



**LAKE CITY**  
Development Corporation

FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Lake City Development Corporation**  
**September 30, 2011**

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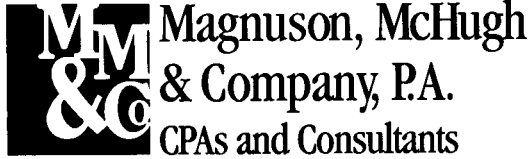
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT



## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Lake City Development Corporation  
Coeur d'Alene, ID 83814

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake City Development Corporation (the "Agency"), a component unit of the City of Coeur d'Alene, Idaho, as of and for the year ended September 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake City Development Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lake City Development Corporation, as of September 30, 2011, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2012, on our consideration of the Lake City Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 9 and 36 through 37 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.

*Magnuson, McHugh & Company, P.A.*

Coeur d'Alene, Idaho  
February 8, 2012

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FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

# Lake City Development Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011

This section of Lake City Development Corporation's (the "Agency") fiscal year 2011 financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on September 30, 2011. Please read it in conjunction with the Agency's financial statements which follow this section.

### FINANCIAL HIGHLIGHTS

- The Agency administers two redevelopment districts within the City of Coeur d'Alene's area of impact:
  - Lake District – formed in 1997, encompasses sections of downtown, midtown and Northwest Boulevard.
  - River District – formed in 2003, encompasses the geographic area between Interstate 90 and the Spokane River, east of Huetter Avenue and west of Northwest Boulevard.
- The Agency's total (Lake and River Districts) net assets as of September 30, 2011 were \$7,842,172.
- During fiscal year 2011, the Agency realized total general revenues of \$5,804,509 and total net expenses of \$4,947,821 resulting in a net asset change of \$856,688.
- Lake District: In fiscal year 2011, the Agency approved the Washington Trust Bank Revenue Allocation Bond (Series 2011, Lake District Redevelopment Project) in the amount of \$16.7 million. Proceeds from this Bond will be used to fund LCDC strategic priorities within the Lake District including the Education Corridor Infrastructure initiative and the McEuen Park redevelopment initiative.
- Lake District: In fiscal year 2011, the Agency approved the 609 Sherman Avenue Lofts Improvement Reimbursement Agreement (IRA) in the amount of \$404,993 for public improvements associated with the 609 Sherman Avenue Lofts residential development.
- Lake District: In fiscal year 2011, the Agency approved the North Idaho Centennial Trail Foundation (NICTF) Modification of Loan Agreement and Deed of Trust Note which extends the maturation date of the NICTF debt obligation from December 20, 2011 to December 20, 2014 and resets the interest rate from 7.0% to 4.5%.
- Lake District: In fiscal year 2011, the Agency awarded the Phase 1A & 1B Education Corridor infrastructure design contract totaling \$500,000 to JUB Engineers, Inc.
- Lake District: In fiscal year 2011, the Agency awarded the Phase 1A Education Corridor infrastructure construction contract totaling \$3,690,050 to MDM Construction, Inc.
- River District: In fiscal year 2011, the Agency agreed to enter into a \$395,000 Improvement Reimbursement Agreement (IRA) with the Whitewater Creek Inc. development team pertaining to the development of the "Riverstone West Family Apartments" affordable housing initiative.
- River District: In fiscal year 2011, the Agency agreed to enter into a \$898,917 Improvement Reimbursement Agreement (IRA) with the Riverstone West Phase 2 development team pertaining to the construction of public infrastructure improvements for Phase 2 of the Riverstone West development initiative.
- River District: In fiscal year 2011, the Agency granted partnership funding in the amount of \$230,000 towards Agency approved public improvements associated with the re-construction of the non-profit Kootenai Youth Recreation Organization (KYRO) ice skating facility.

# Lake City Development Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include three kinds of statements that present different views of the Agency:

1. Government-wide financial statements provide information about the Agency's overall financial status.
2. Fund financial statements focus on individual parts of the Agency activities, reporting the Agency's operations in more detail than the government-wide statements.
3. Notes to financial statements provide detailed background information to the relevant financials.

The statements are followed by a section of note disclosures that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and content of each of the statements.

#### Government-Wide Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets, i.e. the difference between the Agency's assets and liabilities, is one way to measure the Agency's financial health, or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Agency, consideration of additional non-financial factors such as changes in the property tax base and potential new developments should be considered.
- Governmental activities: Most of the Agency's urban redevelopment activities are included herein. In addition, the administration function of the Agency is reported here.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the Agency's governmental funds - not the Agency as a whole. This accounting device is used by the Agency to keep track of specific sources of funding and spending for particular purposes.

Governmental funds focus on: (1) how much cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or in the subsequent pages, that explains the relationship (or differences) between them.

# Lake City Development Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011

### SIGNIFICANT ISSUES

- The Agency realized assessed valuation decreases in both the Lake District (6% decrease) and the River District (9% decrease) in fiscal year 2011. The decreased district valuations may, or may not, result in less tax increment revenues generated in fiscal year 2012 depending upon levy rates set by local taxing entities (note: the Agency is not a taxing entity and thus does not set levy rates). Since all of the major project debt obligations in both districts are self funding (i.e. tax revenues generated by each specific project is utilized to service each specific project's debt obligation), the Agency will not realize any adverse cash related impact.
- In fiscal year 2011, the Agency once again entered into Certificate of Deposit Account Registry Service ("CDARS") agreements with Mountain West Bank, Inland Northwest Bank, Panhandle State Bank and Washington Trust Bank. The Agency entered into tiered CDARS programs with the aforementioned banks to receive a better interest rate return and to acquire FDIC insurance on Agency cash assets.

### FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

#### Net Assets

The Agency's September 30, 2011 net asset value was \$7,842,172. Table 1 presents a summary of the Agency's net assets.

Table 1

#### LAKE CITY DEVELOPMENT CORPORATION'S NET ASSETS

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 11,709,805	\$ 10,837,339
Capital assets, net of accumulated depreciation	<u>4,740,910</u>	<u>4,790,257</u>
Total assets	<u>16,450,715</u>	<u>15,627,596</u>
Long-term liabilities outstanding	\$ 7,581,475	\$ 8,577,264
Other liabilities	<u>1,027,068</u>	<u>64,848</u>
Total liabilities	<u>8,608,543</u>	<u>8,642,112</u>
Invested in capital assets, net of related debt	1,912,779	1,853,787
Unrestricted	<u>5,929,393</u>	<u>5,131,697</u>
Total net assets	<u>\$ 7,842,172</u>	<u>\$ 6,985,484</u>

**Lake City Development Corporation**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended September 30, 2011**

**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

Table 2 shows the changes in net assets for fiscal year 2011.

**Table 2**  
**CHANGES IN NET ASSETS**

	<b>2011</b>	<b>2010</b>
Program Revenues:		
Charges for services	\$ 171,410	\$ 187,530
General Revenues:		
Tax increment revenue	5,710,991	5,649,204
Penalties and interest	59,093	38,486
Interest and investment earnings	34,425	25,465
Total general revenues	5,804,509	5,713,155
Expenses:		
General government	4,771,302	2,287,029
Property rentals	196,275	214,705
Interest on long-term debt - general	151,654	182,448
Total expenditures	5,119,231	2,684,182
Change in net assets	\$ 856,688	\$ 3,216,503

The Agency's total revenue of \$5,804,509 for the fiscal year 2011 represents a slight increase over fiscal year 2010 revenues. As noted in Table 2, Agency fiscal year 2011 general revenue is categorized into various revenue sources, with property taxes (i.e. tax increment revenue) representing the largest share of total revenue.

**FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

**Governmental Funds**

The Agency completed fiscal year 2011 with a total governmental fund balance of \$7,297,724 which represents a 5% decrease from the ending governmental fund balance for fiscal year 2010.

**Budgetary Highlights – Lake District**

There are no significant reporting issues regarding actual revenues and expenses relative to budget projections. Total revenues realized were 21% above budget projections due primarily to the final determination of taxing entity levy rates. Actual operation expenses were below budget due primarily to lower actual spending associated with professional services and capital expenditures.

# Lake City Development Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011

### FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS (CONTINUED)

#### Budgetary Highlights – River District

There are no significant reporting issues regarding actual revenues and expenses relative to budget projections. Total revenues realized were 24% above budget projections due primarily to the final determination of taxing entity levy rates. Actual expenses were below budget primarily due to no capital spending.

#### Budgetary Highlights – Public Art

As part of its commitment to public art in Coeur d'Alene, the Agency has historically transferred a percentage of its District tax increment revenues to the Coeur d'Alene Public Arts Commission (the Commission). The Commission is the entity empowered by the Mayor/Council to invest public dollars in value adding public art projects for the City. Any Agency District funds transferred to the Commission must be used for public art projects within the District where the funds originate. For fiscal year 2011, the Agency transferred \$114,876 of Lake District funds to the Commission; and transferred \$52,538 of River District funds to the Commission.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

In fiscal year 2011, the Agency did not acquire any real property assets. The Agency's Lake District strategic property portfolio currently consists of 23 properties. The Agency does not own any strategic properties in the River District.

#### Long-term Debt / Commitments – Lake District:

- Strategic Property Portfolio: Real property assets in the Lake District strategic property portfolio are financed conventionally through local lending institutions.
- Owner Participation Agreements (OPAs): The Agency has entered into an OPA with the principles of the Riverstone development. The OPA is financed through site-specific, tax increment fund revenues that will be generated by the project. The Riverstone OPA (initiated in 2000) principal reimbursement total is \$1,511,400. The OPA obligation amounts are not included in the long-term debt values found within this audit report because the outstanding amounts are considered commitments. Commitments are obligations, which are not payable until a specific condition has occurred. In this case, the commitments become payable, as tax increment revenues are available to pay the obligation. Please refer to Note 6 for more discussion.

#### Long-term Debt / Commitments – Lake District (Continued):

- Improvement Reimbursement Agreements (IRAs): The Agency has entered into IRAs with the principles of the Ice Plant, Northwest Place, Parkside, and 609 Sherman Avenue Lofts developments. Each IRA is financed through site-specific, tax increment fund revenues that will be generated by each respective project. The Ice Plant IRA (initiated December of 2008) principal reimbursement total is \$329,150. The Northwest Place IRA (initiated November of 2008) principal reimbursement total is \$117,621. The Parkside IRA (initiated December of 2009) principal reimbursement total is \$820,000. The 609 Sherman Avenue Lofts IRA (initiated July of 2011) principal reimbursement total is \$404,993. The IRA obligation amounts are not included in the long-term debt values found within this audit report because the outstanding amounts are considered commitments. Commitments are obligations, which are not payable until a specific condition has occurred. In this case, the commitments become payable, as tax increment revenues are available to pay the obligation. Please refer to Note 6 for more discussion.

## Lake City Development Corporation

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011

#### CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

- Disposition & Development Agreement (DDA): In December, 2005, the Agency entered into a DDA with the Coeur d'Alene Chamber of Commerce (i.e. Developer) re. the construction of the new downtown Chamber of Commerce building. A portion of the DDA includes Agency reimbursement to the Developer for Agency approved project-related public improvements. Reimbursements to the Developer per the DDA are generated through site-specific, tax increment fund revenues that will be generated by the project. The Coeur d'Alene Chamber of Commerce DDA principal reimbursement total is \$300,000. The DDA obligation amounts are not included in the long-term debt values found within this audit report because the outstanding amounts are considered commitments. Commitments are obligations, which are not payable until a specific condition has occurred. In this case, the commitments become payable, as tax increment revenues are available to pay the obligation. Please refer to Note 6 for more discussion.
- "Prairie Trail": In December, 2006, the Agency partnered with the North Idaho Centennial Trail Foundation (NICTF) to acquire 5.25 miles of Union Pacific (UP) abandoned rail road right-of-way. This rail road right-of-way stretches from the Riverstone development adjacent to the Spokane River north to Meyer Road in the Rathdrum Prairie. The Agency loaned NICTF \$2,509,048 to acquire the UP rail road right-of-way, enabling NICTF to create the "Prairie Trail"; a pedestrian/bike trail public asset for the community. The Agency funding for the NICTF loan was derived from the establishment of a \$2.6 million line of credit with Washington Trust Bank. The Agency makes semi-annual interest payments on the loan's principal, with payment of the full principal amount due at loan maturity in December, 2011.

At the June 15, 2011 LCDC Board meeting, the Board agreed to modify LCDC's NICTF loan documents via a "NICTF Modification of Loan Agreement and Deed of Trust Note" document because the Burlington Northern Santa Fe (BNSF) railroad (RR) abandonment process has taken longer than originally anticipated. The modification document calls for extending the LCDC-NICTF Deed of Trust contract note consummation deadline to December, 20 2014 and revising the Deed of Trust contract note's existing interest rate.

- Midtown "Placemaking" Project: On July 28, 2009, the Agency entered into a \$712,435 debt obligation with Mountain West Bank to assist in financing the \$1,654,000 of Agency approved public improvements related to the Midtown Placemaking project. The \$712,435 Mountain West Bank Midtown debt obligation is amortized over 10 years with a 4.8% interest rate. Tax increment proceeds generated from the Lake District will be utilized to repay both principal and interest associated with the Mountain West Bank Midtown obligation.

#### Long-term Debt / Commitments – River District:

- Owner Participation Agreements (OPAs): The Agency has entered into an OPA with the principles of the Riverstone West Phase 1 mixed use development. The OPA is financed through site-specific, tax increment fund revenues that will be generated by the project. The Riverstone West Phase 1 OPA (established in 2007) principal reimbursement total is \$6,682,237. The OPA obligation amounts are not included in the long-term debt values found within this audit report because the outstanding amounts are considered commitments. Commitments are obligations, which are not payable until a specific condition has occurred. In this case, the commitments become payable, as tax increment revenues are available to pay the obligation. Please refer to Note 6 for more discussion.

## Lake City Development Corporation

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011

#### CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

- Mill River Project Bond: On April 22, 2005, the Agency entered into a \$4,000,000 tax revenue allocation bond (in the form of a line of credit) with US Bank to finance Agency approved public improvements related to the Mill River mix-use project. As of September 30, 2007, the Agency had utilized \$3,799,931 of the \$4,000,000 line of credit to pay for completed Agency approved public improvements. On June 26, 2008 the Agency re-financed the US Bank variable rate bond to a fixed rate bond with Washington Trust Bank. The principal amount of the refinancing was \$3,750,000 for the term of ten years, at a fixed interest rate of 4.35%. Tax increment proceeds generated from the Mill River project will be utilized to repay both principal and interest associated with the Washington Trust Bank bond obligation.
- Improvement Reimbursement Agreements (IRAs): The Agency has conditionally approved IRAs with the principles of the Mill River Seniors Affordable Housing Initiative, the principles of the Riverstone West Family Apartments, and the principles of Riverstone West Phase 2. The IRAs, when formally approved, will be financed through site-specific, tax increment fund revenues that will be generated by the specific projects. The Mill River Seniors IRA (which will be executed in the 2012 calendar year) principal reimbursement total is \$326,000. The Riverstone West Family Apartments IRA (which will be executed in the 2012 calendar year) principal reimbursement total is \$395,000. The Riverstone West Phase 2 IRA (which will be executed in the 2012 calendar year) principal reimbursement total is \$898,917. The IRA obligation amounts, when formally approved, will not be included in the long-term debt values because the outstanding amounts are considered commitments. Commitments are obligations, which are not payable until a specific condition has occurred. In this case, the commitments become payable, as tax increment revenues are available to pay the obligation.

#### ECONOMIC OUTLOOK AND FISCAL YEAR 2011 IMPACT

The Coeur d'Alene area, as in past years, continues to be the recipient of a redeployment of capital from other parts of the country. Home owners, investors and developers recognize the value of migrating their wealth to Coeur d'Alene. The area's competitive land prices and quality of life attributes are key contributors to this trend.

In fiscal 2011, property values within the Agency's Districts declined once again reflecting a national trend. Private capital investment within the Districts continues to occur, albeit at a slower rate. During fiscal 2011, few projects were completed in the Lake District and few construction projects are anticipated for 2012 attesting to the soft regional and national real estate markets.

Development for 2012 will occur mainly in the River District and will be driven by the continued build out of the Mill River mixed use development along the Spokane River, and by the phased completion of the Riverstone West project, a continuation of the original Riverstone mix-use development also along the Spokane River.

Property tax receipts in fiscal 2011 for both Districts were above projections. Projected fiscal 2012 property tax receipts for both the Lake & River Districts are on par with receipts from fiscal 2011. The Agency expects the property tax source of revenue for both Districts to continue to increase over the long-term, primarily driven by the build out of the waterfront developments along the Spokane River.

## **Lake City Development Corporation**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2011**

#### **ECONOMIC OUTLOOK AND FISCAL YEAR 2011 IMPACT (CONTINUED)**

Both national and State of Idaho economic trends through fiscal 2011 have been challenging. Kootenai County economic trends continue to lag national trends somewhat, with both residential and commercial development slowing considerably. The region continues to benefit economically from the arrival of the affluent urban dweller demographic that has spurred development of upper end residential condominium product, both within the downtown urban area and along the waterfront. The 2012 economic forecast for the Northern Idaho region is slightly optimistic. Most private equity is patiently waiting on the sidelines for the markets to "bottom out". Relocations (people, businesses) and property investments into the area will help the local economy to recover.

In summary, even with the unprecedented recent market volatility, the Agency is still very optimistic about the future growth and redevelopment opportunities within the Agency's Lake and River Districts. Wise planning and sound debt management, combined with effective public/private partnerships, will help to pave the way for continued value-adding growth within the area.

#### **CONTACTING THE AGENCY'S MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for monies received. If you have any questions about this report or need additional financial information, contact:

Tony Berns  
LCDC Executive Director  
105 N. 1<sup>st</sup> – Suite 100  
Coeur d'Alene, ID 83814  
208-292-1630  
[www.lcdc.org](http://www.lcdc.org)

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

# Lake City Development Corporation

## STATEMENT OF NET ASSETS

September 30, 2011

### ASSETS

Cash and cash equivalents	\$ 8,207,196
Property taxes receivable	339,292
Other receivable	3,729
Tenant deposits receivable	10,546
Prepaid insurance	2,882
Note receivable - North Idaho Centennial Trail Foundation	3,060,265
Land	2,946,918
Capital assets, net of accumulated depreciation \$390,726	1,793,992
Deferred loan costs, net of accumulated amortization of \$35,439	85,895
Total assets	<u>16,450,715</u>

### LIABILITIES

Accounts payable	982,289
Accrued payroll and taxes	3,296
Due to other governments	883
Tenant deposits	13,621
Interest payable	26,979
Long-term liabilities:	
Due within one year	5,397,673
Due in more than one year	2,183,802
Total liabilities	<u>8,608,543</u>

### NET ASSETS

Invested in capital assets, net of related debt	1,912,779
Restricted to Lake District	5,206,289
Restricted to River District	723,104
Total net assets	<u>\$ 7,842,172</u>

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

# Lake City Development Corporation

## STATEMENT OF ACTIVITIES For the Year Ended September 30, 2011

FUNCTIONS / PROGRAMS	Expenses	Charges for Services	Net Governmental Activities
<b>PRIMARY GOVERNMENT:</b>			
General government activities:			
Arts	\$ 167,414	\$ -	\$ (167,414)
Communications	8,453	-	(8,453)
Dues and subscriptions	4,098	-	(4,098)
Insurance	4,713	-	(4,713)
Miscellaneous	364	-	(364)
Office supplies	4,014	-	(4,014)
Partnership grants	97,458	-	(97,458)
Professional services	297,897	-	(297,897)
Public improvements	3,030,921	-	(3,030,921)
Project reimbursements	994,120	-	(994,120)
Travel and meetings	9,672	-	(9,672)
Utilities and telephone	1,298	-	(1,298)
Wages and benefits	150,880	-	(150,880)
Total General government activities	4,771,302	-	(4,771,302)
Property rental activities:			
Rental income	-	171,410	171,410
Property management	55,137	-	(55,137)
Depreciation	55,028	-	(55,028)
Interest on long term debt	86,110	-	(86,110)
Total Property rental activities	196,275	171,410	(24,865)
Interest on long term debt - general	151,654	-	(151,654)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,119,231</b>	<b>\$ 171,410</b>	<b>(4,947,821)</b>
<b>GENERAL REVENUES:</b>			
Tax increment revenue			5,710,991
Penalties and interest			59,093
Interest earnings			34,425
Total general revenues			5,804,509
<b>CHANGE IN NET ASSETS</b>			856,688
<b>NET ASSETS, beginning of year</b>			6,985,484
<b>NET ASSETS, end of year</b>			<b>\$ 7,842,172</b>

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

# Lake City Development Corporation

## GOVERNMENTAL FUNDS BALANCE SHEET September 30, 2011

	<b>Lake District</b>	<b>River District</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,061,746	\$ 2,145,450	\$ 8,207,196
Property taxes receivable	255,361	83,931	339,292
Other receivable	3,729	-	3,729
Tenant deposits receivable	10,546	-	10,546
Prepaid insurance	1,729	1,153	2,882
Total assets	\$ 6,333,111	\$ 2,230,534	\$ 8,563,645
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 982,289	\$ -	\$ 982,289
Accrued payroll and taxes	3,296	-	3,296
Due to other governments	630	253	883
Tenant deposits	13,621	-	13,621
Deferred tax revenue	183,736	82,096	265,832
Total liabilities	1,183,572	82,349	1,265,921
Fund balance:			
Restricted	5,149,539	2,148,185	7,297,724
Total fund balance	5,149,539	2,148,185	7,297,724
Total liabilities and fund balance	\$ 6,333,111	\$ 2,230,534	\$ 8,563,645

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

## Lake City Development Corporation

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS September 30, 2011

Total fund balance at September 30, 2011 - Governmental Funds		\$ 7,297,724
Cost of capital assets at September 30, 2011	\$ 5,131,636	
Less: Accumulated depreciation as of September 30, 2011:		
Buildings and sites	<u>(390,726)</u>	4,740,910
Long-term notes receivable		3,060,265
Deferred loan costs, net of accumulated amortization of \$35,439		85,895
Elimination of deferred revenue		265,832
Long-term liabilities at September 30, 2011:		
Long-term debt	(7,581,475)	
Accrued interest payable	<u>(26,979)</u>	<u>(7,608,454)</u>
Net assets at September 30, 2011		<u>\$ 7,842,172</u>

The accompanying "Notes to the Financial Statements"  
are an integral part of this statement.

**Lake City Development Corporation**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended September 30, 2011**

	<b>Lake District</b>	<b>River District</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Tax increment revenue	\$ 3,814,626	\$ 1,722,291	\$ 5,536,917
Rental income	171,410	-	171,410
Penalties and interest	41,725	17,368	59,093
Interest earnings	24,456	9,969	34,425
Total revenues	4,052,217	1,749,628	5,801,845
<b>EXPENDITURES</b>			
Current:			
Arts	114,876	52,538	167,414
Communications	5,072	3,381	8,453
Dues and subscriptions	2,443	1,655	4,098
Insurance	3,665	1,048	4,713
Miscellaneous	-	364	364
Office supplies	2,257	1,757	4,014
Partnership grants	74,801	22,657	97,458
Professional services	262,151	35,746	297,897
Project reimbursements	703,934	290,186	994,120
Property management	55,137	-	55,137
Public improvements	3,030,921	-	3,030,921
Travel and meetings	6,793	2,879	9,672
Utilities and telephone	931	367	1,298
Wages and benefits	107,287	43,593	150,880
Debt service:			
Debt acquisition costs	41,750	-	41,750
Interest	257,082	90,054	347,136
Principal payments	308,332	739,108	1,047,440
Total expenditures	4,977,432	1,285,333	6,262,765
<b>EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES</b>	(925,215)	464,295	(460,920)
<b>OTHER FINANCING SOURCES</b>			
Proceeds from financing	51,650	-	51,650
Total other financing sources	51,650	-	51,650
<b>NET CHANGE IN FUND BALANCES</b>	(873,565)	464,295	(409,270)
<b>FUND BALANCES, beginning of year</b>	6,023,104	1,683,890	7,706,994
<b>FUND BALANCES, end of year</b>	\$ 5,149,539	\$ 2,148,185	\$ 7,297,724

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

## Lake City Development Corporation

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2011

Total net changes in fund balances for year ended September 30, 2011	\$ (409,270)
Less: Depreciation expense for the year ended September 30, 2011	(55,028)
Add: Debt principal retirement considered as an expenditure	1,047,440
Less: Proceeds from financing	(51,650)
Add: Loan costs capitalized as deferred charges	41,750
Add: Interest capitalized to receivable due from North Idaho Centennial Trail Foundation	114,985
Less: Amortization of deferred charges (loan costs)	(9,590)
Add: Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on full accrual basis	3,977
Add: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>174,074</u>
Change in net assets for year ended September 30, 2011	<u><u>\$ 856,688</u></u>

The accompanying "Notes to the Financial Statements"  
are an integral part of this statement.

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

Lake City Development Corporation (the "Agency") is an urban renewal agency created by and existing under the Idaho Urban Renewal Law of 1965, as amended, and is an independent public body.

The accompanying financial statements include all aspects controlled by the Board of Commissioners of the Agency. The Agency is included in the City of Coeur d'Alene, Idaho, financial reporting based on certain criteria in GASB Statement No. 14. These statements present only the governmental activities and general fund of the Agency and are not intended to present the financial position and results of operations of Coeur d'Alene, Idaho, in conformity with generally accepted accounting principles (GAAP).

Under the Idaho Code, in December 1997, the Coeur d'Alene City Council passed an ordinance that created the Coeur d'Alene Urban Renewal Agency, a legally separate entity from the City. The Agency was established to promote urban development and improvement in deteriorated areas within the Agency's boundaries. The Agency adopted the name Lake City Development Corporation in fiscal year 2001. The Agency is governed by a maximum board of nine Commissioners, appointed by the City Council. The City Council has the ability to appoint and dismiss the board members of the Agency. These powers of the City meet the criteria set forth in GASB No. 14 for having financial accountability for the Agency. Based on the above, the Agency is discretely presented in the City of Coeur d'Alene's financial statements as a component unit.

Under the Idaho Code, the Agency has the authority to issue bonds. Any bonds issued by the Agency are payable solely from the proceeds of tax increment financing (or revenue allocation in Idaho) and are not a debt of the City of Coeur d'Alene. The City Council is not responsible for approving the Agency's budget or funding any annual deficits. The Agency controls its disbursements independent of the City Council.

The accounting methods and procedures adopted by the Agency conform to generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the Agency's basic financial statements.

The accompanying financial statements of the Agency have been prepared in accordance with GAAP as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the Agency's accounting policies are described below.

#### B. Fund Accounting

The Agency uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Agency functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### B. Fund Accounting (Continued)

Governmental Funds – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Agency has two governmental funds, both of which are special revenue funds.

*Lake District* – This fund is used to account for all financial resources of the Lake District. The Lake District is a separate and legally distinct district under the umbrella of the Agency. This district will expire on December 31, 2021, and the net assets will be distributed according to current Idaho Statute.

*River District* – This fund is used to account for all financial resources of the River District. The River District is a separate and legally distinct district under the umbrella of the Agency. This district will expire on December 31, 2027, and the net assets will be distributed according to current Idaho Statute.

#### C. Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The Agency has activities that are considered to be governmental as opposed to business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Agency's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Agency, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self financing or draws from the general revenues of the Agency.

Fund Financial Statements – Fund financial statements report detailed information about the Agency. The focus of governmental fund statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

#### D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Agency, available means expected to be received within 60 days of the fiscal year end.

Non-exchange transactions, in which the Agency receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, grants, and rentals.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Basis of Accounting (Continued)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Governmental funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations, which are recognized when paid.

#### E. Cash and Cash Equivalents

In the general fund, cash received by the Agency is pooled for investment purposes and is presented as “Cash and cash equivalents” on the financial statements. For presentation in the financial statements, cash and cash equivalents include cash on hand, amounts due from banks, and investments with an original maturity of three months or less at the time they are purchased by the Agency. Investments with an initial maturity of more than three months are reported as cash equivalents. Investments in U.S. Obligations are for the funding of capital projects and are readily convertible to cash.

#### F. Capital Assets

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Agency maintains a capitalization threshold of \$5,000. The Agency does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and sites	40 years

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### G. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the noncurrent portion of capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### H. Fund Balance Reserves

The Agency has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (required implementation date of June 2011). This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the Agency to classify and report amounts in the appropriate fund balance classifications. The Agency's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of non-spendable, restricted, committed, assigned, or unassigned.

The Agency reports the following classifications:

Non-spendable Fund Balance — Non-spendable fund balances are amounts that cannot be spent because they are either: (a) not in spendable form—such as inventory or prepaid insurance; or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity.

Restricted Fund Balance — Restricted fund balances are restricted when 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. Restrictions are placed on fund balances when legally enforceable legislation establishes a specific purpose for the funds. Legal enforceability means that the Agency can be compelled by an external party (e.g., citizens, public interest groups, the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance — Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the Board of Commissioners. Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the Board of Commissioners. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned Fund Balance — Assigned fund balances are amounts that are constrained by the Agency's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (a) the Director of Finance; or (b) an appointed body (e.g., a budget or finance committee) or official to which the Commissioners have delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned fund balance includes: (a) all remaining amounts that are reported in governmental funds (other than the general fund) that are not classified as non-spendable, restricted, or committed; and (b) amounts in the general fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Agency itself.

Unassigned Fund Balance — Unassigned fund balance is the residual classification for the general fund. This classification represents general fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Agency's policy is first use restricted fund balance, then committed, then assigned, then unassigned when any of the above fund balance are available to use to satisfy an obligation.

#### I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets (net of related debt) consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

#### J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### K. Property Taxes and Deferred Tax Revenues

Since the Agency is not a taxing entity, property taxes collected on the Agency's behalf by Kootenai County for 2010 are recorded as receivables. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent that they are collected within 60 days of year end, in accordance with the modified accrual basis of accounting. Receivables collectible after the 60 day date are reflected in the fund financial statements as deferred revenues. In the government-wide financial statements property taxes are recorded as revenue in the period levied, in accordance with the accrual basis of accounting.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### K. Property Taxes and Deferred Tax Revenues (Continued)

The Agency receives a portion of the property taxes generated by the taxing entities within Kootenai County. These property taxes are collected on behalf of the Agency by Kootenai County each November on the assessed value within the Agency's districts listed as of the previous December tax rolls. Assessed values are an approximation of market value. Assessed values are established by the County Assessor. Property tax payments are due in one-half installments in December and June. Property taxes become a lien on the property when it is levied.

### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data – Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for each fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in either fund.

This is in conformance with Idaho State Statutes, which require that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation.

Reported budgeted amounts are as originally adopted or as amended by the Board. Professional management cannot legally amend appropriations within the budget without first seeking Board approval once the budget has been approved. The Board properly approved the original budget and there was one amendment to the budget during the fiscal year 2011.

Lapsing of Appropriations – At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.

### NOTE 3: CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a written policy for custodial credit risk, but has charged management with ensuring the Agency's exposure to custodial credit risk is minimal. The carrying amount of the Agency's deposits is \$8,207,196 and the bank balance is \$8,209,275. As of September 30, 2011, the Agency's bank balance was exposed to custodial credit risk as follows:

Amount insured by FDIC	\$4,047,225
Amount collateralized with securities held in the Agency's name	4,158,655
Uninsured and uncollateralized	<u>3,395</u>
	<u>\$8,209,275</u>

The Agency maintains cash deposits with five local banks in order to mitigate the financial impact of potential bank failure.

State statutes authorize the Agency's investments. The Agency is authorized to invest in U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, and government pool and money market funds consisting of any of these securities listed.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

### NOTE 4: CAPITAL ASSETS

Following is a recap of capital assets for the fiscal year ended September 30, 2011:

	Beginning Balance	Additions	Adjustments *	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,946,918	\$ -	\$ -	\$ 2,946,918
Total capital assets not being depreciated	<u>2,946,918</u>	<u>-</u>	<u>-</u>	<u>2,946,918</u>
Capital assets being depreciated:				
Buildings and sites	2,217,689	-	(32,971)	2,184,718
Total capital assets being depreciated	<u>2,217,689</u>	<u>-</u>	<u>(32,971)</u>	<u>2,184,718</u>
Less accumulated depreciation for:				
Buildings and sites	353,888	55,028	(18,190)	390,726
Total accumulated depreciation	<u>353,888</u>	<u>55,028</u>	<u>(18,190)</u>	<u>390,726</u>
Total capital assets being depreciated, net	<u>1,863,801</u>	<u>(55,028)</u>	<u>(14,781)</u>	<u>1,793,992</u>
Governmental activities capital assets, net	<u>\$ 4,810,719</u>	<u>\$ (55,028)</u>	<u>\$ (14,781)</u>	<u>\$ 4,740,910</u>

\* Adjustments include removal of certain loan related costs included in beginning depreciable capital assets.

During the fiscal year, \$55,028 in depreciation expense was charged to the property rental function.

### NOTE 5: LONG-TERM DEBT

#### Library Site:

On April 23, 2001, the Agency entered into an agreement with the Coeur d' Alene Public Library Foundation, Inc. regarding property purchased by the Foundation from Ed D. and Susan T. Jameson and Ray C. and Doris M. Mobberley, for the purpose of constructing a new library facility. The Library Foundation made a down payment of \$250,000 and entered into two separate promissory notes with the Jamesons and the Mobberleys in the amounts of \$346,500 and \$553,500, respectively, as consideration for the property.

On March 31, 2003, the Agency refinanced these notes payable through Washington Trust Bank. The principal amount refinanced was \$910,719. Repayment terms were monthly payments due the first of each month, bearing interest at the rate of 4.15%. A balloon payment in the amount of \$754,863 was due April 1, 2008.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

Library Site (Continued):

On April 1, 2008, in lieu of remitting the balloon payment due, the Agency refinanced the balance through Washington Trust Bank. The total amount refinanced was \$752,047. Repayment terms are monthly payments due the first of each month, bearing interest at the rate of 4.00%. A balloon payment in the amount of \$555,676 is due April 1, 2013. The annual requirement to retire the debt is as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.00%	\$ 42,714	\$ 24,304	\$ 67,018
2013	4.00%	575,783	13,367	589,150
		\$ 618,497	\$ 37,671	\$ 656,168

620 N. Park Dr:

On July 19, 2002, the Agency entered into a contract to purchase property at 620 N. Park Dr. The total purchase price was \$80,000, of which \$16,000 was paid at closing. Repayment terms are monthly payments due the 15th of each month, bearing interest at the rate of 4.65%. A balloon payment in the amount of \$46,910 is due July 15, 2012. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.65%	\$ 47,972	\$ 1,868	\$ 49,840
		\$ 47,972	\$ 1,868	\$ 49,840

622 N. Park Dr:

On January 10, 2003, the Agency entered into a contract to purchase property at 622 N. Park Dr. The total purchase price was \$69,000, of which \$13,800 was paid at closing. Repayment terms were monthly payments of \$347, including interest at 4.37%.

On January 10, 2008, the Agency refinanced this note payable through Washington Trust Bank. The total amount refinanced was \$45,765. Repayment terms are monthly payments due the tenth of each month, bearing interest at the rate of 4.17%. A balloon payment in the amount of \$33,941 is due January 10, 2013. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.17%	\$ 2,607	\$ 1,519	\$ 4,126
2013	4.17%	34,489	482	34,971
		\$ 37,096	\$ 2,001	\$ 39,097

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

612 N. Park Dr:

On August 7, 2003, the Agency entered into a contract to purchase property at 612 N. Park Dr. The total purchase price was \$83,500, of which \$16,700 was paid at closing. Repayment terms are monthly payments of \$395, including interest at 3.70%. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	3.70%	\$ 3,097	\$ 1,640	\$ 4,737
2013	3.70%	42,504	1,549	44,053
		<u>\$ 45,601</u>	<u>\$ 3,189</u>	<u>\$ 48,790</u>

515 W. Garden Ave:

On May 21, 2004, the Agency entered into a contract to purchase property at 515 W. Garden Avenue. The total purchase price was \$342,569, of which \$53,569 was paid at closing. Repayment terms are monthly payments of \$1,662, including interest at 3.58%. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	3.58%	\$ 11,730	\$ 8,214	\$ 19,944
2013	3.58%	12,157	7,787	19,944
2014	3.58%	210,894	5,551	216,445
		<u>\$ 234,781</u>	<u>\$ 21,552</u>	<u>\$ 256,333</u>

626 N. Park Dr:

On October 24, 2003, the Agency entered into a contract to purchase property at 626 N. Park Dr. The total purchase price was \$105,000, of which \$21,000 was paid at closing. Repayment terms are: 60 monthly payments including interest at 4.12%; 59 monthly payments including interest at 4.06%; and a final payment on November 15, 2013. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.06%	\$ 3,839	\$ 2,327	\$ 6,166
2013	4.06%	4,001	2,165	6,166
2014	4.06%	51,191	346	51,537
		<u>\$ 59,031</u>	<u>\$ 4,838</u>	<u>\$ 63,869</u>

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

516 N. Park Dr:

On March 30, 2005, the Agency entered into a contract to purchase property at 516 Park Dr. The total purchase price was \$170,000, of which \$25,500 was paid at closing. Repayment terms are: 60 monthly payments of \$812, including interest at 4.58%; 59 monthly payments of \$812, including interest at 3.88%; and a final payment on April 15, 2015. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	3.88%	\$ 5,148	\$ 4,591	\$ 9,739
2013	3.88%	5,364	4,375	9,739
2014	3.88%	5,576	4,163	9,739
2015	3.88%	104,747	2,318	107,065
		<u>\$ 120,835</u>	<u>\$ 15,447</u>	<u>\$ 136,282</u>

518 N. Park Dr:

On July 14, 2005, the Agency entered into a contract to purchase property at 518 N. Park Dr. The total purchase price was \$220,000, of which \$33,000 was paid at closing. Repayment terms are: monthly payments of \$922, including interest at 3.07% and a final payment on July 14, 2030. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	3.07%	\$ 6,240	\$ 4,828	\$ 11,068
2013	3.07%	6,450	4,618	11,068
2014	3.07%	6,654	4,414	11,068
2015	3.07%	6,864	4,204	11,068
2016	3.07%	7,024	4,044	11,068
Thereafter		124,688	28,790	153,478
		<u>\$ 157,920</u>	<u>\$ 50,898</u>	<u>\$ 208,818</u>

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

211 N. 4<sup>th</sup> Street:

On April 1, 2005, the Agency entered into a contract to purchase property at 211 N. 4th Street. The total purchase price was \$275,000, of which \$41,250 was paid at closing. Repayment terms are: 60 monthly payments of \$1,323, including interest at 4.58%; 59 monthly payments of \$1,684, including interest at 3.88%; and a final payment on April 15, 2015. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	3.88%	\$ 5,310	\$ 14,897	\$ 20,207
2013	3.88%	5,769	14,438	20,207
2014	3.88%	6,222	13,985	20,207
2015	3.88%	<u>177,322</u>	<u>7,902</u>	<u>185,224</u>
		<u>\$ 194,623</u>	<u>\$ 51,222</u>	<u>\$ 245,845</u>

301 E. Lakeside Ave:

On April 21, 2006, the Agency entered into a contract to purchase property at 301 E. Lakeside Ave. The total purchase price was \$625,000, of which \$62,500 was paid at closing. Repayment terms are: 60 monthly payments of \$3,277, including interest at 4.88%; 59 monthly payments of \$3,277, including interest at 1.74%; and a final payment of \$419,003 on May 5, 2016. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	1.74%	\$ 15,621	\$ 23,703	\$ 39,324
2013	1.74%	16,466	22,858	39,324
2014	1.74%	17,288	22,036	39,324
2015	1.74%	18,151	21,173	39,324
2016	1.74%	<u>422,527</u>	<u>13,598</u>	<u>436,125</u>
		<u>\$ 490,053</u>	<u>\$ 103,368</u>	<u>\$ 593,421</u>

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

712 E. Young Ave:

On October 14, 2005, the Agency entered into a contract to purchase property at 712 E. Young Ave. The total purchase price was \$415,000, of which \$62,250 was paid at closing. Repayment terms are: 60 monthly payments of \$1,981, including interest at 4.55%; 59 monthly payments of \$1,984, including interest at 1.64%; and a final payment on October 10, 2015. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	1.64%	\$ 19,073	\$ 4,732	\$ 23,805
2013	1.64%	19,388	4,417	23,805
2014	1.64%	19,708	4,097	23,805
2015	1.64%	20,034	3,771	23,805
2016	1.64%	219,056	299	219,356
		\$ 297,260	\$ 17,316	\$ 314,576

630 N. Park Dr:

On May 31, 2002, the Agency entered into a contract to purchase property at 630 N. Park Dr. The total purchase price was \$75,000, of which \$15,000 was paid at closing. A balloon payment of \$53,607 was originally due on May 31, 2007 but was refinanced. The new repayment terms are 59 monthly payments of \$347, due the first day of each month, bearing interest at the rate of 4.71%. A balloon payment in the amount of \$44,850 is due April 25, 2012. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.71%	\$ 45,671	\$ 1,260	\$ 46,931
		\$ 45,671	\$ 1,260	\$ 46,931

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

728 Sherman Avenue:

On June 18, 2002, the Agency entered into a note payable with Washington Trust using property purchased by the Agency the previous fiscal year as collateral for the note. The original price paid for the property at 728 Sherman was \$160,101. The amount financed was \$127,596. The original arrangement provided for a balloon payment in the amount of \$117,654 due June 25, 2007. During 2007 this debt was refinanced. The new repayment terms are 59 monthly payments of \$735, due on the 25th day of each month, bearing interest at the rate of 4.71%. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.71%	\$ 96,773	\$ 2,669	\$ 99,442
		<u>\$ 96,773</u>	<u>\$ 2,669</u>	<u>\$ 99,442</u>

618 N. Park Dr:

On June 6, 2003, the Agency entered into a contract to purchase property at 618 N. Park Dr. The total purchase price was \$83,000, of which \$8,300 was paid at closing. The original arrangement provided for a balloon payment in the amount of \$64,320, due in June of 2007. During 2007 this debt was refinanced. The new repayment terms are 59 monthly payments of \$517, due on the 1st day of each month, bearing interest at the rate of 5.25%. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	5.25%	\$ 50,894	\$ 1,959	\$ 52,853
		<u>\$ 50,894</u>	<u>\$ 1,959</u>	<u>\$ 52,853</u>

Kroc Center Grant:

During the 2006-2007 fiscal-year, the Agency agreed to fund Kroc Community Center construction costs pertaining to Agency approved public improvements totaling \$500,000 payable in five equal payments of \$100,000 over a five year period. The present value and repayment terms based on an imputed interest rate of 0.00% are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Payment
2012	0.00%	\$ 100,000	\$ -	\$ 100,000
		<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

**NOTE 5: LONG-TERM DEBT (CONTINUED)**

839 N. 3rd st. & 845 N. 4th st:

On June 16, 2008, the Agency purchased property at 839 N. 3rd street and at 845 N. 4th street using 100% loan financing for \$360,783. Repayment terms are monthly payments due the 16th of each month bearing interest at the rate of 4.50% for the first five years and 4.64% for the second five years of the loan. A balloon payment in the amount of \$263,112 is due June 16, 2018. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.50%	\$ 9,539	\$ 15,001	\$ 24,540
2013	4.50%	9,866	14,674	24,540
2014	4.64%	10,013	14,527	24,540
2015	4.64%	10,498	14,042	24,540
2016	4.64%	11,006	13,534	24,540
2017	4.64%	11,539	13,001	24,540
2018	4.64%	270,066	9,406	279,472
		<u>\$ 332,527</u>	<u>\$ 94,185</u>	<u>\$ 426,712</u>

Mill River Project fixed rate bond:

On April 22, 2005, the Agency received a Taxable Revenue Allocation Area Bond. The Agency was approved to borrow up to \$4,000,000. This financing was used on the Mill River Development project. Maturity was set approximately twelve years from dated date, March 1 of 2017. Unscheduled principal payments were being made with any tax increment revenue not required for the scheduled interest payments for the year of income. The interest rate, initially effective at closing was equal to 30-day LIBOR rate plus 250 basis points. The interest rate was reset as of the first business day of each month at a rate equal to the 30-day LIBOR rate plus 250 basis points. Interest was calculated on an actual/360-day basis. Interest was due semiannually beginning September 1, 2005. As of September 30, 2007, the Agency had taken out \$3,799,931 of the available \$4,000,000.

On June 26, 2008, the Agency refinanced the Taxable Revenue Allocation Area Bond with Washington Trust Bank. The principal amount of the refinancing was \$3,750,000, for the term of ten years, at a fixed interest rate of 4.35%. The first payment was due on August 15, 2008, and subsequent semi-annual payments are due equal to the greater of: 1) at least 75% of the incremental portion of taxes exceeding the amount of taxes collected in the base year from the Mill River Revenue Allocation Area; or 2) the payment based on a 15 year amortization of semiannual payments of the original principal balance and interest rate of the bond. The annual requirements to retire the debt are as follows:

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

**NOTE 5: LONG-TERM DEBT (CONTINUED)**

Mill River Project fixed rate bond (continued):

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.35%	\$ 279,394	\$ 59,686	\$ 339,080
2013	3.14%	293,742	45,338	339,080
2014	3.14%	314,505	24,575	339,080
2015	3.14%	324,523	14,557	339,080
2016	3.14%	<u>286,957</u>	<u>4,269</u>	<u>291,226</u>
		<u>\$ 1,499,121</u>	<u>\$ 148,425</u>	<u>\$ 1,647,546</u>

NICTF (North Idaho Centennial Trail Foundation):

In December 2006, the Agency partnered with the North Idaho Centennial Trail Foundation (NICTF) to acquire 5.25 miles of Union Pacific (UP) abandoned rail road right-of-way. This rail road right-of-way stretches from the Riverstone development adjacent to the Spokane River north to Meyer Road in the Rathdrum Prairie. The Agency loaned NICTF \$2,509,048 to acquire the UP rail road right-of-way, enabling NICTF to create the "Prairie Trail"; a pedestrian/bike trail public asset for the community. The receivable from NICTF is secured by the UP rail road right-of-way. The Agency's funding for the NICTF loan was derived from the establishment of a \$2.6 million line of credit with Washington Trust Bank. The note payable is due in the amount of \$2,509,048 on December 21, 2011, and includes semiannual interest only payments at the rate of 4.52%.

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

**NOTE 5: LONG-TERM DEBT (CONTINUED)**

Midtown:

On July 28, 2009, the Agency entered into a \$712,435 debt obligation with Mountain West Bank to assist in financing the \$1,654,000 of Agency approved public improvements related to the Midtown Placemaking project. The \$712,435 Mountain West Bank Midtown debt obligation is amortized over ten years with a 4.80% interest rate. Tax increment proceeds generated from the Lake District will be utilized to repay both principal and interest associated with the Mountain West Bank Midtown obligation. The Agency's Midtown Placemaking project has been a long-term strategic goal designed to refurbish the existing public-realm infrastructure, as well as create a "place" to spark private sector investment. The City of Coeur d'Alene administered Midtown Placemaking project was completed on time and under budget and was officially dedicated on October 22, 2009. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2012	4.80%	\$ 63,003	27,048	\$ 90,051
2013	4.80%	66,095	23,956	90,051
2014	4.80%	69,338	20,713	90,051
2015	4.80%	72,740	17,311	90,051
2016	4.80%	76,310	13,741	90,051
2017	4.80%	80,054	9,997	90,051
2018	4.80%	83,983	6,068	90,051
2019	4.80%	80,599	1,947	82,547
		<u>\$ 592,122</u>	<u>120,781</u>	<u>\$ 712,904</u>

Bond Payable – Washington Trust:

On August 25, 2011, the Agency received a Revenue Allocation Bond. The Agency was approved to borrow up to \$16,700,000. This financing was used on the Lake District Redevelopment Project. Maturity was set for August 1, 2021 and the interest rate was set at 3.26% per annum for the first five years. The interest rate is to reset after five years subject to an approved formula as included in the agreement. Outstanding balances are due in semi-annual payments of \$1,040,000 commencing February 1, 2012. Bond security is provided in the form of a subordinate interest in Lake District Revenue. As of September 30, 2011, the Agency had taken out \$51,650 of the available \$16,700,000. Because two semi-annual payments are due in the coming year totaling \$2,080,000, this amount has been included in the current portion of long-term debt. The future annual debt service requirements are at this point unknown, as the Agency has not yet fully drawn down all available proceeds from this debt.

Trails Edge:

In February 2007, the Agency passed a motion granting \$42,194 towards offsetting the costs of the Trails Edge Development. The grant was paid off in three annual installments. The final payment of \$14,064 was made in fiscal year 2011.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2011

### NOTE 5: LONG-TERM DEBT (CONTINUED)

The following is a summary of debt activity for the year ended September 30, 2011:

	Beginning Balance	Principal Additions	Principal Payments	Ending Balance	Due in One Year
Library Site	\$ 659,515	\$ -	\$ 41,018	\$ 618,497	\$ 42,714
620 N. Park Dr.	50,000	-	2,028	47,972	47,972
622 N. Park Dr.	39,595	-	2,499	37,096	2,607
612 N. Park Dr.	48,585	-	2,984	45,601	3,097
515 W. Garden Ave.	244,445	-	9,664	234,781	11,730
626 N. Park Dr.	63,221	-	4,190	59,031	3,839
516 N. Park Dr.	126,243	-	5,408	120,835	5,148
518 N. Park Dr.	163,232	-	5,312	157,920	6,240
211 N. 4th Street	203,457	-	8,834	194,623	5,310
301 E. Lakeside Ave	509,053	-	19,000	490,053	15,621
712 E. Young Ave	311,943	-	14,683	297,260	19,073
630 N. Park Dr.	47,599	-	1,928	45,671	45,671
728 Sherman Avenue	100,859	-	4,086	96,773	96,773
618 N. Park Dr.	54,327	-	3,433	50,894	50,894
Kroc Center Grant	200,000	-	100,000	100,000	100,000
839 N. 3rd St. & 845 N. 4th St.	341,655	-	9,128	332,527	9,539
Mill River Project fixed rate bond	2,238,246	-	739,125	1,499,121	279,394
NICTF	2,509,048	-	-	2,509,048	2,509,048
Midtown	652,178	-	60,056	592,122	63,003
Bond Payable - Washington Trust	-	51,650	-	51,650	2,080,000
Trails Edge	14,064	-	14,064	-	-
	<u>\$ 8,577,265</u>	<u>\$ 51,650</u>	<u>\$ 1,047,440</u>	<u>\$ 7,581,475</u>	<u>\$ 5,397,673</u>

### NOTE 6: COMMITMENTS AND CONTINGENCIES

The Agency is currently working with several interested parties on future urban development projects. None of these projects have been formalized and the Agency has not entered into any agreements to provide funding for these projects. It is anticipated that such projects will be funded through the Agency and tax increment financing in the future.

On September 27, 2001, a certificate of completion was issued concerning the improvements made to the development known as Riverstone. At that time, a limited Recourse Promissory Note was entered into with the Agency and Rivermill, LLC (Riverstone's developers) in the amount of \$1,511,400 at 6.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as Riverstone. Payments will continue until paid in full or by December 31, 2012. The current outstanding balance is \$30,825.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### NOTE 6: COMMITMENTS AND CONTINGENCIES (CONTINUED)

On June 21, 2007, a certificate of completion was issued concerning the improvements made to the development known as Riverstone West. At that time, a limited Recourse Promissory Note was entered into with the Agency and Riverstone West, LLC in the amount of \$6,682,237 at 5.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as Riverstone West. Payments will continue until paid in full or by December 31, 2021. The total interest on the note cannot exceed \$2,000,000. The current outstanding balance is \$6,682,237.

On February 20, 2008, a limited Recourse Promissory Note was entered into with the Agency and Coeur d'Alene Area Chamber of Commerce in the amount of \$300,000 at 0.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 100% of the tax revenue allocation proceeds from the private development known as the Coeur d'Alene Chamber Building. Payments will continue until paid in full or by December 31, 2021. The current outstanding balance is \$290,693.

In December 2008, a limited Recourse Promissory Note was entered into with the Agency and Ice Plant Development, Inc. in the amount of \$329,150 at 5.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as the Ice Plant Town Home Project. Payments will continue until paid in full or by December 31, 2021. The current outstanding balance is \$329,150.

In November 2008, a limited Recourse Promissory Note was entered into with the Agency and NW Boulevard Investments, LLC in the amount of \$117,621 at 5.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as the Northwest Place Project. Payments will continue until paid in full or by December 31, 2021. The current outstanding balance is \$58,742.

In December 2009, a limited Recourse Promissory Note was entered into with the Agency and Parkside, LLC in the amount of \$820,000 at 5.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as the Parkside Tower Development. Payments will continue until paid in full or by December 31, 2021. The total interest on the note cannot exceed \$246,000. The current outstanding balance is \$498,218.

In July 2011, a limited Recourse Promissory Note was entered into with the Agency and Ledger and Patano, LLC in the amount of \$404,993 at 5.00% simple interest per annum. The note is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as the 609 Sherman Avenue Lofts Project. Payments will continue until paid in full or by December 31, 2021. The total interest on the note cannot exceed \$121,498. The current outstanding balance is \$404,993.

In May 2011, a grant was awarded by the Agency to the Kootenai Youth Recreation Organization (KYRO) in the amount of \$230,000. Payments will continue until paid in full or by December 31, 2027. The current outstanding balance is \$206,500.

### NOTE 7: RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Agency contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

(Continued)

# Lake City Development Corporation

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

### **NOTE 7: RISK MANAGEMENT (CONTINUED)**

An outside insurance company protects professional liability with a \$2,000,000 liability and a \$3,000,000 umbrella. Errors and omissions liability has a \$2,000,000 liability with \$2,000,000 in the aggregate annually per insured. Additionally, crime, boiler and machinery insurance is maintained. Automobile liability has a \$2,000,000 single limit of liability.

### **NOTE 8: FUND BALANCE / NET ASSET CLASSIFICATIONS:**

The Agency operates two separate legally distinct funds – the Lake District and the River District. Revenues earned in each district can only be legally expended within the geographic boundary defined by each district. Because of this restriction, the Agency reports both fund balance and net assets according to the amount legally restricted to expenditures within each district.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

**Lake City Development Corporation**

**LAKE DISTRICT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Year Ended September 30, 2011**

	Budget Original	Budget Final	Actual Amounts	(1) Adjustment to Actual Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget
<b>REVENUES</b>						
Tax increment revenue	\$ 3,129,720	\$ 3,129,720	\$ 3,814,626	\$ (22,480)	\$ 3,792,146	\$ 662,426
Rental income	164,322	164,322	171,410	-	171,410	7,088
Penalties and interest	-	-	41,725	-	41,725	41,725
Interest earnings	30,000	30,000	24,456	-	24,456	(5,544)
Total revenues	<u>3,324,042</u>	<u>3,324,042</u>	<u>4,052,217</u>	<u>(22,480)</u>	<u>4,029,737</u>	<u>705,695</u>
<b>EXPENDITURES</b>						
Current:						
Arts	93,892	93,892	114,876	220	115,096	(21,204)
Communications	9,000	9,000	5,072	-	5,072	3,928
Dues and subscriptions	3,846	3,846	2,443	-	2,443	1,403
Insurance	3,144	3,144	3,665	1,729	5,394	(2,250)
Miscellaneous	11,832	600	-	-	-	600
Office supplies	1,800	1,800	2,257	-	2,257	(457)
Partnership grants	249,065	249,065	74,801	114,064	188,865	60,200
Professional services	294,580	294,580	262,151	-	262,151	32,429
Project reimbursements (2)	632,522	632,522	703,934	-	703,934	(71,412)
Property management	98,040	109,272	55,137	-	55,137	54,135
Public improvements	2,375,000	4,917,550	3,030,921	(968,227)	2,062,694	2,854,856
Travel and meetings	10,350	10,350	6,793	-	6,793	3,557
Utilities and telephone	2,556	2,556	931	-	931	1,625
Wages and benefits	95,361	105,562	107,287	176	107,463	(1,901)
Debt service:						
Debt acquisition costs	-	-	41,750	-	41,750	(41,750)
Interest	273,584	273,584	257,082	-	257,082	16,502
Principal payments	184,362	184,362	308,332	(114,064)	194,268	(9,906)
Capital outlay	1,500,000	1,500,000	-	-	-	1,500,000
Total expenditures	<u>5,838,934</u>	<u>8,391,685</u>	<u>4,977,432</u>	<u>(966,102)</u>	<u>4,011,330</u>	<u>4,380,355</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES</b>	<u>(2,514,892)</u>	<u>(5,067,643)</u>	<u>(925,215)</u>	<u>943,622</u>	<u>18,407</u>	<u>5,086,050</u>
<b>OTHER FINANCING SOURCES</b>						
Proceeds from financing	1,050,000	1,050,000	51,650	-	51,650	(998,350)
Total other financing sources	<u>1,050,000</u>	<u>1,050,000</u>	<u>51,650</u>	<u>-</u>	<u>51,650</u>	<u>(998,350)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,464,892)	(4,017,643)	(873,565)	943,622	70,057	4,087,700
<b>FUND BALANCES, beginning of year</b>	<u>6,207,325</u>	<u>6,207,325</u>	<u>6,023,104</u>	<u>(31,415)</u>	<u>5,991,689</u>	<u>(215,636)</u>
<b>FUND BALANCES, end of year</b>	<u>\$ 4,742,433</u>	<u>\$ 2,189,682</u>	<u>\$ 5,149,539</u>	<u>\$ 912,207</u>	<u>\$ 6,061,746</u>	<u>\$ 3,872,064</u>

**(1) EXPLANATION OF ADJUSTMENTS TO ACTUAL AMOUNTS**

	To convert to budgetary basis (cash basis)	To show certain principal payments as grant expenditures	Total
<b>REVENUES</b>			
Property taxes	\$ (22,480)	\$ -	\$ (22,480)
Total revenue adjustments	<u>(22,480)</u>	<u>-</u>	<u>(22,480)</u>
<b>EXPENDITURES</b>			
Insurance	1,729	-	1,729
Management fees	220	-	220
Partnership grants	-	114,064	114,064
Wages and benefits	176	-	176
Public improvements	(968,227)	-	(968,227)
Principal payments	-	(114,064)	(114,064)
Total expenditure adjustments	<u>(966,102)</u>	<u>-</u>	<u>(966,102)</u>
<b>NET CHANGE IN FUND BALANCES</b>	943,622	-	943,622
<b>FUND BALANCES, beginning of year</b>	<u>(31,415)</u>	<u>-</u>	<u>(31,415)</u>
<b>FUND BALANCES, end of year</b>	<u>\$ 912,207</u>	<u>\$ -</u>	<u>\$ 912,207</u>

(2) Payments made under the terms of tax increment financing arrangements are based on availability of revenues. Since more revenue was earned than anticipated, the actual expenditure was larger than the budgeted amount.

Lake City Development Corporation

RIVER DISTRICT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 For the Year Ended September 30, 2011

	*Budget Original/Final	Actual Amounts	(1) Adjustment to Actual Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget
<b>REVENUES</b>					
Tax increment revenue	\$ 1,412,872	\$ 1,722,291	\$ 11,632	\$ 1,733,923	\$ 321,051
Penalties and interest	-	17,368	-	17,368	17,368
Interest earnings	5,000	9,969	-	9,969	4,969
Total revenues	<u>1,417,872</u>	<u>1,749,628</u>	<u>11,632</u>	<u>1,761,260</u>	<u>343,388</u>
<b>EXPENDITURES</b>					
Current:					
Arts	42,386	52,538	(37)	52,501	(10,115)
Communications	-	3,381	-	3,381	(3,381)
Dues and subscriptions	2,564	1,655	-	1,655	909
Insurance	2,096	1,048	1,153	2,201	(105)
Miscellaneous	400	364	-	364	36
Office supplies	2,904	1,757	-	1,757	1,147
Partnership grants	200,000	22,657	-	22,657	177,343
Professional services	140,670	35,746	-	35,746	104,924
Project reimbursements (2)	247,689	290,186	-	290,186	(42,497)
Travel and meetings	6,900	2,879	-	2,879	4,021
Utilities and telephone	-	367	-	367	(367)
Wages and benefits	70,375	43,593	-	43,593	26,782
Debt service:					
Interest	-	90,054	(90,054)	-	-
Principal payments (3)	707,733	739,108	90,054	829,162	(121,429)
Capital outlay	200,000	-	-	-	200,000
Total expenditures	<u>1,623,717</u>	<u>1,285,333</u>	<u>1,116</u>	<u>1,286,449</u>	<u>337,268</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES</b>					
	<u>(205,845)</u>	<u>464,295</u>	<u>10,516</u>	<u>474,811</u>	<u>680,656</u>
<b>OTHER FINANCING SOURCES</b>					
Proceeds from long term debt	140,000	-	-	-	140,000
Total other financing sources	<u>140,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,000</u>
<b>NET CHANGE IN FUND BALANCES</b>					
	<u>(65,845)</u>	<u>464,295</u>	<u>10,516</u>	<u>474,811</u>	<u>540,656</u>
<b>FUND BALANCES, beginning of year</b>					
	<u>1,624,963</u>	<u>1,683,890</u>	<u>(13,251)</u>	<u>1,670,639</u>	<u>45,676</u>
<b>FUND BALANCES, end of year</b>					
	<u>\$ 1,559,118</u>	<u>\$ 2,148,185</u>	<u>(2,735)</u>	<u>\$ 2,145,450</u>	<u>\$ 586,332</u>

(1) EXPLANATION OF ADJUSTMENTS TO ACTUAL AMOUNTS

	To convert to budgetary basis (cash basis)	To consolidate principal and interest	Total
<b>REVENUES</b>			
Property taxes	\$ 11,632	\$ -	\$ 11,632
Total revenue adjustments	<u>11,632</u>	<u>-</u>	<u>11,632</u>
<b>EXPENDITURES</b>			
Arts	(37)	-	(37)
Insurance	1,153	-	1,153
Interest	-	(90,054)	(90,054)
Principal payments	-	90,054	90,054
Total expenditure adjustments	<u>1,116</u>	<u>-</u>	<u>1,116</u>
<b>NET CHANGE IN FUND BALANCES</b>			
	10,516	-	10,516
<b>FUND BALANCES, beginning of year</b>			
	(13,251)	-	(13,251)
<b>FUND BALANCES, end of year</b>			
	<u>\$ (2,735)</u>	<u>\$ -</u>	<u>\$ (2,735)</u>

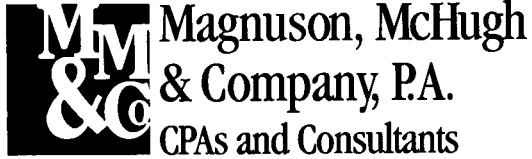
(2) Payments made under the terms of tax increment financing arrangements are based on availability of revenues. Since more revenue was earned than anticipated, the actual expenditure was larger than the budgeted amount.

(3) The amount of principal paid on debt is derived from a calculation based upon revenue. Since more revenue was earned than anticipated, the actual expenditure was larger than the budgeted amount.

\* The budget was not amended.

FINANCIAL SECTION

REPORT REQUIRED BY THE GAO



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

Board of Commissioners  
Lake City Development Corporation  
Coeur d'Alene, Idaho 83816

We have audited the financial statements of the governmental activities and each major fund of Lake City Development Corporation, as of and for the year ended September 30, 2011, which collectively comprise the Lake City Development Corporation's basic financial statements and have issued our report thereon dated February 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Magnuson, McHugh & Company, P.A.*

Coeur d'Alene, Idaho  
February 8, 2012