36,335,834 | - | 36,335,834 | 2,161,210 |
| Total deferred inflows of resources | <u>40,206,123</u> | <u>937,390</u> | <u>41,143,513</u> | <u>2,161,210</u> |
| Total liabilities and deferred inflows | <u>57,791,217</u> | <u>13,670,216</u> | <u>71,461,433</u> | <u>3,425,025</u> |
| Net Position | | | | |
| Net investment in capital assets | 107,626,455 | 339,104,059 | 446,730,514 | 386,508 |
| Restricted | | | | 2,328,401 |
| Impact funds | 15,973,516 | - | 15,973,516 | - |
| Grant funds | 2,014 | - | 2,014 | - |
| Unrestricted | 48,996,440 | 43,340,363 | 92,336,803 | - |
| Total net position | <u>172,598,425</u> | <u>382,444,422</u> | <u>555,042,847</u> | <u>2,714,909</u> |
| | <u>\$ 230,389,642</u> | <u>\$ 396,114,638</u> | <u>\$ 626,504,280</u> | <u>\$ 6,139,934</u> |

| Functions/Programs | Expenses | Program Revenues | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | | | | |
| Administration | \$ 9,783,817 | \$ 260,091 | \$ 662,954 | \$ - |
| Public safety | | | | |
| Law enforcement | 19,486,967 | 1,150,342 | 96,056 | 785,088 |
| Fire department | 12,852,877 | 1,435,161 | 12,560 | 2,718,856 |
| Parks and recreation | 7,566,494 | 1,344,867 | 190,637 | 6,706,752 |
| Community development | 6,083,165 | 9,477,747 | 19,340 | - |
| Total governmental activities | 55,773,320 | 13,668,208 | 981,547 | 10,210,696 |
| Business-Type Activities | | | | |
| Water and sewer | 27,221,677 | 27,273,239 | 20,536,811 | 12,337,137 |
| Total Primary Government | <u>\$ 82,994,997</u> | <u>\$ 40,941,447</u> | <u>\$ 21,518,358</u> | <u>\$ 22,547,833</u> |
| Component Unit | | | | |
| Downtown development | <u>\$ 2,104,042</u> | <u>\$ -</u> | <u>\$ 206,618</u> | <u>\$ -</u> |
| General revenues | | | | |
| Shared revenues | | | | |
| Property taxes, levied for general purposes | | | | |
| Franchise fees | | | | |
| Sales tax and other governmental | | | | |
| Investment earnings | | | | |
| Net increase in fair value of investments | | | | |
| Miscellaneous | | | | |
| Gain (Loss) on sale of capital assets | | | | |
| Transfers - internal activities | | | | |
| Total general revenues and transfers | | | | |
| Change in Net Position | | | | |
| Net Position, Beginning of Year | | | | |
| Net Position, Ending of Year | | | | |

See Notes to Financial Statements

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|-----------------------------|-----------------------|-----------------------|
| Primary Government | | | Component Unit |
| Government Activities | Business-type Activities | Total | |
| \$ (8,860,772) | \$ - | \$ (8,860,772) | \$ - |
| (17,455,481) | - | (17,455,481) | - |
| (8,686,300) | - | (8,686,300) | - |
| 675,762 | - | 675,762 | - |
| 3,413,922 | - | 3,413,922 | - |
| (30,912,869) | - | (30,912,869) | - |
| - | 32,925,510 | 32,925,510 | - |
| <u>\$ (30,912,869)</u> | <u>\$ 32,925,510</u> | <u>\$ 2,012,641</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,897,424)</u> |
| \$ 34,287,294 | \$ - | \$ 34,287,294 | \$ 1,832,254 |
| 1,501,393 | - | 1,501,393 | - |
| 8,942,190 | - | 8,942,190 | - |
| 1,667,409 | 1,003,707 | 2,671,116 | 16,413 |
| 445,101 | 655,038 | 1,100,139 | - |
| 61,838 | 9,532 | 71,370 | 4,234 |
| 135,362 | (83,237) | 52,125 | - |
| 2,629,207 | (2,629,207) | - | - |
| 49,669,794 | (1,044,167) | 48,625,627 | 1,852,901 |
| 18,756,925 | 31,881,343 | 50,638,268 | (44,523) |
| 153,841,500 | 350,563,079 | 504,404,579 | 2,759,432 |
| <u>\$ 172,598,425</u> | <u>\$ 382,444,422</u> | <u>\$ 555,042,847</u> | <u>\$ 2,714,909</u> |

City of Meridian, Idaho
Balance Sheet – Governmental Funds
September 30, 2019

| | General | Capital Projects | Total Governmental Funds |
|---|-----------------------|----------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 37,369,087 | \$ 11,687,985 | \$ 49,057,072 |
| Investments | 12,237,592 | 8,545 | 12,246,137 |
| Receivables | | | |
| Accounts | 1,290,993 | 2,436 | 1,293,429 |
| Property taxes | 37,037,274 | - | 37,037,274 |
| Due from other governmental units | 3,056,591 | - | 3,056,591 |
| Interest | 143,176 | 22,427 | 165,603 |
| Prepaid items | 371,517 | - | 371,517 |
| Restricted assets | | | |
| Cash and cash equivalents | 13,596,885 | - | 13,596,885 |
| Investments | 3,126,583 | - | 3,126,583 |
| | <u>\$ 108,229,698</u> | <u>\$ 11,721,393</u> | <u>\$ 119,951,091</u> |
| Liabilities, Deferred Inflows and Fund Balance | | | |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 4,096,089 | \$ 46,161 | \$ 4,142,250 |
| Accrued payroll and taxes | 1,327,227 | - | 1,327,227 |
| Customer deposits | 1,508,553 | - | 1,508,553 |
| Total current liabilities | <u>6,931,869</u> | <u>46,161</u> | <u>6,978,030</u> |
| Deferred Inflows of Resources | | | |
| Unavailable revenue - property taxes | 37,002,555 | - | 37,002,555 |
| Total liabilities and deferred inflows | <u>43,934,424</u> | <u>46,161</u> | <u>43,980,585</u> |
| Fund Balance | | | |
| Nonspendable | | | |
| Prepays | 371,517 | - | 371,517 |
| Restricted | | | |
| Impact Fund | 13,143,501 | - | 13,143,501 |
| Fund Balance Budget of Carryforward | 2,830,015 | - | 2,830,015 |
| Grant fund | 2,014 | - | 2,014 |
| Committed | | | |
| Capital Projects Fund | 3,091,228 | 11,624,556 | 14,715,784 |
| Fund Balance Budget of Carryforward | - | 50,676 | 50,676 |
| Self Funding Trust Reserve | 1,400,000 | - | 1,400,000 |
| Public Safety Fund | 2,023,270 | - | 2,023,270 |
| Assigned | | | |
| Fund Balance Budget of Carryforward | 1,671,056 | - | 1,671,056 |
| Unassigned | 39,762,673 | - | 39,762,673 |
| Total fund balance | <u>64,295,274</u> | <u>11,675,232</u> | <u>75,970,506</u> |
| | <u>\$ 108,229,698</u> | <u>\$ 11,721,393</u> | <u>\$ 119,951,091</u> |

City of Meridian, Idaho
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2019

| | |
|---|------------------------------|
| Fund balances - total governmental funds | \$ 75,970,506 |
| Amounts reported for <i>governmental activities</i> in the statement of activities are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 107,626,455 |
| Retainage that are not due and payable in the current period and, therefore, are not reported in the governmental funds. | (146,001) |
| Some of the property taxes receivable are not available to pay for current-period expenditures and therefore are deferred in the funds. | 666,721 |
| Long-term liability is not due and payable in the current period and therefore is not reported in the funds. | |
| Net pension liability | (8,364,682) |
| Deferred outflows of resources related to pension obligations. | 2,812,096 |
| Deferred inflows of resources related to pensions. | (3,870,289) |
| Accrued vacation is not due and payable in the current period and therefore is not reported in the funds. | <u>(2,096,381)</u> |
| Net position of governmental activities | <u><u>\$ 172,598,425</u></u> |

City of Meridian, Idaho
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2019

| | General | Capital Projects | Total Governmental Funds |
|--|----------------------|----------------------|--------------------------------|
| Revenues | | | |
| Taxes | \$ 34,234,694 | \$ - | \$ 34,234,694 |
| Licenses and permits | 9,156,184 | - | 9,156,184 |
| Intergovernmental | 11,164,389 | - | 11,164,389 |
| Franchise fees | 1,501,393 | - | 1,501,393 |
| Fines and forfeitures | 522,113 | - | 522,113 |
| Charges for services | 2,662,081 | - | 2,662,081 |
| Interest | 1,390,163 | 277,246 | 1,667,409 |
| Miscellaneous | 61,838 | - | 61,838 |
| Donations | 163,962 | - | 163,962 |
| Impact revenues | 6,460,582 | - | 6,460,582 |
| Total revenues | <u>67,317,399</u> | <u>277,246</u> | <u>67,594,645</u> |
| Expenditures | | | |
| General government | 8,643,896 | - | 8,643,896 |
| Public safety | 30,325,920 | - | 30,325,920 |
| Parks and recreation | 5,146,853 | - | 5,146,853 |
| Community development services | 5,988,828 | - | 5,988,828 |
| Capital outlay | 6,626,057 | 2,956,882 | 9,582,939 |
| Total expenditures | <u>56,731,554</u> | <u>2,956,882</u> | <u>59,688,436</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>10,585,845</u> | <u>(2,679,636)</u> | <u>7,906,209</u> |
| Other Financing Sources (Uses) | | | |
| Operating transfer in | 2,629,207 | - | 2,629,207 |
| Operating transfer out | (3,530,943) | 3,530,943 | - |
| Unrealized gain on investments | 436,556 | 8,545 | 445,101 |
| Proceeds from sale of capital assets | 603,591 | - | 603,591 |
| Total other financing sources | <u>138,411</u> | <u>3,539,488</u> | <u>3,677,899</u> |
| Net Change in Fund Balances | 10,724,256 | 859,852 | 11,584,108 |
| Fund Balance, Beginning of Year | <u>53,571,018</u> | <u>10,815,380</u> | <u>64,386,398</u> |
| Fund Balance, End of Year | <u>\$ 64,295,274</u> | <u>\$ 11,675,232</u> | <u>\$ 75,970,506</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, 2019

Change in fund balance - total governmental funds \$ 11,584,108

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation and loss on sale of assets in the current period.

| | | |
|------------------------------|------------------|-----------|
| New capital assets | 9,832,793 | |
| Depreciation | (5,230,037) | |
| Loss on sale of fixed assets | <u>(468,231)</u> | |
| Total | | 4,134,525 |

Capital assets contributed by citizens or developers are not a source of financial resources and thus, are not recognized in the governmental funds. 3,628,552

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. 52,600

(Expenditures) revenues related to the net pension liability that do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (239,557)

Expenditures related to the long-term portion of accrued vacation do not require the use of current financial resources and therefore are not reported as expenditures governmental funds. (403,303)

Change in net position of governmental activities \$ 18,756,925

City of Meridian, Idaho
Statement of Net Position – Proprietary Fund
September 30, 2019

| | <u>Enterprise Fund Water and Sewer</u> |
|---|--|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 27,358,180 |
| Investments | 24,262,218 |
| Receivables | |
| Accounts (net of \$30,000 allowance for uncollectibles) | 3,672,798 |
| Current portion of long-term note receivable | 57,720 |
| Interest | 109,359 |
| Prepays | <u>284,068</u> |
| Total current assets | <u>55,744,343</u> |
| Noncurrent Assets | |
| Long-term note receivable | 559,322 |
| Capital assets | |
| Land | 2,350,092 |
| Easements | 13,932,790 |
| Construction in progress | 62,087,836 |
| Buildings and improvements other than buildings | 89,316,923 |
| Sewer and water lines | 231,110,272 |
| Machinery and equipment | 52,351,884 |
| Less accumulated depreciation | <u>(112,045,738)</u> |
| Total noncurrent assets | 339,663,381 |
| Deferred Outflow of Resources | |
| Pension obligations | <u>706,914</u> |
| | <u><u>\$ 396,114,638</u></u> |

City of Meridian, Idaho
Statement of Net Position – Proprietary Fund
September 30, 2019

| | <u>Enterprise Fund Water and Sewer</u> |
|---|--|
| Liabilities and Net Position | |
| Current Liabilities | |
| Accounts payable | \$ 7,094,331 |
| Accrued payroll and taxes | 295,641 |
| Accrued vacation - current portion | 32,640 |
| Customer deposits | <u>2,343,245</u> |
| Total current liabilities | <u>9,765,857</u> |
| Noncurrent Liabilities | |
| Accrued vacation - less current portion | 293,763 |
| Net pension liability | 2,120,393 |
| Settlement payable | 240,000 |
| Deferred revenue | <u>312,813</u> |
| Total noncurrent liabilities | <u>2,966,969</u> |
| Deferred Inflow of Resources | |
| Pension obligations | <u>937,390</u> |
| Net Position | |
| Invested in capital assets | 339,104,059 |
| Unrestricted | <u>43,340,363</u> |
| Total net position | <u>382,444,422</u> |
| | <u>\$ 396,114,638</u> |

City of Meridian, Idaho
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
Year Ended September 30, 2019

| | <u>Enterprise Fund Water and Sewer</u> |
|---|--|
| Operating Revenues | |
| Charges for services | |
| Water sales | \$ 8,837,547 |
| Sewer sales | 15,967,555 |
| Other service revenues | 465,390 |
| Sale of meters | 683,320 |
| Trash billing service | 906,603 |
| Engineering fees | 412,824 |
| Miscellaneous | <u>9,532</u> |
| Total operating revenues | <u>27,282,771</u> |
| Operating Expenses | |
| Personnel services | 8,908,209 |
| Other services and charges | 3,200,391 |
| Depreciation | 10,842,501 |
| Supplies | 3,068,699 |
| Heat, lights and power | <u>1,201,877</u> |
| Total operating expenses | <u>27,221,677</u> |
| Operating Income | <u>61,094</u> |
| Nonoperating Revenues (Expenses) | |
| Interest revenue | 1,003,707 |
| Connection assessment fees and donations | 20,608,469 |
| Loss on sale of fixed assets | (83,237) |
| Net increase in fair value of investments | <u>655,038</u> |
| Total nonoperating revenues | <u>22,183,977</u> |
| Income Before Contributions and Transfers | 22,245,071 |
| Donated waterlines and sewerlines | 12,265,479 |
| Operating transfers out | <u>(2,629,207)</u> |
| Change in Net Position | 31,881,343 |
| Net Position, Beginning of Year | <u>350,563,079</u> |
| Net Position, End of Year | <u><u>\$ 382,444,422</u></u> |

City of Meridian, Idaho
Statement of Cash Flows – Proprietary Fund
Year Ended September 30, 2019

| | <u>Enterprise Fund Water and Sewer</u> |
|---|--|
| Operating Activities | |
| Receipts from customers and users | \$ 28,144,810 |
| Payments to suppliers | (7,792,108) |
| Payments to employees | <u>(8,815,698)</u> |
| Net Cash from Operating Activities | <u>11,537,004</u> |
| Noncapital Financing Activities | |
| Operating transfer to general fund | <u>(2,629,207)</u> |
| Net Cash used for Noncapital Financing Activities | <u>(2,629,207)</u> |
| Capital and Related Financing Activities | |
| Connection assessment fees | 20,608,469 |
| Proceeds from sale of capital assets | 3,882 |
| Cost from disposal of capital assets | (10,065) |
| Payments on notes receivable | 102,047 |
| Acquisition of capital assets | <u>(22,036,524)</u> |
| Net Cash used for Capital and Related Financing Activities | <u>(1,332,191)</u> |
| Investing Activities | |
| Purchase of investments | (8,979,278) |
| Sale of investments | 14,906,916 |
| Interest received | <u>1,005,508</u> |
| Net Cash from Investing Activities | <u>6,933,146</u> |
| Net Change in Cash | 14,508,752 |
| Cash and Cash Equivalents, Beginning of Year | <u>12,849,428</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 27,358,180</u> |
| Reconciliation of Operating Income to Net Cash from Operating Activities | |
| Operating income | \$ 61,094 |
| Adjustments to reconcile operating income to net cash from operating activities | |
| Depreciation | 10,842,501 |
| GASB 68 actuarial pension expense | 55,068 |
| Changes in assets and liabilities | |
| Accounts receivable | (163,801) |
| Prepaid items | (12,697) |
| Accounts payable | (144,643) |
| Accrued payroll and taxes | 37,443 |
| Customer deposits | <u>862,039</u> |
| Net Cash from Operating Activities | <u>\$ 11,537,004</u> |
| Supplemental Disclosure of Cash Flow Information | |
| Developer and customer contributed sewer and water lines | <u>\$ 12,265,479</u> |

Note 1 - Summary of Significant Accounting Policies

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

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

As required by generally accepted accounting principles, these basic financial statements present the City in conformance with GASB.

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

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include; charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or

segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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. The intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Additionally, the governing body may have decided that periodic determination of revenues earned, expenditures incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

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

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

Cash and Cash Equivalents

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

Property Taxes Receivable

Within the governmental fund financial statement, property taxes are recognized as revenue when the amount of taxes levied is measurable, and proceeds are available to finance current period expenditures.

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

Customer Services Receivable

Amounts owed to the City for customer services are due from area residents and businesses and relate to water, sewer and trash services provided by the City. The receivable is reported net of an allowance for uncollectible accounts. An allowance is reported when accounts are proven to be uncollectible. The allowance for uncollectible accounts was \$30,000 as of September 30, 2019.

Deposits and Prepaid Expenses

Deposits and prepaid expenses consist of deposits paid by developers for various improvements as well as payments to vendors that reflect costs applicable to future accounting periods and are reported as prepaid expenses.

Capital Assets

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

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

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

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

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

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

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

Compensated Absences Payable

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

Deferred Outflows/Inflows of Resources

The statement of net position includes a separate section for deferred outflows of resources. The separate financial statement element represents a consumption of net position that applies to future period(s) and will not be recognized as an outflow of resources (expense) until then. The City's deferred outflow of resources is its pension obligation. The pension obligation is the difference between projected and actual investment earnings, the changes in assumptions, the change the City's proportionate share of the City's net pension liability, and the contributions subsequent to the measurement date of the City's net pension liability.

In addition to the liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until then. The City has two items that qualify for reporting in the category: the deferred pension obligation and unavailable revenue. The employer deferred pension obligation results from the difference between the expected and actual experience of the pension plan and the net difference between projected and actual investment earnings on the pension plan investments. The unavailable revenue is reported in both the statement of net position and the balance sheet for the governmental fund and represents the unavailable revenues from property taxes.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from the Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balances

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

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

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

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

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

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

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

Risk Management

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation for budgetary purposes only. The City does not record encumbrances for the expenditure of monies.

Estimates

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

Note 2 - Cash and Investments

Cash and investments as of September 30, 2019 are classified in the accompanying financial statements as follows:

| | |
|--|-----------------------------|
| Cash and cash equivalents | \$ 76,415,252 |
| Cash and cash equivalents - restricted | <u>13,596,885</u> |
| Total cash and cash equivalents | <u><u>\$ 90,012,137</u></u> |
| Investments | \$ 36,508,355 |
| Investments - restricted | <u>3,126,583</u> |
| Total investments | <u><u>\$ 39,634,938</u></u> |

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

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

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

The City also participates in the State of Idaho Local Investment Pool (LGIP) and the State of Idaho Diversified Bond Fund (DBF). Both the LGIP and the DBF are regulated by Idaho Code under the oversight of the Treasurer of the State of Idaho. The Pools are not registered with the Securities and Exchange Commission or any other regulatory body. The State Treasurer does not provide any legally binding guarantees to support the value of the shares to participants.

The LGIP is a low risk investment pool with high liquidity. Therefore, the City’s investment in the pool is reported as a cash equivalent in the accompanying financial statements as it does not meet the definition of an investment. The LGIP is not currently rated by a nationally recognized rating agency. The funds are invested in short-term investments in the priority order of safety, liquidity, and yield.

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

Fair Value Hierarchy

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair

value measurements are categorized based on the valuation inputs used to measure an asset’s fair value. The following provides a summary of the hierarchy used to measure fair value.

- Level 1 – Inputs are quoted prices in active markets for identical assets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities.
- Level 3 – Valuations derived from valuation techniques in which significant valuation drivers are observable.

The City’s investment fair value measurements are as follows at September 30, 2019:

| Investments measured at fair value | Fair Value | Fair Value Measurements Using | | |
|--|----------------------|-------------------------------|----------------------|-------------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Debt Securities | | | | |
| U.S. Agency bonds | \$ 15,937,792 | \$ - | \$ 15,937,792 | \$ - |
| Certificates of deposit | 1,345,030 | - | 1,345,030 | - |
| Municipal bonds | 1,001,253 | - | 1,001,253 | - |
| Total investments by fair value level | <u>18,284,075</u> | <u>\$ -</u> | <u>\$ 18,284,075</u> | <u>\$ -</u> |
| Investments measured at the net asset value (NAV) | | | | |
| State of Idaho Diversified Bond Fund (DBF) | <u>21,350,863</u> | | | |
| Total investments at fair value | <u>\$ 39,634,938</u> | | | |

Level 2 inputs for the investments above are based on a matrix pricing model. Investments valued using the net asset value (NAV) per share generally do not have readily obtainable market values and are instead valued based on the City’s pro-rata share of the pool’s fair value of the underlying assets. Oversight for the Diversified Bond Fund is with the Idaho State Treasurer and Idaho Code, which defines allowable investments. In general, the investment guidelines require that funds be invested in high quality securities in a manner that provides higher total return than the shorter pools given a reasonable level of risk measured over a long period.

Securities in DBF are shared positions valued at current market values. The City values these investments based on information provided by the State of Idaho Treasurer’s Office. The following table presents the unfunded commitments, redemption frequency and the redemption notice period for the City’s investments measured at the NAV:

| Investments Measured at the NAV | | | | |
|--|---------------|----------------------|----------------------|--------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| State of Idaho Diversified Bond Fund (DBF) | \$ 21,350,863 | None | Monthly | 5-25 days |

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely impact the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. This risk can be managed using a calculation called duration that uses various inputs such as yield and years until maturity to estimate interest rate risk. Generally, the higher the duration number, the higher the risk. The City manages exposure to interest rate risk by purchasing a combination of long and short-term investments. The City manages the portfolio so it is not necessary to sell securities before maturity. The City’s policy does not limit the duration of the investments.

| Investment Type | Fair Value | Rating | Duration |
|---|-----------------------|-----------|----------|
| U.S. Agency bonds | \$ 15,937,792 | AA+ | 1.21 |
| Municipal bonds | 1,001,253 | AA+ | 1.88 |
| Idaho Diversified Bond Fund (DBF) | 21,350,863 | not rated | 2.93 |
| Idaho Local Government Investment Pool (LGIP) | 79,639,920 | not rated | 0.29 |
| Certificates of deposit | 1,345,030 | not rated | |
| Money market funds | 8,114,541 | not rated | |
| Other cash and cash equivalents | <u>2,257,676</u> | | |
| Total cash and investments | <u>\$ 129,647,075</u> | | |

Disclosures Relating to Credit Risk

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

Concentration of Credit Risk

When investments are concentrated in one issuer this concentration represents increased risk of potential loss. The GASB has adopted a principal that governments should provide note disclosure when five percent of the entity’s total investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. Government, mutual funds, and other pooled investments are exempt from disclosure. The City’s investment policy has no limitations on the amount that can be invested in any one issuer.

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

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> | <u>Percentage</u> |
|----------------------------|------------------------|------------------------|-------------------|
| Federal Home Loan Mortgage | U.S. Agency Bond | \$ 2,535,575 | 6.4% |
| Federal National Mortgage | U.S. Agency Bond | 3,640,554 | 9.2% |
| Federal Farm Credit Bank | U.S. Agency Bond | 3,331,107 | 8.4% |
| Freddie Mac | U.S. Agency Bond | 6,430,556 | 16.2% |

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 \$89,953,207 and the bank balance was \$90,436,014. Of the bank balance \$6,500,727 is guaranteed by the Securities Investor Protection Corporation, \$250,000 was covered by federal depository insurance, \$1,613,814 was collateralized with securities held at the Federal Home Bank of Seattle for First Interstate Bank and pledged to the City of Meridian, \$79,580,989 was held by the State of Idaho Local Group Investment Pool, and the remainder of the City's deposits of \$2,484,544 with First Interstate Bank are secured in an undivided collateral pool for public agencies.

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

Note 3 - Due from Other Governmental Units

The following summarizes the intergovernmental receivables at September 30, 2019:

| | | |
|---|----|-------------------------|
| State of Idaho | | |
| State Liquor Dispensary | \$ | 268,701 |
| State Tax Commission | | 1,649,827 |
| Idaho Transportation Department | | 8,159 |
| Other Idaho Agencies | | 23,681 |
| Federal Agencies | | 188,881 |
| Meridian Downtown Development | | 68,276 |
| Meridian Rural Fire District | | 226,561 |
| Meridian School | | 973 |
| Ada County | | <u>621,532</u> |
| Total Due from Other Governmental Units | \$ | <u><u>3,056,591</u></u> |

Note 4 - Note Receivable

In December 2014, the City entered into an agreement to annex the homes in a subdivision outside of city limits and provide them with water and sewer service. The subdivision had a utility district, Meridian Heights Water and Sewer District (MHWSD), which was dissolved in December 2014 upon approval from the District Court. All assets and liabilities of MHWSD were transferred to the City at that time, including MHWSD's debt of \$1,280,294, which is being repaid to the City by the former members of MHWSD over a period of 20 years at an interest rate of 3.5% as follows:

| | Beginning Balance as of October 1, 2018 | Interest and Adjustments | Payments | Ending Balance as of September 30, 2019 |
|---------------------------|---|-----------------------------|--------------|---|
| Long-term note receivable | \$ 719,089 | \$ 24,545 | \$ (126,592) | \$ 617,042 |

| <u>Fiscal Years</u> | <u>Annual Payment</u> |
|---------------------|--------------------------|
| 2020 | \$ 57,720 |
| 2021 | 57,720 |
| 2022 | 57,720 |
| 2023 | 57,720 |
| 2024 | 57,720 |
| 2025-2029 | 288,600 |
| 2030 | <u>39,842</u> |
| | <u><u>\$ 617,042</u></u> |

Note 5 - Capital Assets

Changes to capital assets are as follows:

| Governmental Activities | Balance Oct. 1, 2018 | Additions | Deletions | Transfers | Balance Sept. 30, 2019 |
|---|----------------------------|---------------------|-------------------|--------------------|------------------------------|
| Capital assets, not depreciated | | | | | |
| Land | \$ 28,276,924 | \$ 2,330,467 | \$ 201,219 | \$ - | \$ 30,406,172 |
| Easements | 717,568 | 142,385 | - | - | 859,953 |
| Construction in progress | 6,740,161 | 3,294,226 | - | (6,234,572) | 3,799,815 |
| Total capital assets, not depreciated | <u>35,734,653</u> | <u>5,767,078</u> | <u>201,219</u> | <u>(6,234,572)</u> | <u>35,065,940</u> |
| Capital assets, depreciated | | | | | |
| Buildings | 43,970,355 | 1,180,561 | 741,259 | 124,996 | 44,534,653 |
| Improvements other than buildings | 41,811,933 | 5,168,267 | - | 4,880,599 | 51,860,799 |
| Internally developed software | 86,551 | 249,853 | - | - | 336,404 |
| Equipment | 15,627,373 | 1,241,588 | 641,800 | 1,228,977 | 17,456,138 |
| Total capital assets, depreciated | <u>101,496,212</u> | <u>7,840,269</u> | <u>1,383,059</u> | <u>6,234,572</u> | <u>114,187,994</u> |
| Less accumulated depreciation for | | | | | |
| Buildings | 12,956,801 | 1,487,224 | 645,610 | - | 13,798,415 |
| Improvements other than buildings | 14,525,703 | 2,104,426 | - | - | 16,630,129 |
| Internally developed software | 47,686 | 45,383 | - | - | 93,069 |
| Equipment | 9,983,299 | 1,593,004 | 470,437 | - | 11,105,866 |
| Total accumulated depreciation | <u>37,513,489</u> | <u>5,230,037</u> | <u>1,116,047</u> | <u>-</u> | <u>41,627,479</u> |
| Total net capital assets, depreciated | <u>63,982,723</u> | <u>2,610,232</u> | <u>267,012</u> | <u>6,234,572</u> | <u>72,560,515</u> |
| Governmental activities capital assets, net | <u>\$ 99,717,376</u> | <u>\$ 8,377,310</u> | <u>\$ 468,231</u> | <u>\$ -</u> | <u>\$107,626,455</u> |

City of Meridian, Idaho
Notes to Financial Statements
September 30, 2019

| Business-type Activities | Balance Oct. 1, 2018 | Additions | Deletions | Transfers | Balance Sept. 30, 2019 |
|--|----------------------------|----------------------|------------------|---------------------|------------------------------|
| Capital assets, not depreciated | | | | | |
| Land | \$ 2,034,092 | \$ 316,000 | \$ - | \$ - | \$ 2,350,092 |
| Easements | 12,155,735 | 1,777,055 | - | - | 13,932,790 |
| Construction in progress | 57,576,242 | 17,464,263 | - | (12,952,669) | 62,087,836 |
| Total capital assets, not depreciated | <u>71,766,069</u> | <u>19,557,318</u> | <u>-</u> | <u>(12,952,669)</u> | <u>78,370,718</u> |
| Capital assets, depreciated | | | | | |
| Buildings and improvements other than buildings | 87,969,846 | 45,209 | 24,001 | 1,325,869 | 89,316,923 |
| Sewer and water lines | 210,578,107 | 12,808,595 | 28,220 | 7,751,790 | 231,110,272 |
| Machinery and equipment | 46,645,709 | 1,890,883 | 59,718 | 3,875,010 | 52,351,884 |
| Total capital assets, depreciated | <u>345,193,662</u> | <u>14,744,687</u> | <u>111,939</u> | <u>12,952,669</u> | <u>372,779,079</u> |
| Less accumulated depreciation for | | | | | |
| Buildings and improvements other than buildings | 32,500,214 | 3,721,242 | 5,641 | - | 36,215,815 |
| Sewer and water lines | 48,015,214 | 4,456,831 | 23,599 | - | 52,448,446 |
| Machinery and equipment | 20,722,693 | 2,664,428 | 5,644 | - | 23,381,477 |
| Total accumulated depreciation | <u>101,238,121</u> | <u>10,842,501</u> | <u>34,884</u> | <u>-</u> | <u>112,045,738</u> |
| Total net capital assets, depreciated | <u>243,955,541</u> | <u>3,902,186</u> | <u>77,055</u> | <u>12,952,669</u> | <u>260,733,341</u> |
| Business-type activities capital assets, net | <u>\$315,721,610</u> | <u>\$ 23,459,504</u> | <u>\$ 77,055</u> | <u>\$ -</u> | <u>\$339,104,059</u> |

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

| | |
|---|----------------------|
| Governmental activities | |
| General government | \$ 1,378,519 |
| Public safety | 1,495,602 |
| Parks and recreation | <u>2,355,916</u> |
| Total depreciation expense - governmental activities | <u>\$ 5,230,037</u> |
| Business-type activities | |
| Water and Sewer | <u>\$ 10,842,501</u> |
| Total depreciation expense - business-type activities | <u>\$ 10,842,501</u> |

Note 6 - 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 | \$ - | \$ 3,530,943 | \$ 3,530,943 |
| Enterprise Fund | <u>2,629,207</u> | <u>-</u> | <u>2,629,207</u> |
| Total transfers | <u>\$ 2,629,207</u> | <u>\$ 3,530,943</u> | <u>\$ 6,160,150</u> |

The transfer from the enterprise fund to the general fund was related to personnel and operating costs that were paid by the general fund during FY2019. The transfer from the general fund to the capital projects fund includes \$3,251,404 from the excess of building permit revenues from the prior year and \$279,539 from commitments during budget development by City Council.

Note 7 - Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended September 30, 2019:

| | Balance Oct.1, 2018 | Debt Issued | Debt Retired | Balance Sept. 30, 2019 | Due Within One Year |
|--------------------------|------------------------|---------------------|-----------------------|---------------------------|---------------------------|
| Governmental Activities | | | | | |
| Accrued vacation | <u>\$ 1,693,078</u> | <u>\$ 2,110,925</u> | <u>\$ (1,707,622)</u> | <u>\$ 2,096,381</u> | <u>\$ 241,348</u> |
| Business-type Activities | | | | | |
| Accrued vacation | \$ 306,430 | \$ 305,566 | \$ (285,593) | \$ 326,403 | \$ 32,640 |
| Settlement payable | <u>200,000</u> | <u>40,000</u> | <u>-</u> | <u>240,000</u> | <u>-</u> |
| | <u>\$ 506,430</u> | <u>\$ 345,566</u> | <u>\$ (285,593)</u> | <u>\$ 566,403</u> | <u>\$ 32,640</u> |

Note 8 - Fund Balances – Governmental Funds

As of September 30, 2019 fund balances were classified as follows:

Non-spendable - the City's non-spendable fund balance was for prepaid expenses.

Restricted - the City had restricted fund balances for impact fees and the Capital Projects Fund as mandated by the State of Idaho.

Committed - the City Council committed funds to self-funding trust reserve for employee medical benefits and the Public Safety Capital Projects Fund for future police and fire capital projects.

Assigned - the City's CFO assigned carryforward of the FY2019 budget balance to be spent in FY2020.

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

| | Balance Oct. 1, 2018 | Net Change | Balance Sept. 30, 2019 |
|--------------------------------------|-------------------------|---------------|---------------------------|
| Fund Balances | | | |
| Nonspendable | | | |
| Prepays | \$ 304,839 | \$ 66,678 | \$ 371,517 |
| Restricted | | | |
| Impact fund | 9,136,839 | 4,006,662 | 13,143,501 |
| Impact fund budget carryforward | 3,945,755 | (1,115,740) | 2,830,015 |
| Grant fund | - | 2,014 | 2,014 |
| Committed | | | |
| Capital projects fund | 14,169,533 | 546,251 | 14,715,784 |
| Capital projects budget carryforward | - | 50,676 | 50,676 |
| Self funding trust reserve | 1,500,000 | (100,000) | 1,400,000 |
| Public safety fund | 1,397,845 | 625,425 | 2,023,270 |
| Assigned | | | |
| General fund budget carryforward | 2,677,235 | (1,006,179) | 1,671,056 |
| Unassigned | 31,254,352 | 8,508,321 | 39,762,673 |
| Total fund balances | \$ 64,386,398 | \$ 11,584,108 | \$ 75,970,506 |

Note 9 - Lease Agreements

The City has operating leases for land and office equipment. In FY2014 the City entered into a prepaid irrevocable use 20 year agreement with Syringa Networks, LLC for the right to use certain dark fiber in the Syringa Networks System. The City incurred costs of \$1,385,250 associated with the Syringa agreement. As of September 30, 2019, the related accumulated depreciation was \$352,084. The City has no ownership rights now or in the future in the fiber, but prepayment is considered an asset and recorded as a capital asset. The agreement also requires that the City pay annual maintenance and operating costs for a period of twenty years.

The various equipment lease agreements cover periods from July 24, 2007 through October 14, 2033, and the minimum annual payments range from \$232 to \$13,800. Total rental expense in FY2019 for all operating leases (which include rental, maintenance and usage) was approximately \$172,357.

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

| | |
|---------------------------|--------------------------|
| Operating Leases | |
| 2020 | \$ 25,150 |
| 2021 | 17,314 |
| 2022 | 17,314 |
| 2023 | 17,314 |
| 2024 | 17,314 |
| 2025-2029 | 73,978 |
| 2030-2034 | <u>56,350</u> |
| Total minimum obligations | <u><u>\$ 224,734</u></u> |

Note 10 - Defined Benefit Pension Plan

Plan Description

The City contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and firefighters. As of June 30, 2019, it was 7.16% for general employees and 8.81% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.94% for general employees and 12.28% for police and firefighters. The City's contributions were \$3,674,815 for the year ended September 30, 2019.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2019, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2019, the City's proportion was 0.9185572 percent.

For the year ended September 30, 2019, the City recognized pension expense of \$3,969,440. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 974,427 | \$ 1,235,718 |
| Changes in assumptions or other inputs | 583,240 | - |
| Net difference between projected and actual earning on pension plan investments | - | 3,571,961 |
| Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions | 986,721 | - |
| City contributions subsequent to the measurement date | 974,622 | - |
| Total | \$ 3,519,010 | \$ 4,807,679 |

The City reported \$974,622 as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending September 30, 2020.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2018, the beginning of the measurement period ended June 30, 2019, is 4.8 years for the measurement period June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended September 30,

| | | |
|------|--|-----------------------|
| 2020 | | \$ (23,255) |
| 2021 | | (1,348,921) |
| 2022 | | (546,605) |
| 2023 | | (344,510) |
| | | \$ (2,263,291) |

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and

assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--------------------------------------|---|
| Inflation | 3 % |
| Salary increases including inflation | 3.75 % |
| Investment rate of return | 7.05 %, net of pension plan investment expenses |
| Cost-of-living (COLA) adjustments | 1 % |

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2013 through June 30, 2017 for the PERSI Base Plan, which reviewed all economic and demographic assumptions. The Total Pension Liability as of June 30, 2019 is based on the results of an actuarial valuation date of July 1, 2019.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Nominal Rate of Return (Arithmetic)</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|---|--------------------------|---|--|
| Core Fixed Income | 30.00% | 3.05% | 0.80% |
| Broad US Equities | 55.00% | 8.30% | 6.05% |
| Developed Foreign Equities | 15.00% | 8.45% | 6.20% |
| Assumed Inflation - Mean | | 2.25% | 2.25% |
| Assumed Inflation - Standard Deviation | | 1.50% | 1.50% |
| Portfolio Arithmetic Mean Return | | 6.75% | 4.50% |
| Portfolio Standard Deviation | | 12.54% | 12.54% |
| Portfolio Long-Term (Geometric) Expected Rate of Return | | 6.13% | 3.77% |
| Assumed Investment Expenses | | 0.40% | 0.40% |
| Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses | | 5.73% | 3.37% |
| Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses | | | 4.19% |
| Portfolio Standard Deviation | | | 1.42% |
| Valuation Assumptions Chosen by PERSI Board | | | |
| Long-Term Expected Real Rate of Return, Net of Investment Expenses | | | 4.05% |
| Assumed Inflation | | | 3.00% |
| Long-Term Expected Geometric Rate of Return, Net of Investment Expenses | | | 7.05% |

Discount Rate

The discount rate used to measure the total pension liability was 7.05%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.05 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.05 percent) or 1-percentage-point higher (8.05 percent) than the current rate:

| | <u>1 % Decrease</u> | <u>Current</u> | <u>1% Increase</u> |
|--|---------------------|----------------|--------------------|
| Employer's proportionate share of the net pension liability (asset) | \$ 31,668,966 | \$ 10,485,075 | \$ (7,033,327) |

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the pension plan

At September 30, 2019, the City reported payables to the defined benefit pension plan of \$343,275 for legally required employer contributions and \$219,188 for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

Note 11 - Other Commitments

The City had the following commitments at September 30, 2019:

| Commitment | Amount |
|------------------------------------|---------------|
| Animal Control Service | \$ 520,536 |
| Building Improvement & Maintenance | 2,596,657 |
| Contracted Services | 316,000 |
| Dues & Contributions | 973,900 |
| Electronics & Software | 2,574 |
| Grant Funded Expenditures | 100,093 |
| Headworks Improvements | 672,474 |
| Insurance | 334,917 |
| Janitorial Services | 237,854 |
| Parks Construction & Improvements | 160,226 |
| Professional Services | 139,131 |
| Public Art | 40,000 |
| Wastewater Improvements | 3,036,971 |
| Water & Sewer Line Improvements | 1,725,595 |
| Well Improvements | 456,596 |
| Total commitments | \$ 11,313,524 |

Note 12 - Contingent Liabilities

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

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

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

In 2014, the City of Meridian entered into a Settlement and Mutual Release Agreement with Bittercreek Meadows Subdivision Homeowners Association in which the City agreed to connect 24 lots to the City of Kuna's wastewater treatment plant. The cost to do this is not known since it is dependent on development of adjoining vacant land but an estimated cost of \$240,000 was recorded and is reflected in the Statement of Net Position for the Proprietary Fund.

Note 13 - Related Party

The City partners with Meridian Development Corporation (MDC) for various downtown improvements. During the year ended September 30, 2019, the City reimbursed MDC \$204,444 for a CDBG sidewalk grant project and MDC agreed to contribute \$137,122 for various downtown projects in the City, which included \$89,002 for the Pine Avenue Landscaping project.

Note 14 - Subsequent Events

In FY2018, the City Council have committed \$1.5 million in funds to a self-funding trust reserve for employee medical benefits. As of December 31, 2019, the City transferred \$1.4 million of the committed funds to the new City of Meridian Employee Benefits Trust for the required reserve for the 2020 self-funded employee medical insurance benefit.

Note 15 - Component Unit

The MDC is created by and exists under the Idaho Urban Renewal Law of 1965, as amended, and is a separate and legal entity. In July 2016, the City approved the establishment of MDC's second district, known as the Ten Mile District.

MDC – Capital Assets

Changes to capital assets are as follows:

| | Balance Oct. 1, 2018 | Additions | Deletions | Transfers | Balance Sept. 30, 2019 |
|---|-------------------------|-------------------|---------------------|-------------|---------------------------|
| Governmental Activities | | | | | |
| Capital assets, not depreciated | | | | | |
| Land | \$ 798,529 | \$ - | \$ (126,145) | \$ - | \$ 672,384 |
| Total capital assets, not depreciated | 798,529 | - | (126,145) | - | 672,384 |
| Capital assets, depreciated | | | | | |
| Buildings | 194,511 | 567,285 | (761,796) | - | - |
| Building improvements | 132,288 | - | (132,288) | - | - |
| Equipment | 8,486 | - | (6,643) | - | 1,843 |
| Intangibles | 180,160 | - | - | - | 180,160 |
| Total capital assets, depreciated | 515,445 | 567,285 | (900,727) | - | 182,003 |
| Less accumulated depreciation for | | | | | |
| Buildings | (71,352) | (2,702) | 74,054 | - | - |
| Building improvements | (15,415) | (1,837) | 17,252 | - | - |
| Equipment | (8,486) | - | 6,643 | - | (1,843) |
| Intangibles | (180,160) | - | - | - | (180,160) |
| Total accumulated depreciation | (275,413) | (4,539) | 97,949 | - | (182,003) |
| Total net capital assets, depreciated | 240,032 | 562,746 | (802,778) | - | - |
| Governmental activities capital assets, net | <u>\$ 1,038,561</u> | <u>\$ 562,746</u> | <u>\$ (928,923)</u> | <u>\$ -</u> | <u>\$ 672,384</u> |

MDC – Changes in Long-Term Debt

MDC has a promissory note for \$1,274,000 that matures on March 5, 2022 with a fixed interest rate of 3.51% collateralized by real property.

The following is a summary of changes in debt of MDC for the year ended September 30, 2019.

| | 2018 | Debt Issued | Debt Retired | 2019 |
|--|-------------------|-------------|---------------------|-------------------|
| Governmental Activities | | | | |
| Note payable - building | \$ 397,395 | \$ - | \$ (111,519) | \$ 285,876 |
| Governmental Activities long-term liabilities | <u>\$ 397,395</u> | <u>\$ -</u> | <u>\$ (111,519)</u> | <u>\$ 285,876</u> |

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

| Fiscal Years | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|-------------------|------------------|-------------------|
| 2020 | \$ 115,277 | \$ 7,737 | \$ 123,014 |
| 2021 | 119,541 | 4,077 | 123,618 |
| 2022 | <u>51,058</u> | <u>449</u> | <u>51,507</u> |
| Totals | <u>\$ 285,876</u> | <u>\$ 12,263</u> | <u>\$ 298,139</u> |

MDC – Line of Credit

MDC has entered into a revolving line of credit with Washington Trust Bank that provides for available borrowings up to \$100,000. The agreement matures on June 30, 2020 and is unsecured. Borrowings under the line of credit bear variable interest rate at 5.5% per annum. There were no amounts outstanding on the line as of September 30, 2019. Borrowings under the line of credit are subject to certain covenants and restrictions on indebtedness and dividend payments.

MDC – Commitments and Contingencies

On February 8, 2017, amended on March 13, 2018, MDC entered into an Owner Participation Agreement with Ten Mile Crossing, Inc., Brighton Corporation, SCS Brighton LLC, Brighton Investments LLC, SCS Investments LLC, and SBG Ten Mile Office No. 1, LLC (the Developers) to carry out the approved urban renewal plan. This agreement contemplates that the Developers will develop the property by constructing private improvements. Eligible public improvements are to be constructed in phases and reimbursed from future tax increment revenues. As of September 30, 2019, the Developers have incurred eligible expenses and requested reimbursements totaling \$672,385. Of this amount, \$356,473 was paid by MDC subsequent to year end, with the remaining amount of \$315,912 to be paid, contingent upon the future receipt of tax increment.



Required Supplementary Information
September 30, 2019

City of Meridian, Idaho

City of Meridian, Idaho
 Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 Year Ended September 30, 2019

**Schedule of Employer's Share of Net Pension Liability
 PERSI - Base Plan
 Last 5 Fiscal Years***

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------|---------------|---------------|---------------|---------------|
| Employer's portion of net pension liability | 0.9185572% | 0.8693291% | 0.8385367% | 0.8327922% | 0.8309225% |
| Employer's proportionate share of the net pension liability | \$ 10,485,075 | \$ 12,822,757 | \$ 13,180,358 | \$ 16,881,978 | \$ 10,941,899 |
| Employer's covered payroll | \$ 31,370,306 | \$ 28,067,928 | \$ 26,158,967 | \$ 24,506,473 | \$ 23,418,704 |
| Employer's proportional share of the net pension liability as a percentage of its payroll | 33.42% | 45.68% | 50.39% | 68.89% | 46.72% |
| Plan fiduciary net position as a percentage of the total pension liability | 93.79% | 91.69% | 90.68% | 87.26% | 91.38% |
| | <u>2014</u> | | | | |
| Employer's portion of net pension liability | 0.7877442% | | | | |
| Employer's proportionate share of the net pension liability | \$ 5,799,030 | | | | |
| Employer's covered payroll | \$ 21,670,660 | | | | |
| Employer's proportional share of the net pension liability as a percentage of its payroll | 26.76% | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 94.95% | | | | |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured at the measurement date which is as of June 30 of each year.

City of Meridian, Idaho
 Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 Year Ended September 30, 2019

**Schedule of Employer Contributions
 PERSI - Base Plan
 Last 5 Fiscal Years***

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|---------------|
| Statutorily required contribution | \$ 3,514,771 | \$ 3,375,966 | \$ 2,827,648 | \$ 2,475,578 | \$ 2,717,964 |
| Contributions in relation to the statutorily required contribution | \$ 3,669,576 | \$ 3,228,459 | \$ 3,001,437 | \$ 2,796,909 | \$ 2,682,620 |
| Contribution (deficiency) excess | \$ 154,805 | \$ (147,507) | \$ 173,789 | \$ 321,331 | \$ (35,344) |
| Employer's covered payroll | \$ 32,747,790 | \$ 28,750,964 | \$ 26,645,195 | \$ 24,966,360 | \$ 24,029,237 |
| Contributions as a percentage of covered payroll | 11.21% | 11.23% | 11.26% | 11.20% | 11.16% |
| | <u>2014</u> | | | | |
| Statutorily required contribution | \$ 2,560,496 | | | | |
| Contributions in relation to the statutorily required contribution | \$ 2,461,739 | | | | |
| Contribution (deficiency) excess | \$ (98,757) | | | | |
| Employer's covered payroll | \$ 22,142,233 | | | | |
| Contributions as a percentage of covered payroll | 11.12% | | | | |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of September 30 of each year.

City of Meridian, Idaho

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
Year Ended September 30, 2019

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|--------------------|--------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 33,540,850 | \$ 33,540,850 | \$ 34,234,694 | \$ 693,844 |
| Licenses and permits | 6,279,508 | 6,279,508 | 9,156,184 | 2,876,676 |
| Intergovernmental | 8,986,189 | 10,552,241 | 11,164,389 | 612,148 |
| Franchise fees | 1,554,639 | 1,554,639 | 1,501,393 | (53,246) |
| Fines and forfeitures | 337,500 | 337,500 | 522,113 | 184,613 |
| Charges for services | 1,638,506 | 1,961,653 | 2,662,081 | 700,428 |
| Impact revenues | 2,559,284 | 2,559,284 | 6,460,582 | 3,901,298 |
| Donations | 28,410 | 216,509 | 163,962 | (52,547) |
| Interest | 215,000 | 215,000 | 1,390,163 | 1,175,163 |
| Miscellaneous | - | 500 | 61,838 | 61,338 |
| Total revenues | 55,139,886 | 57,217,684 | 67,317,399 | 10,099,715 |
| Expenditures | | | | |
| General government personnel costs | 5,543,166 | 5,543,166 | 5,307,391 | 235,775 |
| General government operating expense | 2,917,195 | 4,138,251 | 3,336,505 | 801,746 |
| Public safety | | | | |
| Police personnel costs | 16,976,274 | 17,038,221 | 15,871,330 | 1,166,891 |
| Police operating expense | 2,743,005 | 2,820,656 | 2,590,455 | 230,201 |
| Fire personnel costs | 11,365,718 | 11,365,718 | 10,445,379 | 920,339 |
| Fire operating expense | 1,419,757 | 1,530,252 | 1,418,756 | 111,496 |
| Parks and recreation personnel costs | 3,254,730 | 3,383,728 | 2,880,306 | 503,422 |
| Parks and recreation operating expense | 2,380,264 | 2,455,016 | 2,266,547 | 188,469 |
| Community development personnel costs | 3,312,487 | 3,758,950 | 2,584,395 | 1,174,555 |
| Community development operating expense | 2,199,136 | 2,358,660 | 3,404,433 | (1,045,773) |
| Capital outlay | | | | |
| General government | 768,810 | 620,309 | 277,072 | 343,237 |
| Public safety | | | | |
| Police | 367,368 | 361,182 | 326,273 | 34,909 |
| Fire | 5,388,145 | 6,236,170 | 3,348,343 | 2,887,827 |
| Parks and recreation | 6,003,981 | 3,752,086 | 2,305,642 | 1,446,444 |
| Community development | 424,956 | 505,683 | 368,727 | 136,956 |
| Total expenditures | 65,064,992 | 65,868,048 | 56,731,554 | 9,136,494 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (9,925,106) | (8,650,364) | 10,585,845 | 19,236,209 |

City of Meridian, Idaho

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund
Year Ended September 30, 2019

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--------------------------------------|----------------------|----------------------|----------------------|-------------------------------|
| | Original | Final | | |
| Other Financing Sources (Uses) | | | | |
| Operating transfer in | 3,069,896 | 3,076,320 | 2,629,207 | (447,113) |
| Operating transfer out | (425,141) | (431,565) | (3,530,943) | (3,099,378) |
| Unrealized gain on investments | - | - | 436,556 | 436,556 |
| Gain on sale of capital assets | - | - | 603,591 | 603,591 |
| Total other financing sources (uses) | <u>2,644,755</u> | <u>2,644,755</u> | <u>138,411</u> | <u>(2,506,344)</u> |
| Excess (Deficiency) of Revenues | | | | |
| Other Sources (Uses) Over (Under) | | | | |
| Expenditures | <u>(7,280,351)</u> | <u>(6,005,609)</u> | <u>10,724,256</u> | |
| Fund Balance, Beginning of Year | <u>34,877,397</u> | <u>34,477,157</u> | <u>53,571,018</u> | |
| Fund Balance, End of Year | <u>\$ 27,597,046</u> | <u>\$ 28,471,548</u> | <u>\$ 64,295,274</u> | |

Note 1 - Budgets and Budgetary Accounting

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

Prior to September 1, the CFO, Department Directors, Mayor, and City Council prepare a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.

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

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

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

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



Other Information
September 30, 2019

City of Meridian, Idaho

City of Meridian, Idaho

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund
Year Ended September 30, 2019

| | Budget Amounts | | Actual Amounts | Variance with Final Budget |
|---|----------------|--------------|-------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Interest | \$ 2,000 | \$ 2,000 | \$ 277,246 | \$ 275,246 |
| Total revenues | 2,000 | 2,000 | 277,246 | 275,246 |
| Expenditures | | | | |
| General government capital outlay | 11,953 | 10,353 | 5,620 | 4,733 |
| Parks and recreation capital outlay | 3,000,000 | 3,000,000 | 2,951,262 | 48,738 |
| Total expenditures | 3,011,953 | 3,010,353 | 2,956,882 | 53,471 |
| Excess (Deficiency) of revenues over (Under) Expenditures | (3,009,953) | (3,008,353) | (2,679,636) | 328,717 |
| Other Financing Sources (Uses) | | | | |
| Operating transfer in | 154,040 | 154,040 | 3,530,943 | 3,376,903 |
| Unrealized gain on investments | - | - | 8,545 | 8,545 |
| Total other financing sources (uses) | 154,040 | 154,040 | 3,539,488 | 3,385,448 |
| Excess (Deficiency) of Revenues and Other Sources (Uses) Over (Under) Expenditures | (2,855,913) | (2,854,313) | 859,852 | 3,714,165 |
| Fund Balance, Beginning of Year | 4,839,214 | 5,040,874 | 10,815,380 | |
| Fund Balance, End of Year | \$ 1,983,301 | \$ 2,186,561 | \$ 11,675,232 | |

City of Meridian, Idaho

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Enterprise Fund
Year Ended September 30, 2019

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|------------------------|-----------------------|-----------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Water sales | \$ 8,852,804 | \$ 8,852,804 | \$ 8,837,547 | \$ (15,257) |
| Sewer sales | 15,945,396 | 15,945,396 | 15,967,555 | 22,159 |
| Other service revenues | 350,000 | 350,000 | 465,390 | 115,390 |
| Sale of meters | 300,000 | 300,000 | 683,320 | 383,320 |
| Trash billing service | 749,961 | 749,961 | 906,603 | 156,642 |
| Engineering fees | 350,000 | 350,000 | 412,824 | 62,824 |
| Assessment revenue and cash donations | 11,485,059 | 11,485,059 | 20,608,469 | 9,123,410 |
| Interest | 150,000 | 150,000 | 1,003,707 | 853,707 |
| Miscellaneous | - | - | 9,532 | 9,532 |
| Total revenues | 38,183,220 | 38,183,220 | 48,894,947 | 10,711,727 |
| Expenditures | | | | |
| Administration personnel costs | 4,573,098 | 4,661,858 | 4,095,634 | 566,224 |
| Administration operating expenses | 2,118,495 | 1,882,786 | 1,406,421 | 476,365 |
| Water personnel costs | 2,067,538 | 2,192,050 | 1,960,267 | 231,783 |
| Water operating expenses | 3,026,619 | 3,548,239 | 3,217,182 | 331,057 |
| Wastewater personnel costs | 3,152,188 | 3,064,696 | 2,777,268 | 287,428 |
| Wastewater operating expenses | 3,443,224 | 3,361,604 | 2,807,361 | 554,243 |
| Capital outlay | 44,006,199 | 32,648,020 | 21,418,415 | 11,229,605 |
| Total expenditures | 62,387,361 | 51,359,253 | 37,682,548 | 13,676,705 |
| Excess (Deficiency) of Revenues over (Under) Expenditures | (24,204,141) | (13,176,033) | 11,212,399 | 24,388,432 |
| Other Financing Sources (Uses) | | | | |
| Operating transfer out | (2,798,794) | (2,798,794) | (2,629,207) | 169,587 |
| Unrealized gain on investments | - | - | 655,038 | 655,038 |
| Gain (loss) on sale of capital assets | - | (30,000) | (6,187) | 23,813 |
| Total other financing sources (uses) | (2,798,794) | (2,828,794) | (1,980,356) | 848,438 |
| Excess (Deficiency) of Revenues and Other Sources (Uses) Over (Under) Expenditures | (27,002,935) | (16,004,827) | 9,232,043 | |
| Fund Balance, Beginning of Year | (4,081,715) | 7,401,479 | 39,509,605 | |
| Fund Balance, End of Year | \$ (31,084,650) | \$ (8,603,348) | 48,741,648 | |
| Deferred outflows | | | 706,914 | |
| Deferred inflows | | | (937,390) | |
| Net pension liabilities | | | (2,120,393) | |
| Non current liabilities | | | (240,000) | |
| Accrued vacation | | | (326,403) | |
| Net invested in capital assets | | | 339,104,059 | |
| Retainage | | | (2,484,013) | |
| Net Position, GAAP Basis, End of Year | | | \$ 382,444,422 | |



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Meridian, Idaho (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated February 24, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Boise, Idaho
February 24, 2020