

LAKE CITY DEVELOPMENT CORPORATION

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Lake City Development Corporation
September 30, 2008

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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, a component unit of the City of Coeur d'Alene, Idaho, as of and for the year ended September 30, 2008, which collectively comprise the Corporation'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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, 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 March 5, 2009, on our consideration of 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 the 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 9 and pages 37 through 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Magnuson, McHugh, & Co., P.A.



Coeur d'Alene, Idaho
March 5, 2009

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

This section of Lake City Development Corporation's ("the Agency") fiscal year 2008 financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on September 30, 2008. 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 Huefner Avenue and west of Northwest Boulevard.
- The Agency's total (Lake and River Districts) net assets as of September 30, 2008 were \$1,605,131. From a fund balance perspective, the Agency's combined Districts totaled \$3,959,685 (Lake District: \$3,436,503; River District \$523,182).
- During fiscal year 2008, the Agency realized total revenues of \$3,548,393 and total net expenses of \$1,652,429 resulting in a net asset change of \$1,895,964.
- In fiscal year 2008, the Agency refinanced the Mill River Taxable Revenue Allocation Area Bond. The principal amount of the refinancing was \$3,750,000 for the term of ten years, at a fixed interest rate of 4.35%.
- In fiscal year 2008, the Agency refinanced the Jameson property (Coeur d'Alene Public Library site) debt obligation. The principal amount of the refinancing was \$752,047 for the term of five years, at a fixed interest rate of 4.00%.
- In fiscal year 2008, the Agency refinanced the 622 Lincoln Way debt obligation. The principal amount of the refinancing was \$45,765 for the term of five years, at a fixed interest rate of 4.17%.
- In fiscal year 2008, the Agency acquired two coterminous surface parking lots located at 845 N. 4th Street and 839 N. 3rd Street for \$358,000. The property acquisition utilized 100% loan financing, with a 10 year call date of 2018, with a fixed interest rate of 4.50% for the first five year term of the loan, and a fixed interest rate of 4.64% for the second five year term of the loan.

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.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The statements are followed by a section of required supplementary information 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.

SIGNIFICANT ISSUES

Mill River Project Re-financing: 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 Corporation to finance Agency approved public improvements related to the Mill River mix-use project. As of September 30, 2007, the Agency has utilized \$3,799,931 of the \$4,000,000 line of credit to pay for completed Agency approved public improvements. On June 28, 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.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

SIGNIFICANT ISSUES (CONTINUED)

Coeur d'Alene Public Library Site: Background – On April 13, 2001, the Coeur d'Alene Library Foundation (Foundation) purchased a 1.06 acre site (Site), located at the corner of 7th Street and Front Avenue, from the Jameson Trust (Trust) for \$1,150,000. The Foundation placed \$250,000 as a down payment and agreed to finance the remaining \$900,000 of the purchase price as a promissory note (Note) held by the Trust. On April 23, 2001, the Foundation and the Agency entered into an "Operating and Funding Agreement" which stipulated that each entity would equally share in joint fee ownership of the Site, and that the Agency would agree to pay the semi-annual interest payments associated with the Trust Note.

On March 31, 2003, the Agency and the Foundation agreed to re-finance the Trust Note with Washington Trust Bank. This refinancing endeavor resulted in a lower interest rate, and allowed the Agency's payments, now on a monthly basis, to be applied towards both principal and interest. On September 28, 2004, the Agency formally agreed to the following actions, contingent upon 1) the passage of a community bond measure and 2) the successful completion of Foundation fund raising efforts:

- to release the Foundation from all existing debt liability associated with the Site (denoted as of September 30, 2005 as a note receivable under assets valued at \$446,893),
- for the Foundation to transfer its ownership interest in the Site to the Agency,
- for the Agency to transfer the Site debt free to the City for use as the location for the Library prior to the expiration of the Lake District term (2021).

On February 1, 2005, a \$3 million community bond measure was approved by voters. During fiscal year 2006, the Foundation successfully continued their fund raising efforts. Due to the bond passage and the Foundation's successful fundraising efforts, during the 2007 fiscal year, LCDC released the Library Foundation from its outstanding debt obligation relative to the Library site totaling approximately \$446,893. In fiscal year 2008, the Agency refinanced the Washington Trust Bank note debt obligation. The principal amount of the refinancing was \$752,047 for the term of five years, at a fixed interest rate of 4.00%.

Midtown Parking: On June 18, 2008, the Agency acquired two coterminous surface parking lots located at 845 N. 4th Street and 839 N. 3rd Street in the Midtown area for \$358,000. This strategic property acquisition allowed the Agency to continue its efforts in revitalizing the Midtown area located within the Lake District.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net Assets

The Agency's September 30, 2008 net asset value was \$1,605,131. Table 1 presents a summary of the Agency's net assets.

Table 1

LAKE CITY DEVELOPMENT CORPORATION'S NET ASSETS

	<u>2008</u>	<u>2007</u>
Current and other assets	\$6,830,308	\$ 5,013,586
Capital assets, net of accumulated depreciation	4,904,202	4,608,510
Total assets	11,734,508	9,620,096
Long-term liabilities outstanding	10,045,132	9,782,288
Other liabilities	84,245	148,643
Total liabilities	10,129,377	9,910,929
Invested in capital assets, net of related debt	1,393,413	(2,646,728)
Unrestricted	211,718	2,355,895
Total net assets	\$1,605,131	(\$260,833)

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2008.

**Table 2
CHANGES IN NET ASSETS**

	2008	2007
<u>Revenues:</u>		
<u>Program Revenues:</u>		
Charges for services	\$ 209,611	\$ 195,136
<u>General Revenues:</u>		
Tax Increment Revenue	3,421,922	2,666,079
Penalties and interest	30,981	37,007
Donations/(Loss: Disposal of Fixed Assets)	0	(80,000)
Interest and investment earnings	95,490	54,931
Total general revenues	3,548,393	2,698,017
 <u>Expenditures:</u>		
Property rentals	113,314	106,678
General government	1,381,366	1,046,832
Interest on long-term debt	367,360	537,060
Total expenditures	1,862,040	1,690,570
Change in net assets	\$1,686,353	\$1,202,583

The Agency's total revenue of \$3,548,393 for the fiscal year 2008 represents a 31% increase over fiscal year 2007 revenues, primarily due to an increase in realized tax increment revenue (i.e. property taxes). As noted in Table 2, agency fiscal year 2008 general revenue is categorized into various revenue sources, with property taxes representing the largest share of total revenue.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

Governmental Funds

The Agency completed fiscal year 2008 with a total governmental fund balance of \$3,950,685 which represents a 68% increase from the ending fund balance for fiscal year 2007.

Budgetary Highlights – Lake District

There are no significant reporting issues regarding actual revenues and expenses relative to budget projections. Total revenues realized were 14% above budget projections due primarily to (1) the realization of past due property taxes, and (2) 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.

Budgetary Highlights – River District

There are no significant reporting issues regarding actual revenues and expenses relative to budget projections. Total revenues realized slightly exceeded budget projections. Actual expenses (excluding the US Bank bond debt obligation re-financing with Washington Trust Bank – refer to Note 10) were slightly below budget.

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 revenue 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 2008, the Agency transferred \$75,459 of Lake District funds to the Commission; no funds were transferred to the Commission from the River District pending development of a public art investment strategy for the River District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

One property, comprised of two coterminous parcel sets, was acquired by the Agency within the Lake District in fiscal year 2008 (845 N. 4th Street and 839 N. 3rd Street surface parking lots). The Agency's Lake District strategic property portfolio currently consists of 22 properties. The Agency does not own any strategic properties in the River District.

Long-term Debt – Lake District

- Assets in the Lake District strategic property portfolio are financed either conventionally through local lending institutions, or through privately held notes.
- Owner Participation Agreements (OPAs): The Agency has entered into OPAs with the principles of the Riverstone and McEuen Terrace mixed use developments. Each OPA is financed through site-specific, tax increment fund revenues that will be generated by each respective project. The Riverstone OPA (initiated in 2000) principal reimbursement total is \$1,511,400. The McEuen Terrace OPA (initiated in 2002) principal reimbursement total is \$342,965 (the McEuen Terrace OPA debt obligation was retired in 2007). The OPA debt obligation amounts are not included in the long-term debt values found within this audit report because the agency is only obligated to pay when sufficient tax increment revenue is available. Please refer to Note 6 for more discussion.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

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 debt obligation amounts are not included in the long-term debt values found within this audit report because the agency is only obligated to pay when sufficient tax increment revenue is available. Please refer to Note 6 for more discussion.
- 'Prairie Trail': In December, 2005, 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.

Long-term Debt – River District

- The Agency has an outstanding loan principal amount of \$22,074 with the City of Coeur d'Alene, resulting from fiscal year 2004 and 2005 draws on a City line of credit established to help fund initial redevelopment efforts in the 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 debt obligation amount is not included in the long-term debt values found within this audit report because the agency is only obligated to pay when sufficient tax increment revenue is available. Please refer to Note 6 for more discussion.
- Mill River Project Bond: As stated previously, 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 has 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.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2008

ECONOMIC OUTLOOK AND FISCAL YEAR 2009 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, specifically California. 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 2008, property values within the Agency's Districts softened reflecting a national trend. Private capital investment within the Districts continues to occur, albeit at a slower rate. During fiscal 2008, several large scale projects were completed in the Lake District. However, very little new construction began in 2008 attesting to the softening of the regional and national real estate markets. A bright point for the community is that the Coeur d'Alene Kroc Community Center neared completion at the end of fiscal year 2008, with an opening planned for May of 2009.

Development for 2009 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 Phase 1 of the Riverstone West project, a continuation of the original Riverstone mix-use development also along the Spokane River.

Property tax receipts in fiscal year 2008 for both Districts were basically on par with projections. Projected fiscal year 2009 property tax receipts in the Lake District are moderately higher than in fiscal year 2008, while fiscal year 2009 property tax receipts in the River District are estimated to be significantly higher than fiscal year 2008, due primarily to increased assessed property valuations in the Mill River project. 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.

Both national and state of Idaho economic trends through 2008 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 2009 economic forecast for the Northern Idaho region is tepid at best. 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. 1st – Suite 100
Coeur d'Alene, ID 83814
208-292-1630
www.lcdc.org

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

Lake City Development Corporation

STATEMENT OF NET ASSETS

September 30, 2008

ASSETS

Cash and investments	\$ 3,980,125
Property taxes receivable	117,025
Other receivable	6,808
Deposits	11,038
Note receivable - North Idaho Centennial Trail Foundation	2,715,312
Land	2,846,918
Capital assets, net of accumulated depreciation	<u>2,057,284</u>
Total assets	<u>11,734,508</u>

LIABILITIES

Accounts payable	6,950
Accrued payroll and related costs	3,438
Due to other governments	22,170
Tenant deposits	14,111
Interest payable	37,576
Long-term liabilities:	
Due within one year	455,778
Due in more than one year	<u>9,589,354</u>
Total liabilities	<u>10,129,377</u>

NET ASSETS

Invested in capital assets, net of related debt	1,383,413
Unrestricted	<u>211,718</u>
Total net assets	<u>\$ 1,605,131</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, 2008

EXPENSES

Property rentals	\$ 113,314
General government	1,381,366
Interest on long-term debt	367,360
Total program expenses	<u>1,862,040</u>

PROGRAM REVENUES

Charges for services	<u>209,611</u>
Net program expenses	<u>1,652,429</u>

GENERAL REVENUES AND SPECIAL ITEMS

Tax increment revenue	3,421,922
Penalties and interest	30,981
Interest and investment earnings	95,490
Total general revenues and special items	<u>3,548,393</u>

Change in net assets 1,895,964

Net assets - October 1, 2007 (290,833)

Net assets - September 30, 2008 \$ 1,605,131

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

Lake City Development Corporation

GOVERNMENTAL FUNDS BALANCE SHEET September 30, 2008

	<u>Lake District</u>	<u>River District</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,440,213	\$ 539,912	\$ 3,980,125
Property taxes receivable	88,044	28,981	117,025
Other receivable	6,808		6,808
Tenant deposits receivable	11,036		11,036
Total assets	<u>\$ 3,546,101</u>	<u>\$ 568,893</u>	<u>\$ 4,114,994</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 6,950		\$ 6,950
Accrued payroll and taxes	3,438		3,438
Due to other governments	96	\$ 22,074	22,170
Tenant deposits	14,111		14,111
Deferred tax revenue	85,003	23,637	108,640
Total liabilities	<u>109,598</u>	<u>45,711</u>	<u>155,309</u>
Fund balance:			
Undesignated	3,436,503	523,182	3,959,685
Total fund balance	<u>3,436,503</u>	<u>523,182</u>	<u>3,959,685</u>
Total liabilities and fund balance	<u>\$ 3,546,101</u>	<u>\$ 568,893</u>	<u>\$ 4,114,994</u>

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, 2008

Total fund balance at September 30, 2008 - Governmental Funds		\$ 3,959,685
Cost of capital assets at September 30, 2008	\$ 5,149,807	
Less: Accumulated depreciation as of September 30, 2008:		
Buildings and sites	<u>(245,605)</u>	4,904,202
Long-term notes receivable		2,715,312
Elimination of deferred revenue		108,640
Long-term liabilities at September 30, 2008:		
Mortgage payable	(10,045,132)	
Accrued interest payable	<u>(37,576)</u>	<u>(10,082,708)</u>
Net assets at September 30, 2008		<u>\$ 1,806,131</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, 2008**

	<u>Lake District</u>	<u>River District</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 2,478,650	\$ 1,011,135	\$ 3,489,785
Rent	209,611		209,611
Penalties and interest	24,507	6,474	30,981
Interest earnings	61,871	13,619	95,490
Total revenues	<u>2,774,639</u>	<u>1,031,228</u>	<u>3,805,867</u>
EXPENDITURES			
Advertising and promotion	1,323		1,323
Arts	75,459		75,459
Closing costs		13,069	13,069
Partnership grants	609,848		609,848
Dues and subscriptions	3,558	1,186	4,744
Insurance	5,505	1,835	7,340
Management fees	38,746		38,746
Miscellaneous (see note 5)	5,738	509	6,247
Office supplies	10,378	3,304	13,682
Professional services	139,401	39,954	179,355
Rent expense	13,199		13,199
Tax increment expense	259,996	55,731	315,727
Travel and meetings	8,902	2,832	11,734
Utilities	12,936		12,936
Wages and benefits	106,263	22,879	131,142
Capital expenditures	358,000		358,000
Debt service - principal payments	277,638	406,710	684,348
Debt service - interest	271,061	261,511	532,572
Total expenditures	<u>2,199,951</u>	<u>809,340</u>	<u>3,009,291</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES	<u>574,688</u>	<u>221,888</u>	<u>816,576</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from financing	885,121		885,121
Proceeds from debt refunding		3,750,000	3,750,000
Extinguishment of refunded debt		(3,667,928)	(3,667,928)
Total other financing sources (uses)	<u>885,121</u>	<u>82,072</u>	<u>967,193</u>
NET CHANGE IN FUND BALANCES	<u>1,479,809</u>	<u>303,960</u>	<u>1,783,769</u>
FUND BALANCES, beginning of year	<u>1,956,894</u>	<u>219,322</u>	<u>2,176,216</u>
FUND BALANCES, end of year	<u>\$ 3,436,503</u>	<u>\$ 523,182</u>	<u>\$ 3,959,685</u>

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, 2008

Total net changes in fund balances for year ended September 30, 2008	\$ 1,783,769
Add: Capital outlay which is considered expenditures	358,000
Less: Depreciation expense for the year ended September 30, 2008	(60,309)
Add: Mortgage principal retirement considered as an expenditure	684,348
Less: Proceeds from financing considered as a revenue	(885,121)
Add: Extinguishment of refunded debt	3,667,928
Less: Proceeds from debt refunding	(3,750,000)
Add: Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on accrual basis	165,212
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>(67,863)</u>
Change in net assets for year ended September 30, 2008	<u>\$ 1,895,964</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, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lake City Development Corporation ("the Corporation") is an urban renewal agency created by and existing under the Idaho Urban Renewal Law of 1985, as amended, and is an independent public body.

The accompanying financial statements include all aspects controlled by the Board of Directors of Lake City Development Corporation. The Corporation is included in 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 Corporation 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 Corporation is governed by a maximum board of nine directors, two of who may be City Council members appointed by the City Council. The City Council has the ability to appoint, reassign, or dismiss the board members of the Corporation. These powers of the City meet the criteria set forth in GASB No. 14 for having financial accountability for the Corporation. Based on the above, the Corporation is discreetly presented in the City of Coeur d'Alene's financial statements as a component unit.

Under Idaho Code, the Corporation has the authority to issue bonds. Any bonds issued by the Corporation 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 Corporation's budget or funding any annual deficits. The Corporation controls its disbursements independent of the City Council.

The accounting methods and procedures adopted by Lake City Development Corporation conform to generally accepted accounting principles 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 Corporation's basic financial statements.

The accompanying financial statements of Lake City Development Corporation have been prepared in accordance with generally accepted accounting principles (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 Corporation's accounting policies are described below:

B. Fund Accounting

The Corporation 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 Corporation 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, 2008

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 Corporation has two governmental funds; both of them 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 Lake City Development Corporation.

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 Lake City Development Corporation.

C. Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Corporation as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The Corporation 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 Corporation'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 Corporation, 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 Corporation.

Fund Financial Statements – Fund financial statements report detailed information about the Corporation. 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, 2008

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 Corporation, available means expected to be received within 60 days of the fiscal year end.

Non-exchange transactions, in which the Corporation 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 Corporation must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Corporation 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, 2008

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 Investments

In the general fund, cash received by the Corporation is pooled for investment purposes and is presented as "Cash and Investments" on the financial statements. For presentation in the financial statements, cash and investments 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 Corporation. Investments with an initial maturity of more than three months are reported as investments. 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 Corporation maintains a capitalization threshold of five thousand dollars. The Corporation 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 Improvements	40 years

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

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 Corporation has the ability to reserve those portions of fund equity that are legally segregated for a specific future use or that do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund equity that is available for appropriation in future periods. Restricted resources are used first to fund appropriations as necessary. The Corporation had no reserved fund balance for the year ended September 30, 2008.

L. 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 Corporation 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 Corporation is not a taxing entity, property taxes levied on the Corporation's behalf by Kootenai County for 2007 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, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes and Deferred Tax Revenues (Continued)

A composite property tax is levied on behalf of the Corporation by Kootenai County each November on the assessed value within the Corporation'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

A. Budgetary Data

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the general 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 the general 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 were no amendments to the budget during the fiscal year 2008.

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 INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial risk. The carrying amount of the Corporation's deposits is \$3,980,125 and the bank balance is \$3,992,895. As of September 30, 2008, \$3,266,471 of the Corporation's bank balance was exposed to custodial credit risk as follows.

Amount insured by FDIC	\$ 726,424
Uninsured and uncollateralized	<u>3,266,471</u>
	<u>\$3,992,895</u>

Subsequent to the fiscal year ending September 30, 2008, the Corporation moved all of its deposits inside the operating checking account into a "sweep" account wherein the cash assets are securitized, thus eliminating the Corporation's exposure to custodial credit risk as indicated above.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 4: CAPITAL ASSETS

Following is a recap of capital assets for the fiscal year ended September 30, 2008:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$2,488,918	\$368,000		\$2,846,918
Total capital assets not being depreciated	<u>2,488,918</u>	<u>368,000</u>	<u> </u>	<u>2,846,918</u>
Capital assets being depreciated:				
Buildings and sites	2,302,889	<u> </u>	<u> </u>	2,302,889
Total capital assets being depreciated	<u>2,302,889</u>	<u> </u>	<u> </u>	<u>2,302,889</u>
Less accumulated depreciation for:				
Buildings and sites	<u>185,297</u>	<u>60,308</u>	<u> </u>	<u>245,605</u>
Total accumulated depreciation	<u>185,297</u>	<u>60,308</u>	<u> </u>	<u>245,605</u>
Total capital assets, being depreciated, net	<u>2,117,592</u>	<u>(60,308)</u>	<u> </u>	<u>2,057,284</u>
Governmental activities capital assets, net	<u>\$4,606,510</u>	<u>\$207,692</u>	<u>\$ </u>	<u>\$4,804,202</u>

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE

On April 23, 2001, Lake City Development Corporation 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 Lake City Development Corporation refinanced this note payable through Washington Trust Bank. The principal amount refinanced was \$910,719. Repayment terms are 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.

On April 1, 2008, in lieu of remitting the balloon payment due, the Corporation 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 4.0%. A balloon payment in the amount of \$555,678 is due April 1, 2013. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2009	4.00%	\$ 37,827	\$ 29,191	\$ 67,018
2010	4.00%	39,390	27,628	67,018
2011	4.00%	41,018	25,999	67,017
2012	4.00%	42,714	24,304	67,018
2013	4.00%	575,783	13,367	589,150
		<u>\$ 736,732</u>	<u>\$ 120,489</u>	<u>\$ 857,221</u>

On July 19, 2002, the Corporation entered into a contract to purchase property at 620 N. Lincoln Way. 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
2009	4.65%	\$ 1,848	\$ 2,486	\$ 4,334
2010	4.65%	1,936	2,398	4,334
2011	4.65%	2,028	2,306	4,334
2012	4.65%	47,972	1,868	49,840
		<u>\$ 53,784</u>	<u>\$ 9,058</u>	<u>\$ 62,842</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On January 10, 2003, the Corporation entered into a contract to purchase property at 622 N. Lincoln Way. The total purchase price was \$69,000, of which \$13,800 was paid at closing. Repayment terms are monthly payments of \$347.27, including interest at 4.37%.

On January 10, 2008 the Corporation 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 \$33,941.3 is due January 10, 2013. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2009	4.17%	\$ 2,297	\$ 1,830	\$ 4,127
2010	4.17%	2,398	1,730	4,128
2011	4.17%	2,499	1,627	4,126
2012	4.17%	2,607	1,519	4,126
2013	4.17%	<u>34,489</u>	<u>482</u>	<u>34,971</u>
		<u>\$ 44,288</u>	<u>\$ 7,188</u>	<u>\$ 51,476</u>

On August 7, 2003, the Corporation entered into a contract to purchase property at 612 N. Lincoln Way. The total purchase price was \$83,500, of which \$16,700 was paid at closing. Repayment terms are monthly payments of \$304.75, including interest at 3.70%. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	3.70%	\$ 2,772	\$ 1,965	\$ 4,737
2010	3.70%	2,876	1,861	4,737
2011	3.70%	2,984	1,753	4,737
2012	3.70%	3,097	1,640	4,737
2013	3.70%	<u>42,504</u>	<u>1,549</u>	<u>44,053</u>
		<u>\$ 54,233</u>	<u>\$ 8,768</u>	<u>\$ 63,001</u>

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On May 21, 2004, the Corporation 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 4.75%. The annual requirements to retire the debt are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	4.75%	\$ 7,740	\$ 12,198	\$ 19,938
2010	4.75%	8,116	11,823	19,939
2011	4.75%	8,510	11,429	19,939
2012	4.75%	8,923	11,016	19,939
2013	4.75%	9,356	10,582	19,938
2014	4.75%	<u>217,656</u>	<u>7,335</u>	<u>224,991</u>
		<u>\$ 260,301</u>	<u>\$ 64,383</u>	<u>\$ 324,684</u>

On October 24, 2003, the Corporation entered into a contract to purchase property at 626 N Lincoln Way. The total purchase price was \$105,000, of which \$21,000 was paid at closing. Repayment terms are: 60 monthly payments of \$515.52, including interest at 4.12%, 50 monthly payments of \$642.55, including interest at 6.78% and a final payment of \$51,632 on November 15, 2013. The annual requirements to retire the debt are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	6.78%	\$ 3,140	\$ 4,317	\$ 7,457
2010	6.78%	3,302	4,409	7,711
2011	6.78%	3,533	4,178	7,711
2012	6.78%	3,780	3,931	7,711
2013	6.78%	4,044	3,666	7,710
2014	6.78%	<u>51,854</u>	<u>612</u>	<u>52,476</u>
		<u>\$ 69,663</u>	<u>\$ 21,113</u>	<u>\$ 90,776</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On January 4, 2005, the Corporation entered into a contract to purchase property at 632 Lincoln Way. The total purchase price was \$120,000, of which \$18,000 was paid at closing. Repayment terms are: 60 monthly payments of \$578.61, including interest at 4.29%, 59 monthly payments of \$718.41, including interest at 6.90% and a final payment of \$73,534.89 on January 15, 2015. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.29%	\$ 3,057	\$ 3,886	\$ 6,943
2010	6.90%	2,772	5,274	8,046
2011	6.90%	2,738	5,859	8,597
2012	6.90%	2,933	5,664	8,597
2013	6.90%	3,142	5,455	8,597
2014	6.90%	3,366	5,231	8,597
2015	6.90%	73,975	1,074	75,049
		<u>\$ 91,983</u>	<u>\$ 32,443</u>	<u>\$ 124,426</u>

On March 30, 2005, the Corporation entered into a contract to purchase property at 604 Lincoln Way. The total purchase price was \$170,000, of which \$25,500 was paid at closing. Repayment terms are: 60 monthly payments of \$811.56, including interest at 4.58%, 59 monthly payments of \$1,032.80, including interest at 7.58% and a final payment of \$111,879 on April 15, 2015. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.58%	\$ 3,710	\$ 6,029	\$ 9,739
2010	7.58%	3,399	7,446	10,845
2011	7.58%	2,927	9,467	12,394
2012	7.58%	3,156	9,238	12,394
2013	7.58%	3,404	8,990	12,394
2014	7.58%	3,671	8,723	12,394
2015	7.58%	113,085	5,000	118,085
		<u>\$133,352</u>	<u>\$54,893</u>	<u>\$188,245</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On July 14, 2005, the Corporation entered into a contract to purchase property at 608 N Lincoln Way. The total purchase price was \$220,000, of which \$33,000 was paid at closing. Repayment terms are: monthly payments of \$1,051.87, including interest at 4.55% and a final payment of \$136,079 on July 14, 2015. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.55%	\$ 4,851	\$ 7,771	\$ 12,622
2010	4.55%	5,076	7,546	12,622
2011	4.55%	5,312	7,310	12,622
2012	4.55%	5,559	7,063	12,622
2013	4.55%	5,817	6,805	12,622
2014	4.55%	6,087	6,535	12,622
2015	4.55%	140,457	5,209	145,666
		<u>\$173,159</u>	<u>\$48,239</u>	<u>\$221,398</u>

On April 1, 2005, the Corporation 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 \$1,323.20, including interest at 4.58%, 59 monthly payments of \$1,683.91, including interest at 7.58% and a final payment of \$178,908.68 on April 15, 2015. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.58%	\$ 6,153	\$ 9,725	\$ 15,878
2010	7.58%	5,682	12,000	17,682
2011	7.58%	4,966	15,241	20,207
2012	7.58%	5,356	14,851	20,207
2013	7.58%	5,776	14,431	20,207
2014	7.58%	6,230	13,977	20,207
2015	7.58%	181,129	7,905	189,034
		<u>\$215,292</u>	<u>\$88,130</u>	<u>\$303,422</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On October 14, 2006, the Corporation 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 \$1,983.78, including interest at 4.68% and a final payment of \$261,415 on October 10, 2016. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.55%	\$ 8,606	\$ 15,170	\$ 23,775
2010	4.55%	9,014	14,761	23,775
2011	4.68%	9,079	14,723	23,802
2012	4.68%	9,490	14,315	23,805
2013	4.68%	9,954	13,851	23,805
2014	4.68%	10,442	13,363	23,805
2015	4.68%	10,953	12,852	23,805
2016	4.68%	262,026	1,047	263,072
		<u>\$329,562</u>	<u>\$100,062</u>	<u>\$429,644</u>

On February 17, 2006, the Corporation entered into a contract to purchase properties at 813, 815 and 817 N. 4th street. The total purchase price was \$262,500, of which \$43,875 was paid at closing. Repayment terms are: 60 monthly payments of \$1,403, including interest at 4.64%, 59 monthly payments of \$1,403, including interest at 7.62% and a final payment of \$219,238 on February 15, 2016. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.64%	\$ 6,079	\$ 10,757	\$ 16,836
2010	4.64%	6,368	10,469	16,837
2011	7.62%	2,801	14,035	16,836
2012	7.62%	107	16,729	16,836
2013	7.62%	116	16,720	16,836
2014	7.62%	125	16,711	16,836
2015	7.62%	135	16,701	16,836
2016	7.62%	218,162	6,956	225,118
		<u>\$233,893</u>	<u>\$109,078</u>	<u>\$342,971</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On April 21, 2006, the Corporation 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 4.88% 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
2009	4.82%	\$ 12,876	\$ 26,450	\$ 39,326
2010	4.82%	13,534	25,791	39,325
2011	4.82%	14,227	25,098	39,325
2012	4.82%	14,955	24,370	39,325
2013	4.82%	15,721	23,605	39,326
2014	4.82%	16,525	22,801	39,326
2015	4.82%	17,370	21,956	39,326
2016	4.82%	430,255	14,146	444,401
		<u>\$535,463</u>	<u>\$184,217</u>	<u>\$719,680</u>

On May 31, 2002, the Corporation entered into a contract to purchase property at 630 N. Lincoln Way. 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 \$346.84, due the first day of each month, bearing interest at the rate of 4.710%. 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
2009	4.71%	\$ 1,753	\$2,409	\$ 4,162
2010	4.71%	1,838	2,324	4,162
2011	4.71%	1,928	2,234	4,162
2012	4.71%	46,671	1,260	48,931
		<u>\$51,190</u>	<u>\$8,227</u>	<u>\$59,417</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On June 18, 2002, the Corporation entered into a note payable with Washington Trust using property purchased by the Corporation 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 \$734.90, due on the 25th day of each month, bearing interest at the rate of 4.710%. The annual requirements to retire the debt are as follows:

Fiscal Year Ending September 30,	Rate	Principal	Interest	Total
2009	4.71%	\$ 3,714	\$ 5,106	\$ 8,819
2010	4.71%	3,895	4,924	8,819
2011	4.71%	4,086	4,733	8,819
2012	4.71%	<u>96,773</u>	<u>2,669</u>	<u>99,442</u>
		<u>\$108,468</u>	<u>\$17,431</u>	<u>\$125,899</u>

On June 6, 2003, the Corporation entered into a contract to purchase property at 618 N. Lincoln Way. 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 \$517.22, 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
2009	5.25%	\$ 3,091	\$ 3,115	\$ 6,206
2010	5.25%	3,258	2,949	6,207
2011	5.25%	3,433	2,774	6,207
2012	5.25%	<u>50,894</u>	<u>1,959</u>	<u>52,853</u>
		<u>\$60,676</u>	<u>\$10,797</u>	<u>\$71,473</u>

(Continued)

Lake City Development Corporation

**NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008**

NOTE 5: NOTES PAYABLE (CONTINUED)

During the 2006-2007 Fiscal year, the LCDC agreed to fund Coeur d'Alene Public Library construction costs totaling \$250,000 in five equal payments of \$50,000 over a five year period. One payment was made in fiscal year 2006-2007 and one in 2007-2008 leaving the remainder to be paid off over three years. The present value and repayment terms based on an imputed interest rate of 0.00% is as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Payment
2009	5.40%	\$ 50,000	-	\$ 50,000
2010	5.40%	50,000	-	50,000
2011	5.40%	50,000	-	50,000
		<u>\$150,000</u>	<u>-</u>	<u>\$150,000</u>

During the 2006-2007 fiscal year, the LCDC agreed to fund Kroc Community Center construction costs pertaining to LCDC approved public improvements totaling \$500,000 payable in five equal payments of \$100,000 over a five year period. One payment was made in fiscal year 2007-2008, leaving the remainder to be paid off over four years. 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
2009	0.00%	\$100,000	-	\$100,000
2010	0.00%	100,000	-	100,000
2011	0.00%	100,000	-	100,000
2012	0.00%	100,000	-	100,000
		<u>\$400,000</u>	<u>-</u>	<u>\$400,000</u>

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On June 16, 2008, the Corporation 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
2009	4.50%	\$ 8,360	\$ 16,180	\$ 24,540
2010	4.50%	8,735	15,805	24,540
2011	4.50%	9,128	15,412	24,540
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>\$ 358,750</u>	<u>\$ 141,582</u>	<u>\$ 500,332</u>

On April 22, 2005, Lake City Development Corporation received a Taxable Revenue Allocation Area Bond. The Corporation 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, Lake City Development Corporation had taken out \$3,799,931 of the available \$4,000,000.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

On June 26, 2008 Lake City Development Corporation 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:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2009	4.35%	\$ 187,905	\$ 151,175	\$ 339,080
2010	4.35%	196,079	143,001	339,080
2011	4.35%	204,608	134,472	339,080
2012	4.35%	213,508	125,572	339,080
2013	4.35%	222,796	116,284	339,080
2014	4.35%	232,488	106,592	339,080
2015	4.35%	242,601	96,479	339,080
2016	4.35%	253,154	85,926	339,080
2017	4.35%	<u>1,722,156</u>	<u>37,457</u>	<u>1,759,613</u>
		<u>\$ 3,475,295</u>	<u>\$ 996,958</u>	<u>\$4,472,253</u>

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 note payable is due in the amount of \$2,509,048 on December 21, 2011 and includes semiannual interest only payments at rate of 4.62%.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2008

NOTE 5: NOTES PAYABLE (CONTINUED)

The following is a summary of debt activity for the year ended September 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
Kimball Property	\$ 14,159		\$ 14,159		
Gridley Property	10,430		10,430		
Library site	799,319		92,987	\$ 706,332	\$ 37,827
630 N. Lincoln Way	52,881		1,871	51,010	1,753
728 Sherman Avenue	112,009		3,841	108,168	3,714
620 N. Lincoln Way	55,542		1,758	53,784	1,845
622 N. Lincoln Way	45,264		1,978	44,286	3,297
618 N. Lincoln Way	63,609		2,933	60,676	3,091
612 N. Lincoln Way	56,904		2,671	54,233	2,772
515 W. Garden Ave.	267,663		7,362	260,301	7,740
626 N. Lincoln Way	72,806		3,243	69,563	3,140
632 Lincoln Way	94,912		2,929	91,983	3,057
634 Lincoln Way	136,898		3,544	133,354	3,710
606 Lincoln Way	177,794		4,835	172,959	4,851
211 N. 4th Street	221,170		5,878	215,292	8,153
548 River Project variable rate bond	3,799,931		3,799,931		
548 River Project fixed rate bond		3,750,000	274,705	3,475,295	187,905
712 E. Young Ave	337,776		6,214	329,562	6,605
613-617 N. 4th St	239,897		5,804	233,893	6,079
301 E. Lakeside Ave	547,713		12,260	535,453	12,676
North Idaho Centennial Trail Foundation	2,509,048			2,509,048	
Library construction grant	175,662	24,338	50,000	150,000	50,000
Kroc Center Grant		500,000	100,000	400,000	100,000
645 N. 4th Street & 639 N. 3rd Street		360,783	2,933	357,850	8,360
	<u>\$ 6,762,285</u>	<u>\$ 4,635,121</u>	<u>\$ 4,382,274</u>	<u>\$ 10,045,132</u>	<u>\$ 458,775</u>

NOTE 6: COMMITMENTS AND CONTINGENCIES

The Corporation is currently working with several interested parties on future urban development projects. None of these projects have been formalized and the Corporation has not entered into any agreements to provide funding for these projects. It is anticipated that such projects will be funded through the Corporation 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 Coeur d'Alene Urban Renewal Agency dba Lake City Development Corporation and Rivermill, LLC (Riverstone's developers) in the amount of \$1,511,400 at 6% 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 \$1,037,463.

On June 21st, 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 Coeur d'Alene Urban Renewal Agency dba Lake City Development Corporation and Riverstone West, LLC in the amount of \$6,682,237 at 5% 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, 2027. The total interest on the note cannot exceed \$2,000,000. The current outstanding balance is \$6,682,237.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2008

NOTE 6: COMMITMENTS AND CONTINGENCIES (CONTINUED)

On February 20th, 2008 a limited Recourse Promissory Note was entered into with the Coeur d'Alene Urban Renewal Agency dba Lake City Development Corporation and Coeur d'Alene Area Chamber of Commerce in the amount of \$300,000 at 0% 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 \$268,443.

NOTE 7: RISK MANAGEMENT

The Corporation 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 Corporation contracts with an insurance company for property insurance (including boiler and machinery) and general liability insurance.

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: MISCELLANEOUS EXPENSE

The Agency has chosen to aggregate the following line items together as miscellaneous expense for financial reporting:

	<u>Lake District</u>	
Property taxes		\$1,883
Legal notices		1,421
Miscellaneous		91
Postage		10
LID payments		<u>2,333</u>
		<u>\$5,738</u>
	<u>River District</u>	
Internet		\$ 34
Miscellaneous		41
Printing		187
Telephone		222
Parking		<u>28</u>
		<u>\$509</u>

NOTE 9: CHANGE IN ACCOUNTING ESTIMATE

The Corporation revised its estimate of the imputed interest rate on the grant payable to the Coeur d'Alene Public Library. The rate was originally set at 5.40% and is now set at 0.00%. The corporation believes this better reflects the true valuation of liability. The change resulted in an increase to the liability and proceeds from long-term debt of \$24,338 with a corresponding increase in partnership grant expense / expenditure for the same amount.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 10: EXPENDITURES IN EXCESS OF APPROPRIATIONS

Budgetary appropriation totaled \$532,358 within the River District while actual expenditures were \$809,340 resulting in a variance of \$276,982.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

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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, 2008**

	Budget Original/Final	Actual Amounts
REVENUES		
Property taxes	\$ 2,227,419	\$ 2,478,650
Rent	181,662	209,611
Penalties and interest		24,507
Interest earnings	40,000	81,871
Total revenues	2,449,081	2,794,639
EXPENDITURES		
Advertising and marketing	3,750	1,323
Arts	68,623	75,459
Closing costs	5,000	
Partnership grants	265,000	609,848
Dues and subscriptions	2,618	3,558
Insurance	4,162	5,505
Property management	28,903	38,746
Miscellaneous	11,232	5,738
Office supplies	3,750	10,378
Professional services	244,925	139,401
Rent expense	12,650	13,199
Tax increment expense	304,332	259,996
Travel and meetings	19,275	8,902
Utilities	9,345	12,936
Wages and benefits	112,315	108,263
Capital expenditures	1,500,000	358,000
Debt service - principal payments	172,069	277,638
Debt service - interest	359,792	271,061
Total expenditures	3,148,171	2,199,951
(Deficiency) excess of revenues (under) over expenditures	(697,090)	594,688
OTHER FINANCING SOURCES		
Proceeds from financing	1,040,000	885,121
Total other financing sources	1,040,000	885,121
Net change in fund balances	342,910	1,479,609
Fund balances - beginning	(342,910)	1,958,694
Fund balances - ending	\$ -	\$ 3,438,503

*The Corporation budgets for grant expenditures on the cash basis. Two of these grants are paid out over next several years. Accordingly, GAAP requires that the entire amount granted show as an expenditure in the current year, and the payments made in subsequent years to be shown as principal payments. This entry is to adjust partnership grants to their actual budgetary basis.

Adjustment to Cash (Budgetary) Basis	Actual amounts Cash (Budgetary) Basis	Variance With Final Budget
	\$ 2,478,650	\$ 251,231
	209,811	27,949
	24,507	24,507
	81,871	41,871
	<u>2,794,839</u>	<u>345,558</u>
	1,323	2,427
	75,459	(8,636)
		5,000
\$ (374,338) *	236,510	49,490
	3,558	(940)
	5,505	(1,343)
	38,749	(9,843)
	5,738	5,494
	10,378	(6,628)
	139,401	105,524
	13,199	(349)
	259,996	44,336
	8,902	10,373
	12,938	(3,591)
	108,263	4,052
	358,000	1,142,000
(150,000) *	127,638	44,461
	271,061	88,731
<u>(524,338)</u>	<u>1,675,613</u>	<u>1,470,558</u>
<u>524,338</u>	<u>1,119,026</u>	<u>1,816,116</u>
	360,783	(679,217)
<u>(524,338) *</u>	<u>360,783</u>	<u>(679,217)</u>
	1,479,809	1,136,899
	<u>1,956,694</u>	<u>2,299,604</u>
<u>\$ -</u>	<u>\$ 3,436,503</u>	<u>3,436,503</u>

Lake City Development Corporation

RIVER DISTRICT FUND
 BUDGETARY COMPARISON SCHEDULE
 For the Year Ended September 30, 2008

	Budget Original/Final	Actual Amounts
REVENUES		
Property taxes	\$ 697,032	\$ 1,011,135
Penalties and interest		6,474
Interest earnings	3,000	13,619
Total revenues	<u>900,032</u>	<u>1,031,228</u>
EXPENDITURES		
Arts	26,911	
Closing costs		13,069
Dues and subscriptions	873	1,166
Insurance	1,387	1,835
Miscellaneous	3,000	509
Office supplies	1,985	3,304
Professional services	77,825	39,954
Tax increment expense	372,589	55,731
Travel and meetings	6,425	2,632
Wages and benefits	38,353	22,879
Debt service - principal payments		406,710
Debt service - interest	3,000	261,511
Total expenditures	<u>532,358</u>	<u>809,340</u>
Excess of revenues over expenditures	<u>367,674</u>	<u>221,888</u>
OTHER FINANCING SOURCES		
Proceeds from refunding		3,750,000
Extinguishment of refunded debt		(3,667,929)
Total other financing sources		<u>82,072</u>
Net change in fund balance	367,674	303,960
Fund balance - beginning	(367,674)	219,222
Fund balance - ending	<u>\$ -</u>	<u>\$ 523,182</u>

* The debt obligations of the River District Fund are contractually paid for out of tax increment financing. Accordingly the Corporation budgets for both principal and interest based upon an internal projection funding available from the tax increment.

Adjustment to Cash (Budgetary) Basis	Actual amounts Cash (Budgetary) Basis	Variance With Final Budget
	\$ 1,011,135	\$ 114,103
	8,474	5,474
	13,619	10,619
	1,031,228	131,196
		26,911
	13,089	(13,089)
	1,186	(313)
	1,835	(448)
	509	2,491
	3,304	(1,319)
	39,954	37,871
\$ 688,221 *	723,952	(351,363)
	2,632	3,793
	22,879	15,484
(406,710) *		3,000
(261,511) *		3,000
	809,340	(276,982)
	221,888	(145,786)
		3,750,000
	(3,667,928)	(3,750,000)
	82,072	3,667,928
	303,960	(82,072)
	219,222	(53,714)
-	\$ 523,182	586,896
	\$ 523,182	\$ 523,182

FINANCIAL SECTION

REPORT REQUIRED BY THE GAO



**Magnuson, McHugh
& Company, P.A.**
CPAs and Consultants

**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 Directors
Lake City Development Corporation
Coeur d'Alene, Idaho 83816

We have audited the basic financial statements of the governmental activities and each major fund of Lake City Development Corporation as of and for the year ended September 30, 2008, which collectively comprise Lake City Development Corporation's basic financial statements and have issued our report thereon dated March 5, 2009. 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 of Lake City Development Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lake City Development Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lake City Development Corporation's financial statements that is more than inconsequential will not be prevented or detected by Lake City Development Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lake City Development Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 that are required to be reported under *Government Auditing Standards*.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

This report is intended for the information and use of management, the Board of Directors, 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
March 5, 2009