



LAKE CITY
Development Corporation

FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

Lake City Development Corporation
September 30, 2014

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of Lake City Development Corporation, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Lake City Development Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lake City Development Corporation, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3–9, and 32–33 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake City Development Corporation's internal control over financial reporting and compliance.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

December 15, 2014

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2014

This section of Lake City Development Corporation's ("the Agency") fiscal year 2014 financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on September 30, 2014. 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 position as of September 30, 2014 was \$(147,039).
- During fiscal year 2014, the Agency realized total revenues of \$6,049,718 and total net expenses of \$6,893,413 resulting in a decrease in net position of \$(843,695).
- Lake District: in fiscal year 2014, the Agency completed funding of the McEuen Park redevelopment initiative, meeting its funding commitment for this initiative of \$15.6 million.
- Lake District: in fiscal year 2014, the Agency demolished three LCDC-owned residential buildings located at 618 N. Park Avenue, 620 N. Park Avenue and 622 N. Park Avenue.
- Lake District: in fiscal year 2014, the Agency authorized \$750,000 for the acquisition of Burlington Northern Santa Fe (BNSF) railroad right of way located within the Lake District.
- Lake District: in fiscal year 2014, the Agency authorized the divestiture of LCDC property located at 728 Sherman Avenue via a public sealed bid auction. The minimum bid price for the property of \$150,000 was set based on the appraised value of the property. The auction will occur early in fiscal year 2015.
- River District: In fiscal year 2014, the Agency authorized approval of \$371,450 in LCDC partnership funding for the "Circuit at Seltice" project pertaining to public infrastructure improvements.
- River District: In fiscal year 2014, the Agency authorized an extension of LCDC's preliminary approval of LCDC partnership funding in the amount of \$10 million for the proposed NIC Event Center to be located within the LCDC's River District, based upon the original conditions as articulated in fiscal year 2013 at the July 17, 2013 Board meeting. This NIC Event Center funding request was ultimately withdrawn during the 2014 fiscal year.
- River District: in fiscal year 2014, the Agency authorized \$775,000 for the acquisition of Burlington Northern Santa Fe (BNSF) railroad right of way located within the River District.
- River District: In fiscal year 2014, the Agency authorized funding approval totaling \$280,000 for public infrastructure improvements associated with the proposed Riverstone West Apartments III affordable housing initiative.

Lake City Development Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2014

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 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 position 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 position and how they have changed. Net position, 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 position is 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, 2014

SIGNIFICANT ISSUES

- The Agency realized assessed valuation increases in both the Lake District (6% increase) and the River District (11% increase) in fiscal year 2013. The increased district valuations may, or may not, result in more tax increment revenues generated in fiscal year 2015 depending upon levy rates set by local taxing entities (note: the Agency is not a taxing entity and thus does not set levy rates).

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net Position

The Agency's September 30, 2014 net position was \$(147,039). Table 1 presents a summary of the Agency's net position.

Table 1

LAKE CITY DEVELOPMENT CORPORATION'S NET POSITION

	2014	2013
Current and other assets	\$ 8,312,198	\$ 6,069,461
Capital assets, net of accumulated depreciation	4,575,820	4,630,850
Total assets	\$ 12,888,018	\$ 10,700,311
Long-term liabilities outstanding	\$ 12,971,836	\$ 8,863,358
Other liabilities	63,221	1,140,297
Total liabilities	13,035,057	10,003,655
Invested in capital assets, net of related debt	2,845,278	2,372,887
Restricted	(2,992,317)	(1,676,231)
Total net position	\$ (147,039)	\$ 696,656

Lake City Development Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2014

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONCLUDED)

Changes in Net Position

Table 2 shows the changes in net position for fiscal year 2014.

Table 2

CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>
Program Revenues:		
Charges for services (rental income)	<u>\$ 155,124</u>	<u>\$ 166,764</u>
General Revenues:		
Tax increment revenue	5,844,849	5,470,849
Penalties and interest	43,446	71,853
Interest and investment earnings	6,299	6,345
Total general revenues	<u>5,894,594</u>	<u>5,549,047</u>
Expenses:		
General government	6,311,444	14,227,233
Property rentals	187,679	171,352
Interest on long-term debt - general	394,290	91,855
Total expenses	<u>6,893,413</u>	<u>14,490,440</u>
Change in net position	<u>\$ (843,695)</u>	<u>\$ (8,774,629)</u>

Changes in Net Position

The Agency's total revenue of \$6,049,718 for the fiscal year 2014 represents a slight increase over fiscal year 2013 revenues. Agency fiscal year 2014 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 2014 with a total governmental fund balance of \$7,956,225 which represents a \$3,479,664 increase from the ending governmental fund balance for fiscal year 2013 primarily due to proceeds from financing.

Budgetary Highlights – Lake District

There are no significant reporting issues regarding actual revenues and expenses relative to budget projections. Total revenues realized were slightly 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 planned capital project expenditures and borrowing less than anticipated

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2014

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS (CONCLUDED)

Budgetary Highlights – River District

There are no significant reporting issues regarding actual revenues and expenses relative to budget projections. Total revenues realized were slightly above budget projections due primarily to final determination of taxing entity levy rates. Actual expenses were below budget due primarily to lower expenses in professional fees and less borrowing than anticipated.

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 2014, the Agency transferred \$83,706 of Lake District funds to the Commission; and transferred \$35,946 of River District funds to the Commission.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

In fiscal year 2014, the Agency did not acquire nor divest of any real property assets. The Agency's Lake District strategic property portfolio currently consists of twenty three properties. The Agency does not own any strategic properties in the River District.

Long-term Debt: Lake District

- Strategic Property Portfolio: Real property assets in the Lake District strategic property portfolio are financed conventionally through local lending institutions. At the end of fiscal year 2014, six of LCDC's twenty three Lake District strategic property debt obligations have yet to be retired.
- Improvement Reimbursement Agreements (IRAs): The Agency has entered into IRAs with the principals of the Ice Plant, Northwest Place (retired in fiscal year 2013), Parkside (retired in fiscal year 2013), 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 609 Sherman Avenue Lofts IRA (initiated July of 2011) principal reimbursement total is \$404,993. The IRA debt obligation amounts are not included in the long-term debt values found within this audit report because the outstanding debt amounts are offset by corresponding receivable amounts. In other words, the receivable and debt amounts cancel each other out for reporting purposes. Please refer to Note 6 for more discussion.
- 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 outstanding debt amounts are offset by corresponding receivable amounts. In other words, the receivable and debt amounts cancel each other out for reporting purposes. Please refer to Note 6 for more discussion.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

- 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.
- 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 is being used on Lake District redevelopment projects. 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 principal and accrued interest 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. 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. The Agency must however make two semiannual payments totaling \$2,080,000 annually, until any outstanding principal and accrued interest is paid off.

Long-term Debt: River District

- Owner Participation Agreements (OPAs): The Agency has entered into an OPA with the principals 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 outstanding debt amount is offset by a corresponding receivable amount. In other words, the receivable and debt amounts cancel each other out for reporting purposes. Please refer to Note 6 for more discussion.
- 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. This debt obligation was retired in fiscal year 2014.
- Improvement Reimbursement Agreements (IRAs): The Agency has approved the following IRAs:
 - Mill River Seniors affordable housing initiative
 - Riverstone West Family Apartments affordable housing initiative
 - Riverstone West Apartments III affordable housing initiative
 - Riverstone West Phase 2 roadway initiative
 - Circuit at Seltice detached housing initiative

The IRAs are financed through site-specific, tax increment fund revenues that will be generated by the specific projects. The Mill River Seniors IRA principal reimbursement total is \$326,000. The Riverstone West Family Apartments IRA principal reimbursement total is \$395,000. The Riverstone West Family Apartments III IRA principal reimbursement total is \$280,000. The Riverstone West Phase 2 IRA principal reimbursement total is \$823,058. The Circuit at Seltice IRA principal reimbursement total is \$371,450. The IRA debt obligation amounts are not included in the long-term debt values found within the audit report because the outstanding debt amounts will be offset by corresponding receivable amounts. In other words, the receivable and debt amounts will cancel each other out for reporting purposes.

Lake City Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended September 30, 2014

ECONOMIC OUTLOOK AND FISCAL YEAR 2015 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 and place attributes are key contributors to this trend.

ECONOMIC OUTLOOK AND FISCAL YEAR 2015 IMPACT (CONCLUDED)

In fiscal 2014, property values within the Agency's Districts increased reflecting a national trend. Private capital investment within the Districts continues to occur. During fiscal 2014, several projects were initiated within the Agency's Districts signaling increased economic activity. Fiscal year 2015 will see additional construction projects initiated attesting to a recovering regional real estate market.

Development for 2015 will occur in both the Lake and River Districts. Development in the River District 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. Development in the Lake District will involve new downtown commercial space, as well as new residential units.

Property tax receipts in fiscal 2014 for both Districts were consistent with projections. Projected fiscal 2015 property tax receipts for both the Lake & River Districts are on par with receipts from fiscal 2014. 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 fiscal 2014 appear promising. Kootenai County economic trends continue to lag national trends somewhat, with both residential and commercial development showing increased activity. The region continues to benefit economically from the arrival of the affluent urban dweller demographic that has spurred development of residential product, both within the downtown urban area and along the waterfront. The region is also following a national trend of increased rental apartment unit development. The 2015 economic forecast for the northern Idaho region is optimistic. Private equity continues to move off of the sidelines. Relocations (people, businesses) and property investment into the area will stimulate the local economy.

In summary, given the subsidence of past market volatility, the Agency is 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, please 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 POSITION

September 30, 2014

ASSETS

Cash and cash equivalents	\$ 6,249,589
Property taxes receivable	378,299
Tenant deposits receivable	10,420
Restricted cash - bond reserve	1,673,890
Land	2,946,918
Capital assets, net	1,628,902
Total assets	<u>12,888,018</u>

LIABILITIES

Accrued payroll and taxes	3,840
Due to other governments	1,648
Tenant deposits	13,595
Interest payable	44,138
Long-term liabilities:	
Due within one year	2,571,952
Due in more than one year	10,399,884
Total liabilities	<u>13,035,057</u>

NET POSITION

Net investment in capital assets	2,845,278
Restricted to Lake District	(7,222,972)
Restricted to River District	4,230,655
Total net position	<u>\$ (147,039)</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, 2014

FUNCTIONS / PROGRAMS	Expenses	Charges for Services	Net Governmental Activities
PRIMARY GOVERNMENT:			
General government activities:			
Arts	\$ 119,652	\$ -	\$ (119,652)
Communications	3,373	-	(3,373)
Dues and subscriptions	10,868	-	(10,868)
Insurance	8,511	-	(8,511)
Miscellaneous	291	-	(291)
Office overhead	4,122	-	(4,122)
Partnership grants	106,025	-	(106,025)
Professional services	91,965	-	(91,965)
Project reimbursements	320,030	-	(320,030)
Public improvements	5,478,804	-	(5,478,804)
Travel and meetings	4,522	-	(4,522)
Utilities and telephone	1,456	-	(1,456)
Wages, benefits and payroll taxes	161,825	-	(161,825)
Total general government activities	<u>6,311,444</u>	<u>-</u>	<u>(6,311,444)</u>
Property rental activities:			
Rental income	-	155,124	155,124
Property management	90,921	-	(90,921)
Depreciation	55,030	-	(55,030)
Interest on long term debt	41,728	-	(41,728)
Total property rental activities	<u>187,679</u>	<u>155,124</u>	<u>(32,555)</u>
Interest on long term debt - general	<u>394,290</u>	<u>-</u>	<u>(394,290)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 6,893,413</u>	<u>\$ 155,124</u>	<u>\$ (6,738,289)</u>
GENERAL REVENUES:			
Tax increment revenue			5,844,849
Penalties and interest			43,446
Interest earnings			6,299
Total general revenues			<u>5,894,594</u>
CHANGE IN NET POSITION			(843,695)
NET POSITION, beginning of year			<u>696,656</u>
NET POSITION, end of year			<u>\$ (147,039)</u>

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

Lake City Development Corporation

GOVERNMENTAL FUNDS BALANCE SHEET September 30, 2014

	Lake District	River District	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,140,032	\$ 4,109,557	\$ 6,249,589
Property taxes receivable	256,346	121,953	378,299
Tenant deposits receivable	10,420	-	10,420
Restricted cash - bond reserve	1,673,890	-	1,673,890
Total assets	\$ 4,080,688	\$ 4,231,510	\$ 8,312,198
LIABILITIES			
Accrued payroll and taxes	\$ 3,840	\$ -	\$ 3,840
Due to other governments	793	855	1,648
Tenant deposits	13,595	-	13,595
Total liabilities	18,228	855	19,083
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	227,614	109,276	336,890
Total deferred inflows of resources	227,614	109,276	336,890
FUND BALANCE			
Restricted	3,834,846	4,121,379	7,956,225
Total fund balance	3,834,846	4,121,379	7,956,225
Total liabilities, deferred inflows of resources, and fund balance	\$ 4,080,688	\$ 4,231,510	\$ 8,312,198

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 POSITION September 30, 2014

Total fund balance at September 30, 2014 - Governmental Funds		\$ 7,956,225
Cost of capital assets at September 30, 2014	\$ 5,131,636	
Less: Accumulated depreciation as of September 30, 2014:		
Buildings and sites	<u>(555,816)</u>	4,575,820
Elimination of deferred revenue		336,890
Long-term liabilities at September 30, 2014:		
Long-term debt	(12,971,836)	
Accrued interest payable	<u>\$ (44,138)</u>	<u>(13,015,974)</u>
Net position at September 30, 2014		<u>\$ (147,039)</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, 2014

	Lake District	River District	Total Governmental Funds
REVENUES			
Tax increment revenue	\$ 4,164,884	\$ 1,796,021	\$ 5,960,905
Rental income	155,124	-	155,124
Penalties and interest	33,074	10,372	43,446
Interest earnings	2,720	3,579	6,299
Total revenues	4,355,802	1,809,972	6,165,774
EXPENDITURES			
Current:			
Arts	83,706	35,946	119,652
Communications	2,053	1,320	3,373
Dues and subscriptions	5,434	5,434	10,868
Insurance	5,839	2,672	8,511
Miscellaneous	-	291	291
Office overhead	2,070	2,052	4,122
Partnership grants	106,025	-	106,025
Professional services	45,462	46,503	91,965
Project reimbursements	43,638	276,392	320,030
Property management	90,921	-	90,921
Public improvements	5,478,804	-	5,478,804
Travel and meetings	2,288	2,234	4,522
Utilities and telephone	878	578	1,456
Wages, benefits and payroll taxes	80,912	80,913	161,825
Debt service:			
Interest	387,694	4,529	392,223
Principal payments	2,365,158	63,964	2,429,122
Total expenditures	8,700,882	522,828	9,223,710
OTHER FINANCING SOURCES			
Proceeds from financing	6,537,600	-	6,537,600
Total other financing sources	6,537,600	-	6,537,600
NET CHANGE IN FUND BALANCES	2,192,520	1,287,144	3,479,664
FUND BALANCES, beginning of year	1,642,326	2,834,235	4,476,561
FUND BALANCES, end of year	\$ 3,834,846	\$ 4,121,379	\$ 7,956,225

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, 2014

Total net changes in fund balances for year ended September 30, 2014	\$ 3,479,664
Less: Depreciation expense for the year ended September 30, 2014	(55,030)
Add: Debt principal retirement considered as an expenditure	2,429,122
Less: Proceeds from financing	(6,537,600)
Less: Difference between interest on long-term debt on modified-accrual basis versus interest on long-term debt on full accrual basis	(43,795)
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>(116,056)</u>
Change in net position for year ended September 30, 2014	<u><u>\$ (843,695)</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, 2014

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's, financial reporting based on certain criteria in GASB Statement No. 14. These statements present only the governmental activities of the Agency and are not intended to present the financial position and results of operations of the City of Coeur d'Alene, Idaho, (the "City") 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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Concluded)

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 position 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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

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.

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.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

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 position 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.

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

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, to 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.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Fund Balance

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.

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.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Position

Net position represents the difference between assets / deferred outflows of resources, and liabilities / deferred inflows of resources. Net investment in capital assets consists 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.

J. Fund Balance Flow Assumptions

Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balances. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

K. Net Position Flow Assumptions

Net position is 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. Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted – net position is applied.

L. 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.

M. 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 2013 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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

M. Property Taxes and Deferred Tax Revenues (Concluded)

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 December 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.

N. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position / balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element - *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position / balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element - *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has only one item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category - *unavailable revenue*. This item is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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 no amendment to the budget for the fiscal year ending September 30, 2014.

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.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

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 \$7,923,479 and the bank balance is \$7,925,201. As of September 30, 2014, the Agency's bank balance was not exposed to custodial credit risk. Details are as follows:

Amount insured by FDIC	\$7,925,201
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The Agency maintains cash deposits with four 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

NOTE 4: CAPITAL ASSETS

Following is a recap of capital assets for the fiscal year ended September 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,946,918	\$ -	\$ -	\$ 2,946,918
Total capital assets not being depreciated	2,946,918	-	-	2,946,918
Capital assets being depreciated:				
Buildings and sites	2,184,718	-	-	2,184,718
Total capital assets being depreciated	2,184,718	-	-	2,184,718
Less accumulated depreciation for:				
Buildings and sites	500,786	55,030		555,816
Total accumulated depreciation	500,786	55,030	-	555,816
Total capital assets being depreciated, net	1,683,932	(55,030)	-	1,628,902
Governmental activities capital assets, net	\$ 4,630,850	\$ (55,030)	\$ -	\$ 4,575,820

During the fiscal year, \$55,030 in depreciation expense was charged to the property rental function.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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.

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.

On April 1, 2013, in lieu of remitting the balloon payment due, the Agency refinanced the balance through Washington Trust Bank. The total amount refinanced was \$555,676. Repayment terms are monthly payments due the first of each month, bearing interest at the rate of 2.65%. The annual requirement to retire the debt is as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2015	2.65%	\$ 50,821	\$ 12,302	\$ 63,123
2016	2.65%	52,205	10,918	63,123
2017	2.65%	53,627	9,496	63,123
2018	2.65%	323,895	3,528	327,423
		<u>\$ 480,548</u>	<u>\$ 36,244</u>	<u>\$ 516,792</u>

515 W. Garden Avenue:

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 debt was retired in the current fiscal year.

626 N. Park Drive:

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 debt was retired in the current fiscal year.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

NOTE 5: LONG-TERM DEBT (CONTINUED)

516 N. Park Drive:

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
2015	3.88%	\$ 104,747	\$ 2,318	\$ 107,065
		<u>\$ 104,747</u>	<u>\$ 2,318</u>	<u>\$ 107,065</u>

518 N. Park Drive:

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, 2015. The remaining principal balance was retired ahead of schedule in the current fiscal year.

211 N. 4th 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
2015	3.88%	\$ 177,322	\$ 7,902	\$ 185,224
		<u>\$ 177,322</u>	<u>\$ 7,902</u>	<u>\$ 185,224</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

NOTE 5: LONG-TERM DEBT (CONTINUED)

301 E. Lakeside Avenue:

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 on May 5, 2016. The annual requirements to retire the debt are as follows:

Fiscal year ending September 30,	Rate	Principal	Interest	Total
2015	1.74%	\$ 22,382	\$ 7,256	\$ 29,638
2016	1.74%	413,408	4,620	418,028
		<u>\$ 435,790</u>	<u>\$ 11,876</u>	<u>\$ 447,666</u>

712 E. Young Avenue:

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
2015	1.64%	\$ 20,034	\$ 3,771	\$ 23,805
2016	1.64%	219,056	300	219,356
		<u>\$ 239,090</u>	<u>\$ 4,071</u>	<u>\$ 243,161</u>

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 5: LONG-TERM DEBT (CONTINUED)

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

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
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>\$ 303,109</u>	<u>\$ 49,983</u>	<u>\$ 353,092</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. The bond had a maturity date of March 1, 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 initial effective interest rate 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, with subsequent semi-annual payments 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 debt was retired in the current fiscal year.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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
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	82,546
		<u>\$ 393,686</u>	<u>\$ 49,064</u>	<u>\$ 442,750</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 is being used on Lake District Redevelopment Projects. 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 principal and accrued interest 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. 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. The Agency must however make two semiannual payments totaling \$2,080,000 annually, until any outstanding balance and accrued interest is paid off.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 5: LONG-TERM DEBT (CONCLUDED)

The following is a summary of debt activity for the year ended September 30, 2014:

	Beginning Balance	Principal Additions	Principal Payments	Ending Balance	Due in One Year
Library Site	\$ 530,021	\$ -	\$ 49,473	\$ 480,548	\$ 50,821
515 W. Garden Ave.	210,894	-	210,894	-	-
626 N. Park Dr.	51,191	-	51,191	-	-
516 N. Park Dr.	110,323	-	5,576	104,747	104,747
518 N. Park Dr.	144,905	-	144,905	-	-
211 N. 4th Street	183,544	-	6,222	177,322	177,322
301 E. Lakeside Ave	457,966	-	22,176	435,790	435,790
712 E. Young Ave	258,798	-	19,708	239,090	20,034
839 N. 3rd St. & 845 N. 4th St.	313,122	-	10,013	303,109	10,498
Mill River Project fixed rate bond	63,964	-	63,964	-	-
Midtown	463,024	-	69,338	393,686	72,740
Bond Payable - Washington Trust	6,075,606	6,537,600	1,775,662	10,837,544	1,700,000
	<u>\$ 8,863,358</u>	<u>\$ 6,537,600</u>	<u>\$ 2,429,122</u>	<u>\$ 12,971,836</u>	<u>\$ 2,571,952</u>

NOTE 6: COMMITMENTS AND CONTINGENCIES

On June 21, 2007, a certificate of completion was issued concerning the improvements made to the development known as Riverstone West Phase I. 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 Phase I. 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.

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 \$282,579.

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 \$289,047.

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. During the current year, the remaining principal balance of \$7,349 was paid from incremental property taxes received and the obligation was satisfied in full.

(Continued)

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

NOTE 6: COMMITMENTS AND CONTINGENCIES (CONCLUDED)

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 \$395,506.

In May of 2013, a limited Recourse Promissory Note was entered into between the Agency and Mill River Seniors in the amount of \$326,000 at 3.75% 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 Mill River Seniors affordable housing. Payments will continue until paid in full or by February 2024. The total interest on the note cannot exceed \$97,800. The current outstanding balance is \$326,000.

In May of 2013, a limited Recourse Promissory Note was entered into between the Agency and the principals of Riverstone West Apartments in the amount of \$395,000 at 3.75% 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 Family Apartments. Payments will continue until paid in full or by February 2024. The total interest on the note cannot exceed \$118,500. The current outstanding balance is \$395,000.

In October of 2012, a limited Recourse Promissory Note was entered into between the Agency and the principals of the Riverstone West Phase 2 in the amount of \$823,058 at 4.25% simple interest per annum. The notes is scheduled to be paid in semiannual payments of 75% of the tax revenue allocation proceeds from the private development known as Riverstone West Phase 2. Payments will continue until paid in full or by 2027. The total interest on the note cannot exceed \$246,917. The current outstanding balance for the Riverstone West Phase 2 IRA is \$782,334.

NOTE 7: PUBLIC IMPROVEMENTS

<u>Description</u>	<u>Value</u>
Midtown Place-making Project	\$ 480
McEuen Park	5,478,324
Total	<u>\$ 5,478,804</u>

Midtown Place-making Project:

This project consists of maintenance (e.g. street tree pruning & fertilization, irrigation system) costs associated with public infrastructure streetscaping improvements installed during the Midtown Placemaking initiative.

Lake City Development Corporation

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

NOTE 7: PUBLIC IMPROVEMENTS (CONCLUDED)

McEuen Park:

The LCDC Board agreed to fund \$15,624,800 for proposed public improvements (e.g. park amenities, new section of Centennial Trail, public parking structure) associated with the McEuen Park re-development initiative. During fiscal year 2014, the remaining \$5,478,324 was paid for McEuen Park public improvements and the project was completed.

NOTE 8: 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.

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 9: 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 position according to the amount legally restricted to expenditures within each district.

NOTE 10: SUBSEQUENT EVENTS

On July 15, 2014, Coeur d'Alene City Council authorized the purchase of the BNSF Railroad property in Coeur d'Alene for \$2,500,000. Since that time representatives of BNSF, LCDC and the City have negotiated terms of the Purchase and Sale Agreement. It is anticipated the City and LCDC will close on the purchase of the property on or before January 21, 2015. LCDC has agreed to pay \$1,483,727 of the purchase price for the land located within its River and Lake Districts. The City will pay \$1,016,273 for the land located between the two LCDC districts. LCDC's acquisition costs will be broken down as follows:

Lake District:	\$750,000 (728,196 + closing/legal costs)
River District:	\$775,000 (\$755,534 + closing/legal costs)

(Concluded)

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, 2014

	*		(1)	Actual Amounts	
	Budget Final	Actual Amounts	Adjustment to Actual Amounts	Budgetary Basis	Variance With Final Budget
REVENUES					
Tax increment revenue	\$ 3,950,719	\$ 4,164,884	\$ (6,429)	\$ 4,158,455	\$ 207,736
Rental income	147,579	155,124	-	155,124	7,545
Penalties and interest	-	33,074	-	33,074	33,074
Interest earnings	1,800	2,720	-	2,720	920
Total revenues	<u>4,100,098</u>	<u>4,355,802</u>	<u>(6,429)</u>	<u>4,349,373</u>	<u>249,275</u>
EXPENDITURES					
Current:					
Arts	79,014	83,706	(344)	83,362	(4,348)
Communications	4,000	2,053	-	2,053	1,947
Dues and subscriptions	4,255	5,434	-	5,434	(1,179)
Insurance	2,672	5,839	-	5,839	(3,167)
Miscellaneous	500	-	-	-	500
Office overhead	1,250	2,070	-	2,070	(820)
Partnership grants	135,000	106,025	-	106,025	28,975
Professional services	233,230	45,462	-	45,462	187,768
Project reimbursements	67,778	43,638	-	43,638	24,140
Property management	102,469	90,921	-	90,921	11,548
Public improvements	7,625,000	5,478,804	1,116,798	6,595,602	1,029,398
Travel and meetings	6,875	2,288	-	2,288	4,587
Utilities and telephone	2,640	878	-	878	1,762
Wages, benefits and payroll taxes	87,432	80,912	(71)	80,841	6,591
Debt service:					
Interest	82,883	387,694	-	387,694	(304,811)
Principal payments	2,264,727	2,365,158	-	2,365,158	(100,431)
Capital outlay	500,000	-	-	-	500,000
Total expenditures	<u>11,199,725</u>	<u>8,700,882</u>	<u>1,116,383</u>	<u>9,817,265</u>	<u>1,382,460</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES					
	<u>(7,099,627)</u>	<u>(4,345,080)</u>	<u>(1,122,812)</u>	<u>(5,467,892)</u>	<u>1,631,735</u>
OTHER FINANCING SOURCES					
Proceeds from financing	7,150,000	6,537,600	-	6,537,600	(612,400)
Total other financing sources	<u>7,150,000</u>	<u>6,537,600</u>	<u>-</u>	<u>6,537,600</u>	<u>(612,400)</u>
NET CHANGE IN FUND BALANCES					
	50,373	2,192,520	(1,122,812)	1,069,708	1,019,335
FUND BALANCES, beginning of year					
	<u>2,321,198</u>	<u>1,642,326</u>	<u>(1,298,036)</u>	<u>344,290</u>	<u>(1,976,908)</u>
FUND BALANCES, end of year					
	<u>\$ 2,371,571</u>	<u>\$ 3,834,846</u>	<u>\$ (2,420,848)</u>	<u>\$ 1,413,998</u>	<u>\$ (957,573)</u>

(1) EXPLANATION OF ADJUSTMENTS TO ACTUAL AMOUNTS

	To convert to budgetary basis (cash basis)
REVENUES	
Property taxes	\$ (6,429)
Total revenue adjustments	<u>(6,429)</u>
EXPENDITURES	
Arts	(344)
Public improvements	1,116,798
Wages and benefits	(71)
Total expenditure adjustments	<u>1,116,383</u>
NET CHANGE IN FUND BALANCES	
	(1,122,812)
FUND BALANCES, beginning of year	<u>(1,298,036)</u>
FUND BALANCES, end of year	<u>\$ (2,420,848)</u>

* Budget was not amended

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, 2014

	*Budget Original/Final	Actual Amounts	(1) Adjustment to Actual Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget
REVENUES					
Tax increment revenue	\$ 1,704,786	\$ 1,796,021	\$ (9,091)	\$ 1,786,930	\$ 82,144
Penalties and interest	-	10,372	-	10,372	10,372
Interest earnings	3,116	3,579	-	3,579	463
Total revenues	1,707,902	1,809,972	(9,091)	1,800,881	92,979
EXPENDITURES					
Current:					
Arts	34,096	35,946	(7)	35,939	(1,843)
Communications	4,750	1,320	-	1,320	3,430
Dues and subscriptions	4,255	5,434	-	5,434	(1,179)
Insurance	2,672	2,672	-	2,672	-
Miscellaneous	500	291	-	291	209
Office overhead	3,890	2,052	-	2,052	1,838
Partnership grants	-	-	-	-	-
Professional services	348,030	46,503	2,880	49,383	298,647
Project reimbursements	281,761	276,392	-	276,392	5,369
Travel and meetings	6,875	2,234	-	2,234	4,641
Utilities and telephone	-	578	-	578	(578)
Wages, benefits and payroll taxes	87,432	80,913	-	80,913	6,519
Debt service:					
Interest	-	4,529	(4,529)	-	-
Principal payments	65,000	63,964	4,529	68,493	(3,493)
Capital outlay	200,000	-	-	-	200,000
Total expenditures	1,039,261	522,828	2,873	525,701	513,560
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES	668,641	1,287,144	(11,964)	1,275,180	606,539
OTHER FINANCING SOURCES					
Proceeds from long term debt	140,000	-	-	-	140,000
Total other financing sources	140,000	-	-	-	140,000
NET CHANGE IN FUND BALANCES	808,641	1,287,144	(11,964)	1,275,180	466,539
FUND BALANCES, beginning of year	2,930,944	2,834,235	(9,167)	2,825,068	(105,876)
FUND BALANCES, end of year	\$ 3,739,585	\$ 4,121,379	\$ (21,131)	\$ 4,100,248	\$ 360,663

(1) EXPLANATION OF ADJUSTMENTS TO ACTUAL AMOUNTS

	To convert to basis (cash basis)	consolidate principal and interest	Total
REVENUES			
Property taxes	\$ (9,091)	\$ -	\$ (9,091)
Total revenue adjustments	(9,091)	-	(9,091)
EXPENDITURES			
Arts	(7)	-	(7)
Insurance	-	-	-
Interest	-	(4,529)	(4,529)
Professional services	2,880	-	2,880
Principal payments	-	4,529	4,529
Total expenditure adjustments	2,873	-	2,873
NET CHANGE IN FUND BALANCES	(11,964)	-	(11,964)
FUND BALANCES, beginning of year	(9,167)	-	(9,167)
FUND BALANCES, end of year	\$ (21,131)	\$ -	\$ (21,131)

* 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, ID 83816

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Lake City Development Corporation as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Lake City Development Corporation's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 (CONCLUDED)

Purpose of this Report

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

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

December 15, 2014