

**City of Kalamazoo, Michigan
Economic Development Corporation**

FINANCIAL STATEMENTS

December 31, 2012

City of Kalamazoo, Michigan
Economic Development Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Economic Development Corporation of the
City of Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Economic Development Corporation (EDC) of the City of Kalamazoo, Michigan, (a component unit of the City of Kalamazoo, Michigan) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the EDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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. 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 the major fund of the Economic Development Corporation of the City of Kalamazoo, Michigan, as of December 31, 2012, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note G, the EDC implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during 2012. As a result of this implementation, the format and reporting of the financial statements have changed to reflect the required components of GASB Statement No. 63. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 27, 2013

City of Kalamazoo, Michigan
Economic Development Corporation

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2012

This section for the Economic Development Corporation's (the EDC) financial report presents a discussion and analysis of the EDC's financial performance for the fiscal year ended December 31, 2012. This discussion has been prepared by management along with financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

Using this Annual Report

This annual report consists of a series of financial statements that focus on the financial condition of the unit of government and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position and Statement of Activities that present financial information in a form similar to the private sector.

The Statement of Net Position includes the EDC's assets, liabilities, and net position. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when levied or the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The EDC's net position is one indicator of the EDC's financial health. Over time, increases or decreases in net position indicate the improvement or erosion of the EDC's financial health.

Condensed Statement of Net Position
December 31, 2011 and 2012

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Current Assets	\$ 600,102	\$ 603,946	-0.64%
Noncurrent Assets	<u>1,362,931</u>	<u>1,574,813</u>	-13.45%
Total Assets	1,963,033	2,178,759	-9.90%
Current Liabilities	161,774	113,853	42.09%
Noncurrent Liabilities	<u>1,352,304</u>	<u>1,489,362</u>	-9.20%
Total Liabilities	<u>1,514,078</u>	<u>1,603,215</u>	-5.56%
Net Position Unrestricted	<u>\$ 448,955</u>	<u>\$ 575,544</u>	-21.99%

Current Assets

The decrease in current assets is due to the decrease in notes receivable and due from other governments held at December 31, 2012. The components of this category are:

Cash

The EDC maintains a checking account for payments and receipts from operations.

Notes Receivable

These are funds loaned to businesses within the City to help strengthen and revitalize the economy of the City of Kalamazoo. The current portion represents amounts that are due and payable to the EDC within one year.

Due from Other Governmental Units

Represents amounts due from the City of Kalamazoo for various purposes.

City of Kalamazoo, Michigan
Economic Development Corporation

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2012

Noncurrent Assets

The decrease in current assets is due to the decrease in notes receivable held at December 31, 2012. The components of this category are:

Notes Receivable

These are funds loaned to businesses within the City to help strengthen and revitalize the economy of the City of Kalamazoo. The noncurrent portion represents amounts that are due and payable to the EDC beyond one year. The loans are secured by the mortgages on the property.

During the year ended December 31, 2012, the EDC foreclosed on one loan that resulted in a write-off of approximately \$72,000 of remaining loan balances after the sale of property. The EDC did not issue any new loans during the year ended December 31, 2012.

Current Liabilities

The 42.09% increase in current liabilities was due to an increase in the current amount of advances from other governmental units, due from other governmental units and compensated absences due to employees. This category is composed of:

Accounts Payable

This amount is made up of amounts due for goods and services received, but not paid for by the end of the fiscal year. There was no accounts payable as of December 31, 2012.

Due to Other Governmental Units

Represents amounts due to the City of Kalamazoo for various purposes. Approximately \$40,000 of the total \$41,388 increase is due to timing of payments to the City's Economic Initiative Fund.

Advances from Other Governmental Units

This amount represents the amount owed to the City of Kalamazoo's Economic Initiatives Fund that is payable within one year.

Compensated Absences, due within one year

This represents the amount of earned and vested vacation and sick leave that the EDC expects to pay to employees within one year.

Noncurrent Liabilities

The decrease in this category is due to decreases in compensated absences due to employees and advances from other governmental units.

Advances from Other Governmental Units, due in more than one year

This amount represents the amount owed to the City of Kalamazoo's Economic Initiatives Fund that is due and payable beyond one year. Advances from the City's Economic Initiatives Fund were used to fund loan agreements between the EDC and businesses within Kalamazoo for purposes of strengthening and revitalizing the economy of the City.

Compensated Absences, due in more than one year

This represents the amount of earned and vested vacation and sick leave that the EDC expects to pay employees beyond one year.

Net Position

Net position represents the difference between the EDC's assets and liabilities.

Unrestricted Net Position

Unrestricted net position is the portion of net position that is available for future spending. All of the EDC's Net Position was unrestricted as of December 31, 2012.

City of Kalamazoo, Michigan
Economic Development Corporation

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2012

	<u>2012</u>	<u>2011</u>
Revenues	\$ 81,457	\$ 82,096
Expenses	<u>208,046</u>	<u>132,073</u>
Change in net position	(126,589)	(49,977)
Net position, beginning of year	<u>575,544</u>	<u>625,521</u>
Net position, end of year	<u>\$ 448,955</u>	<u>\$ 575,544</u>

Revenues

Revenues are composed of:

Intergovernmental

This represents revenue received from the Local Development Finance Authority (a Component Unit of the City of Kalamazoo).

Interest

This is the revenue generated by the interest earnings on deposit accounts.

Expenses

The increase in expenses is primarily due to an increase in employee payroll and fringe benefit and other expenses. Expenses are composed of:

Wages and fringes

This is the cost of wages and fringe benefits of the EDC employees. Employees of the EDC are shared with other economic development programs of the City of Kalamazoo, including the City's General Fund and the Brownfield Redevelopment Authority, a component unit of the City. The 7% increase in wages and fringes is primarily due to a change in allocation between these programs and an increase in the cost of fringe benefits.

Contractual services

This is the cost of contractual and professional fees.

Other

This is the cost of miscellaneous expenses incurred by the EDC including the purchase and maintenance of property held for resale. Other expenses for the year ended December 31, 2012, includes an approximately \$72,000 loss on a foreclosed loan.

Budgetary Highlights

The EDC's budgetary comparison is presented in this annual report.

The EDC had final budgeted revenues of \$81,025 and total expenditures of \$165,953, using \$84,928 of reserves to support fiscal year 2012 economic programs. The actual results for the year was \$122,572 decrease in fund balance, the difference primarily related to an approximately \$72,000 loss on a foreclosed loan, offset by savings on professional services. There was no change in the original budget and final amended budget.

City of Kalamazoo, Michigan
Economic Development Corporation

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2012

Economic Factors and Next Year's Budget

The fiscal year 2013 budget anticipates a drawdown of fund balance in the approximate amount of \$60,352. Intergovernmental revenue from the Local Development Finance Authority (a Component Unit of the City of Kalamazoo) will remain consistent with 2012 levels. Expenditures will be reduced by \$24,575 in 2013, primarily due to reductions in planned professional services.

Contacting the EDC's Management

This financial report is designed to provide the EDC's citizens, taxpayers, and customers with a general overview of the EDC's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Kalamazoo EDC office at 241 W. South Street, Kalamazoo, MI 49007.

BASIC FINANCIAL STATEMENTS

City of Kalamazoo, Michigan
Economic Development Corporation

STATEMENT OF NET POSITION

December 31, 2012

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 483,432
Current portion of notes receivable	104,493
Due from other governmental units	<u>12,177</u>
Total current assets	600,102
Noncurrent assets	
Noncurrent portion of notes receivable	<u>1,362,931</u>
TOTAL ASSETS	1,963,033
LIABILITIES	
Current liabilities	
Due to other governmental units	47,482
Current portion of advances from other governmental units	104,493
Current portion of compensated absences	<u>9,799</u>
Total current liabilities	161,774
Noncurrent liabilities	
Noncurrent portion of advances from other governmental units	1,335,308
Noncurrent portion of compensated absences	<u>16,996</u>
TOTAL LIABILITIES	<u>1,514,078</u>
NET POSITION	
Unrestricted	<u><u>\$ 448,955</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Economic Development Corporation

STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Position
Governmental activities			
Community and economic development	\$ 208,046	\$ 81,024	\$ (127,022)
	General revenues		
	Interest		433
	CHANGE IN NET POSITION		(126,589)
	Net position, beginning of the year		575,544
	Net position, end of the year		\$ 448,955

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Economic Development Corporation

Governmental Fund

BALANCE SHEET

December 31, 2012

	General Fund
ASSETS	
Cash	\$ 483,432
Notes receivable	1,467,424
Due from other governmental units	<u>12,177</u>
TOTAL ASSETS	<u>\$ 1,963,033</u>
LIABILITIES	
Due to other governmental units	\$ 47,482
Advances from other governmental units	<u>1,439,801</u>
TOTAL LIABILITIES	1,487,283
FUND BALANCE	
Nonspendable	100,000
Unassigned	<u>375,750</u>
TOTAL FUND BALANCE	<u>475,750</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,963,033</u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Economic Development Corporation

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

December 31, 2012

Fund balance - governmental fund \$ 475,750

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

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund balance sheet. Long-term liabilities at year-end consist of:

Compensated absences (26,795)

Net position of governmental activities \$ 448,955

City of Kalamazoo, Michigan
Economic Development Corporation

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2012

	<u>General Fund</u>
REVENUES	
Intergovernmental - local	\$ 81,024
Interest	<u>433</u>
TOTAL REVENUES	81,457
EXPENDITURES	
Current	
Community and economic development	
Wages and fringes	123,584
Contractual services	5,404
Other	<u>75,041</u>
TOTAL EXPENDITURES	<u>204,029</u>
NET CHANGE IN FUND BALANCE	(122,572)
Fund balance, beginning of year	<u>598,322</u>
Fund balance, end of year	<u><u>\$ 475,750</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Economic Development Corporation

RECONCILIATION OF THE CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

Net change in fund balance - governmental fund \$ (122,572)

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

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

These activities consist of:

(Increase) in accrued compensated absences (4,017)

Change in net position of governmental activities \$ (126,589)

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Economic Development Corporation (EDC) of the City of Kalamazoo, Michigan, was incorporated by the City of Kalamazoo, Michigan, (the City) on March 7, 1977. Its purpose is to provide means and methods for the encouragement and assistance to industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities of such commercial enterprises to the residents of the City. The EDC is governed by a Board of Directors of at least nine (9) members, with no more than three (3) members being employed by the City. In certain situations, members of the Board of Directors may be removed by a majority vote of the Kalamazoo City Commission.

The financial statements of the EDC have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The EDC's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements are exclusive presentations of the financial condition and results of operations of the Economic Development Corporation of the City of Kalamazoo, Michigan. The EDC is discretely presented in the City of Kalamazoo's (the primary government) financial statements. A copy of the City's audited financial statements may be obtained at the City Hall.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the EDC as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, adjustments are reflected on the face of the financial statements.

The statement of activities presents the direct functional expenses of the EDC and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and miscellaneous income and shows how governmental functions are either self-financing or supported by the general revenues of the EDC.

FUND FINANCIAL STATEMENTS

The EDC uses one fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the EDC's major fund.

The major fund of the EDC is the General Fund. The General Fund is used to account for the daily activity of the EDC related to community and economic development.

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities, and deferred inflows generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The budget of the EDC is prepared and adopted as part of the City's budgetary process. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplate expenditures for the following calendar year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The City Manager is authorized to transfer budgeted amounts between expenditure control accounts within a department as long as the budgeted excess of revenues and other sources over (under) expenditures and other uses stays constant. Capital outlay expenditures in excess of the greater of \$10,000 or in amounts greater than 10 percent of any project cost, interdepartmental transfers, use of contingency funds and position classification changes require prior City Commission approval.

Formal budgetary integration is employed as a management control device during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations. Appropriations lapse at each year end, except for those approved for carry forward by the City Commission.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all governmental funds.

The budget has been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

6. Cash

Cash consists of the EDC's checking account.

7. Notes Receivable

Notes receivable consist of amounts loaned to businesses within the City that are due and payable to the EDC.

8. Advances from Other Governmental Units

Advances from other governmental units consist of amounts advanced to the EDC to fund notes receivable issued by the EDC to businesses located within the City that are due and payable to the EDC.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position 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 and so will not be recognized as an inflow of resources (revenue) until that time.

Currently, the EDC does not report any deferred outflows of resources or deferred inflows of resources.

10. Compensated Absences

Amounts of vested or accumulated vacation and sick leave are accrued in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "termination leave" prior to retirement. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

11. Estimates

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

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE B: CASH

In accordance with Michigan Compiled Laws, the EDC is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the EDC's deposits may not be returned to it. As of December 31, 2012, the carrying amount and bank balance of the EDC's deposits were \$483,432, which was fully insured by the FDIC.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the EDC's deposits may not be returned to it. The EDC's banking and investment policy does not specifically address this risk, although the EDC believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the EDC evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level risk level are used as depositories.

NOTE C: NOTES RECEIVABLE

At December 31, 2012, the EDC had notes receivable totaling \$1,467,424 to local businesses for purposes of redeveloping certain properties in downtown Kalamazoo. Of this amount, \$104,493 is expected to be collected within one year. Under the terms of the agreements, the loans are secured by mortgages on the properties and personal guarantees from applicants. Loan repayment terms have been structured on a case-by-case basis, with certain loans amortized with principal and interest payments beginning immediately, and others beginning with interest-only payments. Certain loans have a balloon payment structure.

The funding for these loans was derived from an advance from the City of Kalamazoo under its Economic Initiatives Fund program. Principal and interest payments from loan recipients are transferred to the Economic Initiatives Fund upon receipt; however, no interest is charged directly by the City of Kalamazoo to the EDC for the advance.

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including the current portion) for the year ended December 31, 2012:

	Balance Jan. 1, 2012	Additions	Deletions	Balance Dec. 31, 2012	Due Within One Year
Compensated absences	\$ 22,778	\$ 4,017	\$ -	\$ 26,795	\$ 9,799

Compensated Absences

In accordance with City personnel policies and/or contracts negotiated with various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. As a component unit of the City, the EDC follows those policies. The dollar amount of these vested rights, including related payroll taxes, amounted to \$26,795 for vacation and sick leave at December 31, 2012. Of that total amount, \$9,799 has been recorded as a current liability.

Bond and Note Issues

The EDC issues tax-exempt revenue bonds and notes under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities that are leased to industrial and commercial enterprises under contracts which provide for sufficient revenue to satisfy principal and interest obligations of the debt issues. The property is transferred to the lessee at the time the indebtedness is paid in full.

The structure of the aforementioned "lease" transactions is such that the leased property and the related debt are not considered to be assets or general obligations of the EDC and, accordingly, are not recognized in the financial statements of the EDC.

As of December 31, 2012, there were two series of Economic Development Corporation bonds outstanding, with an aggregate principal amount payable of \$29,330,000.

NOTE E: RISK MANAGEMENT

The EDC is exposed to various risks of loss related to torts, errors, and omissions. The EDC participates in the City of Kalamazoo's risk management program for all these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the EDC that would require a liability to be recorded in the financial statements.

NOTE F: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE F: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the EDC of the City of Kalamazoo, Michigan's highest level of decision-making authority is the City Commission of the City of Kalamazoo. The formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment is a Commission Resolution.

For assigned fund balance, the City Commission has not approved a policy indicating who is to assign amounts to a specific purpose. As a result, this authority is retained by the City Commission.

The EDC of the City of Kalamazoo has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. Therefore, restricted resources will be used first, then unrestricted resources as they are needed.

Details of fund balance categories and classifications are as follows:

	Governmental Fund
Fund Balance	
Nonspendable	
Note receivable	\$ 100,000
Unassigned	375,750
TOTAL FUND BALANCE	\$ 475,750

NOTE G: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was implemented in the current period. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Currently, the EDC does not report any deferred outflows of resources or deferred inflows of resources.

City of Kalamazoo, Michigan
Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE H: UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. The Statement will be effective for the EDC's fiscal year ended December 31, 2013. The Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The EDC is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Economic Development Corporation

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2012

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental - local	\$ 81,025	\$ 81,025	\$ 81,024	\$ (1)
Interest	-	-	433	433
TOTAL REVENUES	81,025	81,025	81,457	432
EXPENDITURES				
Current				
Community and economic development				
Wages and fringes	121,967	121,967	123,584	(1,617)
Contractual services	39,486	39,486	5,404	34,082
Other	4,500	4,500	75,041	(70,541)
TOTAL EXPENDITURES	165,953	165,953	204,029	(38,076)
NET CHANGE IN FUND BALANCE	(84,928)	(84,928)	(122,572)	(37,644)
Fund balance, beginning of year	598,322	598,322	598,322	-0-
Fund balance, end of year	<u>\$ 513,394</u>	<u>\$ 513,394</u>	<u>\$ 475,750</u>	<u>\$ (37,644)</u>

City of Kalamazoo, Michigan
Economic Development Corporation

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2012

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The EDC's budgeted expenditures have been shown at the functional classification level. The approved budgets of the EDC have been adopted at the total expenditure level.

During the year ended December 31, 2012, the EDC incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund	\$ 165,953	\$ 204,029	\$ 38,076