

*Charter Township of Kalamazoo
Kalamazoo County, Michigan*

FINANCIAL STATEMENTS

Year ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Township Board
Charter Township of Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township 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 Township's basic financial statements as listed in the contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting changes

As described in Note 17 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to these matters.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedules of funding progress for the employee retirement system and postemployment healthcare plan, as listed in the 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.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Kalamazoo, Michigan's financial statements as a whole. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Siegfried Crandall P.C.

June 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Charter Township of Kalamazoo's operations over the fiscal year and its financial condition on December 31, 2012. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position decreased \$277,483 (1 percent) as a result of this year's operations.
- Of the \$24,276,528 total net position reported, \$4,086,447 is unrestricted,
- The General Fund's fund balance at the end of the fiscal year was \$2,296,635, which represents 33 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are presented to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how general government services, like public works and public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short- and long-term financial information about the activities the government operates like a business. The Township has one proprietary fund to account for its golf course.
 - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the basic financial statements for 2012 and 2011 is also presented.

Government-wide statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Township'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 Township's net position and how it has changed. Net position (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's roads.

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

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and intergovernmental revenues generally fund these services.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of operating the golf course.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by grant agreements.
- The Township Board establishes other funds to control and manage money for particular purposes (like street, water, and sewer improvements) or to show that it is properly using certain taxes and other revenues (like street lighting, recycling, and public safety capital asset revenues).

The Township has three types of funds:

- *Governmental funds*. Most of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows 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 Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds*. Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long- and short-term financial information.
- *Fiduciary funds*. These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purpose. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$24.3 million. However, \$19.2 million of this total is invested in capital assets and \$1 million is restricted for public safety, public works, and capital outlay. Consequently, unrestricted net position was \$4.1 million, 17 percent of the total.

Condensed financial information
Net position (in thousands)

	Governmental activities		Business-type activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 12,947.5	\$ 12,863.7	\$ 56.0	\$ 82.0	\$ 13,003.5	\$ 12,945.7
Capital assets	19,143.6	19,478.3	259.4	250.8	19,403.0	19,729.1
Total assets	<u>32,091.1</u>	<u>32,342.0</u>	<u>315.4</u>	<u>332.8</u>	<u>32,406.5</u>	<u>32,674.8</u>
Current and other liabilities	7,900.2	7,443.6	-	-	7,900.2	7,443.6
Long-term debt	229.9	377.2	-	-	229.9	377.2
Total liabilities	<u>8,130.1</u>	<u>7,820.8</u>	<u>-</u>	<u>-</u>	<u>8,130.1</u>	<u>7,820.8</u>
Net position:						
Net investment in capital assets	18,913.7	19,101.0	259.4	250.8	19,173.1	19,351.8
Restricted	1,016.9	906.0	-	-	1,016.9	906.0
Unrestricted	<u>4,030.4</u>	<u>4,214.2</u>	<u>56.0</u>	<u>82.0</u>	<u>4,086.4</u>	<u>4,296.2</u>
Total net position	<u>\$ 23,961.0</u>	<u>\$ 24,221.2</u>	<u>\$ 315.4</u>	<u>\$ 332.8</u>	<u>\$ 24,276.4</u>	<u>\$ 24,554.0</u>

Changes in net position

The Township's total revenues were \$8.8 million. Approximately 45 percent of the Township's revenues comes from property taxes and 29 percent is received as charges for services. About 22 percent of total revenues comes from state revenue sharing.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

*Condensed financial information
Changes in net position (in thousands)*

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 2,520.5	\$ 2,093.3	\$ 15.0	\$ 16.4	\$ 2,535.5	\$ 2,109.7
Operating grants	73.4	94.4	-	-	73.4	94.4
Capital grants	45.7	276.9	-	-	45.7	276.9
General revenues:						
Property taxes	3,971.4	4,109.4	-	-	3,971.4	4,109.4
State grants	1,953.1	1,856.9	-	-	1,953.1	1,856.9
Franchise fees	180.9	201.4	-	-	180.9	201.4
Investment income	33.6	50.0	-	-	33.6	50.0
Gain on sale of assets	-	31.6	-	-	-	31.6
Transfers	-	1.4	-	(1.4)	-	-
Total revenues	8,778.6	8,715.3	15.0	15.0	8,793.6	8,730.3
Expenses:						
Legislative	78.7	28.0	-	-	78.7	28.0
General government	1,680.7	1,745.8	-	-	1,680.7	1,745.8
Public safety	6,131.6	6,368.3	-	-	6,131.6	6,368.3
Public works	1,053.5	955.5	-	-	1,053.5	955.5
Community and economic development	57.1	44.8	-	-	57.1	44.8
Culture and recreation	20.4	19.9	32.4	20.4	52.8	40.3
Interest on debt	16.7	32.8	-	-	16.7	32.8
Total expenses	9,038.7	9,195.1	32.4	20.4	9,071.1	9,215.5
Changes in net position	\$ (260.1)	\$ (479.8)	\$ (17.4)	\$ (5.4)	\$ (277.5)	\$ (485.2)
Net position, end of year	\$ 23,961.0	\$ 24,221.2	\$ 315.4	\$ 332.8	\$ 24,276.4	\$ 24,554.0

Governmental activities. Governmental activities decreased the Township’s net position by \$260 thousand in 2012 compared with a \$480 million decrease in 2011. Charges for services increased by \$427 thousand and include a new \$444 thousand police operating assessment in 2012 The Township received about \$231 thousand less capital grants as there was a larger amount of new public works assessments in 2011. Property taxes, based on declining taxable values, decreased by \$138 thousand, while state grants increased by \$96 thousand this year. Total governmental expenses combined were approximately \$156 thousand less in 2012 compared to 2011.

The total cost of governmental activities this year was \$9.0 million. After subtracting the direct charges to those who directly benefited from the programs (\$2.5 million), and other operating and capital grants (\$119 thousand), the “public benefit” portion covered by property taxes, state revenue sharing, and other general revenues was \$6.4 million in 2012, compared to \$6.7 million in 2011.

Business-type activities. Charges for services in the business-type activities for 2012 were \$15 thousand compared to \$16.4 thousand last year. Expenses increased by \$12 thousand due to additional maintenance costs.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At December 31, 2012, the Township's governmental funds reported a combined fund balance of \$6.7 million, an increase of \$450 thousand over last year.

General fund revenues and debt proceeds exceeded expenditures and transfers by \$447 thousand in 2012. Fund balance at the end of 2012 was \$2.3 million.

The Sewer Improvement Fund revenues, comprised of assessments and interest, totaled \$79 thousand, while expenditures and a transfer out totaled \$167 thousand. As a result, the fund balance decreased by \$88 thousand. The fund balance was \$3.1 million at the end of 2012.

The net position of the Golf Course Fund, the sole proprietary fund, decreased by \$17 thousand, as expenses of \$32 thousand exceeded \$15 thousand in revenue for the year.

General Fund budgetary highlights

There were no significant differences between the original and final General Fund budget adopted by the Township Board for 2012.

Revenues and debt proceeds were \$226 thousand more than budgeted, as state revenue sharing received exceeded the amount budgeted by \$220 thousand. Actual expenditures and transfers were \$76 thousand less than budgeted. These conditions resulted in a \$337 thousand positive budget variance total and a \$447 thousand increase in fund balance for the year, compared to a \$110 thousand budgeted increase.

Capital assets and debt administration

Capital assets

At December 31, 2012, the Township had invested \$19.4 million, net of depreciation, in various capital assets, including its land, buildings, equipment, and infrastructure.

This year's major capital asset additions included:

- \$153 thousand for a dispatch radio addition
- \$179 thousand for road and sidewalk infrastructure
- \$90 thousand for police vehicles
- \$45 thousand for computer software
- \$27 thousand for office equipment

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Debt

At the end of the fiscal year, the Township had six installment purchase notes with balances outstanding in the amount of \$230 thousand. Debt was issued to finance \$50 thousand of equipment purchases in 2012.

Other long-term obligations consisted of a liability for compensated absences of \$350 thousand and a net other postemployment benefit obligation of \$1.7 million.

More detailed information about the Township's long-term debt is presented in Note 14 of the notes to the basic financial statements.

Economic factors and next year's budgets and rates

About \$2.3 million is available for appropriation in the General Fund budget. This fund balance represents about 30 percent of the approximately \$7.0 million in General Fund expenditures budgeted for 2013, which are expected to increase by nominal amounts compared to 2012. Significant other funds are available to provide for public safety capital assets and for the maintenance of the Township's sewer infrastructure.

In 2013, the Township plans to primarily use current revenues to provide essential services in order to maintain current fund balances. Property tax revenues are expected to decline again for 2013 due to reductions in taxable property values. The Township continues to review all budget areas for opportunities to reduce expenditures.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Ronald E. Reid, Supervisor
Charter Township of Kalamazoo
1720 Riverview Drive
Kalamazoo, MI 49004

Phone: (269) 381-8080

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

December 31, 2012

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash	\$ 7,221,924	\$ 47,022	\$ 7,268,946
Investments	1,926,845	-	1,926,845
Prepaid items	-	9,020	9,020
Receivables, net	<u>3,454,511</u>	<u>-</u>	<u>3,454,511</u>
Total current assets	<u>12,603,280</u>	<u>56,042</u>	<u>12,659,322</u>
Noncurrent assets:			
Receivables, net	344,218	-	344,218
Capital assets not being depreciated	449,189	171,000	620,189
Capital assets, net of accumulated depreciation	<u>18,694,445</u>	<u>88,438</u>	<u>18,782,883</u>
Total noncurrent assets	<u>19,487,852</u>	<u>259,438</u>	<u>19,747,290</u>
Total assets	<u>32,091,132</u>	<u>315,480</u>	<u>32,406,612</u>
LIABILITIES			
Current liabilities:			
Payables	196,384	-	196,384
Deferred revenue	5,702,242	-	5,702,242
Current portion of long-term debt	<u>204,544</u>	<u>-</u>	<u>204,544</u>
Total current liabilities	<u>6,103,170</u>	<u>-</u>	<u>6,103,170</u>
Noncurrent liabilities:			
Noncurrent portion of long-term debt	25,397	-	25,397
Compensated absences	350,100	-	350,100
Net other postemployment benefit obligation	<u>1,651,417</u>	<u>-</u>	<u>1,651,417</u>
Total noncurrent liabilities	<u>2,026,914</u>	<u>-</u>	<u>2,026,914</u>
Total liabilities	<u>8,130,084</u>	<u>-</u>	<u>8,130,084</u>
NET POSITION			
Net investment in capital assets	18,913,693	259,438	19,173,131
Restricted for:			
Public safety	251,215	-	251,215
Public works	69,286	-	69,286
Capital outlay	696,449	-	696,449
Unrestricted	<u>4,030,405</u>	<u>56,042</u>	<u>4,086,447</u>
Total net position	<u>\$ 23,961,048</u>	<u>\$ 315,480</u>	<u>\$ 24,276,528</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended December 31, 2012

	Program revenues			Net (expenses) revenues and changes in net position			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals
Functions/Programs							
Governmental activities:							
Legislative	\$ 78,749	\$ -	\$ -	\$ -	\$ (78,749)		\$ (78,749)
General government	1,680,700	440,385	-	-	(1,240,315)		(1,240,315)
Public safety	6,131,569	1,351,873	63,373	15,859	(4,700,464)		(4,700,464)
Public works	1,053,536	637,346	10,046	29,872	(376,272)		(376,272)
Community and economic development	57,180	90,939	-	-	33,759		33,759
Culture and recreation	20,405	-	-	-	(20,405)		(20,405)
Interest on long-term debt	16,704	-	-	-	(16,704)		(16,704)
Total governmental activities	9,038,843	2,520,543	73,419	45,731	(6,399,150)		(6,399,150)
Business-type activities - golf course	32,356	14,998	-	-		\$ (17,358)	(17,358)
Totals	<u>\$ 9,071,199</u>	<u>\$ 2,535,541</u>	<u>\$ 73,419</u>	<u>\$ 45,731</u>	(6,399,150)	(17,358)	<u>(6,416,508)</u>
General revenues:							
Taxes					3,971,405	-	3,971,405
State grants					1,953,098	-	1,953,098
Franchise fees					180,920	-	180,920
Investment income					33,602	-	33,602
					<u>6,139,025</u>	-	<u>6,139,025</u>
Changes in net position					(260,125)	(17,358)	(277,483)
Net position - beginning					<u>24,221,173</u>	<u>332,838</u>	<u>24,554,011</u>
Net position - ending					<u>\$ 23,961,048</u>	<u>\$ 315,480</u>	<u>\$ 24,276,528</u>

See notes to financial statements

Charter Township of Kalamazoo

BALANCE SHEET - governmental funds

December 31, 2012

	<u>General</u>	<u>Sewer Improvement</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 3,286,432	\$ 1,854,648	\$ 2,080,844	\$ 7,221,924
Investments	722,441	1,204,404	-	1,926,845
Receivables	<u>2,801,630</u>	<u>293,149</u>	<u>703,950</u>	<u>3,798,729</u>
Total assets	<u>\$ 6,810,503</u>	<u>\$ 3,352,201</u>	<u>\$ 2,784,794</u>	<u>\$ 12,947,498</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 121,830	\$ 4,254	\$ 70,300	\$ 196,384
Deferred revenue	<u>4,392,038</u>	<u>285,095</u>	<u>1,350,834</u>	<u>6,027,967</u>
Total liabilities	<u>4,513,868</u>	<u>289,349</u>	<u>1,421,134</u>	<u>6,224,351</u>
Fund balances:				
Restricted for:				
Public safety	-	-	251,215	251,215
Public works	-	-	69,286	69,286
Capital outlay	-	-	696,449	696,449
Committed for culture and recreation	-	-	10,917	10,917
Assigned for public works	-	3,062,852	335,793	3,398,645
Unassigned	<u>2,296,635</u>	<u>-</u>	<u>-</u>	<u>2,296,635</u>
Total fund balances	<u>2,296,635</u>	<u>3,062,852</u>	<u>1,363,660</u>	<u>6,723,147</u>
Total liabilities and fund balances	<u>\$ 6,810,503</u>	<u>\$ 3,352,201</u>	<u>\$ 2,784,794</u>	<u>\$ 12,947,498</u>

Reconciliation of the balance sheet to the statement of net position:

Total fund balance - total governmental funds \$ 6,723,147

Amounts reported for *governmental activities* in the statement of net position (page 11) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 19,143,634

Other long-term assets are not available to pay for current period expenditures and are deferred in the funds. 325,725

Long-term liabilities that are not due and payable in the current period and are not reported in the funds:

 Long-term debt, including compensated absences (580,041)

 Other postemployment obligation, net (1,651,417)

Net position of *governmental activities* \$ 23,961,048

See notes to financial statements

Charter Township of Kalamazoo

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended December 31, 2012

	<u>General</u>	<u>Sewer Improvement</u>	<u>Nonmajor funds</u>	<u>Totals</u>
REVENUES				
Taxes	\$ 4,207,184	\$ -	\$ -	\$ 4,207,184
Federal grants	27,082	-	15,859	42,941
State grants	1,984,115	-	15,320	1,999,435
Intergovernmental	-	-	46,370	46,370
Fines and forfeitures	45,132	-	2,797	47,929
Licenses and permits	371,760	-	-	371,760
Charges for services	175,305	-	-	175,305
Interest and rentals	49,219	19,788	6,441	75,448
Other	463,301	59,554	1,340,074	1,862,929
	<u>7,323,098</u>	<u>79,342</u>	<u>1,426,861</u>	<u>8,829,301</u>
Total revenues				
EXPENDITURES				
Legislative	78,749	-	-	78,749
General government	1,557,007	-	-	1,557,007
Public safety	5,176,111	-	18,097	5,194,208
Public works	-	7,339	833,974	841,313
Community and economic development	57,180	-	-	57,180
Culture and recreation	4,948	-	-	4,948
Capital outlay	8,579	-	473,210	481,789
Debt service:				
Principal	3,271	-	179,372	182,643
Interest	567	-	16,137	16,704
	<u>6,886,412</u>	<u>7,339</u>	<u>1,520,790</u>	<u>8,414,541</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>436,686</u>	<u>72,003</u>	<u>(93,929)</u>	<u>414,760</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	35,298	-	-	35,298
Transfers in	-	-	185,427	185,427
Transfers out	(25,427)	(160,000)	-	(185,427)
	<u>9,871</u>	<u>(160,000)</u>	<u>185,427</u>	<u>35,298</u>
Net other financing sources (uses)				
NET CHANGES IN FUND BALANCES	446,557	(87,997)	91,498	450,058
FUND BALANCES - BEGINNING	<u>1,850,078</u>	<u>3,150,849</u>	<u>1,272,162</u>	<u>6,273,089</u>
FUND BALANCES - ENDING	<u>\$ 2,296,635</u>	<u>\$ 3,062,852</u>	<u>\$ 1,363,660</u>	<u>\$ 6,723,147</u>

See notes to financial statements

Charter Township of Kalamazoo

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds (Continued)**

Year ended December 31, 2012

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 14) \$ 450,058

Amounts reported for *governmental activities* in the statement of activities (page 12) are different because:

Capital assets:

Assets acquired	541,946
Provision for depreciation	(821,719)
Basis of assets disposed	(54,836)

Proceeds from debt issued (35,298)

Principal repayments on long-term debt 182,643

Changes in other assets/liabilities:

Decrease in deferred revenue	(31,484)
Increase in net other postemployment obligation	(480,735)
Increase in other accrued liabilities	<u>(10,700)</u>

Change in net position of *governmental activities* \$ (260,125)

Charter Township of Kalamazoo

STATEMENT OF NET POSITION - proprietary fund

December 31, 2012

	<u>Golf Course Fund</u>
ASSETS	
Current assets:	
Cash	\$ 47,022
Prepaid items	<u>9,020</u>
Total current assets	56,042
Noncurrent assets:	
Capital assets not being depreciated - land	171,000
Capital assets, net of accumulated depreciation	<u>88,438</u>
Total noncurrent assets	<u>259,438</u>
Total assets	<u><u>\$ 315,480</u></u>
NET POSITION	
Net investment in capital assets	259,438
Unrestricted	<u>56,042</u>
Total net position	<u><u>\$ 315,480</u></u>

See notes to financial statements

Charter Township of Kalamazoo

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN
FUND NET POSITION - *proprietary fund***

Year ended December 31, 2012

	<u><i>Golf Course Fund</i></u>
OPERATING REVENUES	
Rentals	\$ 14,998
OPERATING EXPENSES	
Operating and maintenance costs	15,485
Depreciation	<u>16,871</u>
Total operating expenses	<u>32,356</u>
CHANGE IN FUND NET POSITION	(17,358)
FUND NET POSITION - BEGINNING	<u>332,838</u>
FUND NET POSITION - ENDING	<u>\$ 315,480</u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary fund

Year ended December 31, 2012

	<i>Golf Course Fund</i>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 14,998
Payments to suppliers	<u>(15,485)</u>
Net cash used in operating activities	(487)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(25,452)</u>
NET DECREASE IN CASH	(25,939)
CASH - BEGINNING	<u>72,961</u>
CASH - ENDING	<u><u>\$ 47,022</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (17,358)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	<u>16,871</u>
Net cash used in operating activities	<u><u>\$ (487)</u></u>

See notes to financial statements

Charter Township of Kalamazoo

STATEMENT OF FIDUCIARY NET POSITION - *agency funds*

December 31, 2012

ASSETS

Cash \$ 5,088,224

LIABILITIES

Due to other governmental units \$ 5,088,224

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Kalamazoo, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

The Township is governed by an elected seven-member board. The accompanying financial statements present the government entity for which the Township is considered to be financially accountable.

Government-wide and fund financial statements:

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenues of the current period. All other revenue items are considered to be measurable only when cash is received by the Township.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

The Township reports the following major governmental funds:

The General Fund is the Township’s primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Sewer Improvement Fund accounts for the construction or purchase of major sewer improvements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary fund relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, liabilities, and net position or equity:

Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments, with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

Receivables and payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are considered to be fully collectible.

Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Township as assets with an initial individual cost of greater than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 - 60 years
Improvements	15 - 30 years
Vehicles	5 - 10 years
Equipment	3 - 15 years
Road infrastructure	5 - 40 years
Sewer infrastructure	50 - 75 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, and net position or equity (continued):

Compensated absences - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vested compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Net position - Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets, and increases by balances of deferred outflows of resources related to those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

Fund equity - In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Township Board. A formal resolution of the Township Board is required to establish, modify, or rescind a fund balance commitment. The Township Board retains the authority to assign fund balances. Unassigned fund balances are amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use the restricted fund balance first, followed by committed fund balance, then assigned fund balance, and, finally, unassigned fund balance.

Property tax revenue recognition - Property taxes are levied each December 1 (lien date) on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed.

Although the Township 2011 ad valorem taxes are levied and collectible on December 1, 2011, it is Township's policy to recognize revenue from that tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The Township did not adopt a budget for the Parks Fund.

Excess of expenditures over appropriations in budgeted funds - During the year, the Township incurred expenditures in a budgeted fund, which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Function</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Recycling	Public works	\$ 319,590	\$ 370,006	\$ (50,416)

NOTE 3 - CASH AND INVESTMENTS

A reconciliation of cash and investments to the Township’s deposits and investments, as shown in the government-wide statement of net position and the fiduciary fund statement of net position, is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary activities</u>	<u>Totals</u>
Financial statements:				
Cash and cash equivalents	\$ 7,221,924	\$ 47,022	\$ 5,088,224	\$ 12,357,170
Investments	1,926,845	-	-	1,926,845
Totals	<u>\$ 9,148,769</u>	<u>\$ 47,022</u>	<u>\$ 5,088,224</u>	<u>\$ 14,284,015</u>
Notes to financial statements:				
Deposits				\$ 12,357,170
Investments				1,926,845
Total				<u>\$ 14,284,015</u>

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township’s investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township’s investment policy does not specifically address custodial credit risk for deposits. At December 31, 2012, \$9,372,890 of the Township’s bank balances of \$12,436,203 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments - State statutes and the Township’s investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers’ acceptances; e) mutual funds composed of otherwise legal investments; and f) qualified investment pools.

Investments at year end, which are reported at fair value, consist of the following:

Governmental activities:

Cooperative Liquid Assets Securities System - Michigan, a local investment pool established under Michigan state statutes for participating Michigan municipalities	\$ <u>100,498</u>
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Government-sponsored enterprises:

\$41,000 Financing Corporation zero coupon bonds (FICO strips) - paying interest at 9.4% and maturing 2/8/13	\$ 40,976
\$22,000 Financing Corporation zero coupon bonds (FICO strips) - paying interest at 9.65% and maturing 11/02/13	21,875
\$13,000 Financing Corporation zero coupon bonds (FICO strips) - paying interest at 10.0% and maturing 11/11/13	12,923
\$250,000 Federal Farm Credit Bank bonds - paying interest at 0.46% and maturing 2/9/15	250,008
\$70,000 Federal National Mortgage Association zero coupon bonds - paying interest at 0.35% and maturing 1/15/13	69,983
\$59,000 Federal National Mortgage Association zero coupon bonds - paying interest at 0.42% and maturing 7/15/13	58,771
\$7,000 Federal National Mortgage Association zero coupon bonds - paying interest at 0.41% and maturing 2/7/14	6,938

NOTE 3 - CASH AND INVESTMENTS (Continued)

Governmental activities (continued):

Government-sponsored enterprises (continued):

\$30,000 Resolution Funding Corporation zero coupon bonds - paying interest at 0.35% and maturing 1/15/13	\$ 29,997
\$41,000 Resolution Funding Corporation zero coupon bonds - paying interest at 0.42% and maturing 7/15/13	40,928
\$3,000 Resolution Funding Corporation zero coupon bonds - paying interest at 0.53% and maturing 7/15/14	2,979
\$200,000 Federal Home Loan Mortgage Corporation bonds - paying interest at 0.625% and maturing 12/29/14	201,299
\$4,000 Tennessee Valley Authority zero coupon bonds - paying interest at 0.50% and maturing 12/15/13	<u>3,965</u>
Total government-sponsored enterprises	<u>740,642</u>
Money market funds	<u>1,085,705</u>
Total investments	<u>\$ 1,926,845</u>

The Township's investments are subject to several types of risk, which are discussed below:

Custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Township will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Township's investment policy does not contain requirements that would limit the exposure to custodial credit risk for investments. As of December 31, 2012, all of the Township's investments, excluding investments in investment pools, are subject to custodial credit risk as they are uninsured, unregistered, and held by the same counterparty that purchased the securities for the Township.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. At year end, the credit quality ratings of the Township’s investments are as follows:

<i>Investment type</i>	<i>Fair value</i>	<i>Rating</i>	<i>Rating organization</i>
CLASS - Michigan investment pool	\$ 100,498	AAAm	S&P
Government-sponsored enterprises:			
Financing Corporation	75,774	Aaa	Moody's
Federal Farm Credit Bank	250,008	Aaa	Moody's
Resolution Funding Corporation	73,904	Aaa	Moody's
Tennessee Valley Authority	3,965	Aaa	Moody's
Federal National Mortgage Association	135,692	Aaa	Moody's
Federal Home Loan Mortgage Corporation	201,299	Aaa	Moody's

Concentration of credit risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the Township’s investment in a single holding. The Township’s investment policy places no limitations on the amount that can be invested in any one issuer. Of the Township’s investments, the Financing Corporation bonds, the Federal Farm Credit Bank bonds and the Federal Home Loan Mortgage Corporation bonds each represent more than 5% of the Township’s total investments. Investments in investment pools and money market funds are not subject to concentration of credit risk.

Interest rate risk. Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment’s fair value due to changes in market rates. The Township’s investment policy has no specific limitations with respect to maturities of investments. Investments in investment pools and money market funds are not subject to interest rate risk.

The CLASS – Michigan holding is not subject to regulatory oversight. A separate report is available from its office at 15309 Meadowwood Drive, Grand Haven, MI 49417.

NOTE 4 - RECEIVABLES

Receivables as of December 31, 2012, for the Township’s individual major and aggregate nonmajor funds, were as follows:

	<i>Taxes</i>	<i>Accounts</i>	<i>Special Assessments</i>	<i>Intergovernmental</i>	<i>Totals</i>
Governmental funds:					
General	\$ 2,309,815	\$ 56,126	\$ -	\$ 435,689	\$ 2,801,630
Sewer improvement	-	16,059	277,090	-	293,149
Nonmajor	-	-	692,518	11,432	703,950
 Total governmental funds	 <u>\$ 2,309,815</u>	 <u>\$ 72,185</u>	 <u>\$ 969,608</u>	 <u>\$ 447,121</u>	 <u>\$ 3,798,729</u>
 Amounts due beyond one year	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 303,218</u>	 <u>\$ 41,000</u>	 <u>\$ 344,218</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 449,189	\$ -	\$ -	\$ 449,189
Capital assets being depreciated:				
Buildings	2,419,876	-	-	2,419,876
Improvements other than buildings	128,480	8,090	-	136,570
Vehicles and equipment	5,769,201	354,673	(372,278)	5,751,596
Infrastructure	22,663,761	179,183	-	22,842,944
Subtotal	<u>30,981,318</u>	<u>541,946</u>	<u>(372,278)</u>	<u>31,150,986</u>
Less accumulated depreciation for:				
Buildings	(1,338,957)	(52,587)	-	(1,391,544)
Improvements other than buildings	(53,244)	(7,903)	-	(61,147)
Vehicles and equipment	(3,743,703)	(460,237)	317,442	(3,886,498)
Infrastructure	(6,816,360)	(300,992)	-	(7,117,352)
Subtotal	<u>(11,952,264)</u>	<u>(821,719)</u>	<u>317,442</u>	<u>(12,456,541)</u>
Total capital assets being depreciated, net	<u>19,029,054</u>	<u>(279,773)</u>	<u>(54,836)</u>	<u>18,694,445</u>
Governmental activities capital assets, net	<u>\$ 19,478,243</u>	<u>\$ (279,773)</u>	<u>\$ (54,836)</u>	<u>\$ 19,143,634</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 171,000	\$ -	\$ -	\$ 171,000
Capital assets being depreciated:				
Buildings	94,759	-	-	94,759
Improvements other than buildings	164,713	14,146	-	178,859
Vehicles and equipment	130,885	11,306	-	142,191
Subtotal	<u>390,357</u>	<u>25,452</u>	<u>-</u>	<u>415,809</u>
Less accumulated depreciation for:				
Buildings	(94,758)	-	-	(94,758)
Improvements other than buildings	(113,266)	(5,512)	-	(118,778)
Vehicles and equipment	(102,476)	(11,359)	-	(113,835)
Subtotal	<u>(310,500)</u>	<u>(16,871)</u>	<u>-</u>	<u>(327,371)</u>
Total capital assets being depreciated, net	<u>79,857</u>	<u>8,581</u>	<u>-</u>	<u>88,438</u>
Business-type activities capital assets, net	<u>\$ 250,857</u>	<u>\$ 8,581</u>	<u>\$ -</u>	<u>\$ 259,438</u>

Depreciation expense was charged to governmental activities of the Township as follows:

Governmental activities:	
General government	\$ 84,207
Public safety	425,994
Public works	303,921
Parks and recreation	<u>7,597</u>
Total governmental activities	<u>\$ 821,719</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable as of December 31, 2012, for the Township's individual major and aggregate nonmajor funds, were as follows:

	<i>Accounts</i>	<i>Accrued payroll</i>	<i>Totals</i>
Governmental funds:			
General	\$ 42,026	\$ 79,804	\$ 121,830
Sewer Improvement	4,254	-	4,254
Nonmajor	<u>70,300</u>	<u>-</u>	<u>70,300</u>
Total governmental funds	<u>\$ 116,580</u>	<u>\$ 79,804</u>	<u>\$ 196,384</u>

NOTE 7 - PROPERTY TAXES

The 2011 taxable valuation of the Township approximated \$436,492,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes, raising approximately \$3,915,000. This amount is recognized in the respective fund financial statements as property tax revenue.

The 2012 taxable valuation of the Township approximated \$419,075,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes, raising approximately \$3,759,000. This amount is recognized in the respective fund financial statements as deferred tax revenue, based upon the period for which the proceeds are budgeted and will be made available for the financing of operations.

NOTE 8 - DEFERRED REVENUES

Governmental funds report deferred revenues in connection with resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes (General Fund)	\$ -	\$ 3,793,305	\$ 3,793,305
Special assessments (General Fund)	-	595,962	595,962
Prepaid rentals (General Fund)	-	2,771	2,771
Special assessments (Sewer Improvement Fund)	285,095	-	285,095
Special assessments (nonmajor funds)	<u>40,630</u>	<u>1,310,204</u>	<u>1,350,834</u>
Totals	<u>\$ 325,725</u>	<u>\$ 5,702,242</u>	<u>\$ 6,027,967</u>

NOTE 9 - INTERFUND TRANSFERS

The transfer from the Sewer Improvement Fund to the Street Fund represents the transfer of available resources for street improvements.

The transfer from the General Fund to the Recycling Fund represents the transfer of available resources required to cover current public works expenditures.

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - DEFINED CONTRIBUTION RETIREMENT PLANS

The Township contributed to two defined contribution pension plans for its non-union employees. The two plans are both administered by an insurance company. The plan for firefighters requires matching employee contributions. The other plan is non-contributory. Both plans are funded on a group annuity basis.

Contributions for union employees are fully vested upon participation in the plan. The Township's contributions for participating non-union employees (and allocated interest) are fully vested after 48 months of service. Contributions and interest forfeited by non-vested employees who leave employment are used to reduce the Township's current period contribution requirement. The Township made the required contributions of \$172,219 and firefighter employees contributed \$20,578 for the year ended December 31, 2012. The Township is not a trustee of these plans, nor is the Township responsible for investment management of plan assets.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

Plan description:

The Township's Police Department defined benefit pension plan provides retirement benefits to qualified employees and their beneficiaries. The Township's Police Department defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Township. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

The Township is required to contribute at an actuarially determined rate, which currently is 15.07 percent. Covered employees are not required to contribute to the plan. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended December 31, 2012, the Township's annual pension cost of \$302,052 for its defined benefit pension plan equaled the required contributions. The required contribution was determined as part of the January 1, 2011, actuarial valuation using the entry age normal cost method. The actuarial assumptions included a) 8 percent investment rate of return, net of administrative expenses; b) projected salary increases of 4.5% per year; and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan has an unfunded actuarial accrued liability, which is being amortized over 25 years as a level percentage of payroll.

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

Three year trend information:

<i>Fiscal year ended December 31:</i>	<i>Annual pension cost (APC)</i>	<i>Percentage of APC contributed</i>	<i>Net pension obligation</i>
2010	\$ 198,226	100%	\$ -
2011	\$ 306,546	100%	\$ -
2012	\$ 302,052	100%	\$ -

Funded status and funding progress:

The funded status of the plan as of December 31, 2011, the most recent actuarial date, is as follows:

<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
\$ 8,208,713	\$ 9,619,001	\$ 1,410,288	85%	\$ 2,053,447	69%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Certain other accounting policies and plan asset matters are discussed in greater detail in the Township’s actuarial valuation.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

Plan description. The Township of Kalamazoo Retiree Health Care Plan is a single-employer defined benefit healthcare plan administered by the Township, which provides medical insurance benefits to eligible retirees and their spouses.

Funding policy. The Township pays the full cost of coverage of these benefits for retirees and their spouses on a pay-as-you-go basis. Currently, fourteen retirees are eligible for postemployment health benefits. The Township obtains health care coverage through private insurers. The Township has the authority to establish the funding policy for the plan and to amend the obligations of both the Township and members. Active members are not obligated to make contributions to the plan at this time. For the year ended December 31, 2012, the Township contributed \$135,541 to the plan.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB cost and net OPEB obligation. The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Township's annual OPEB cost for the year ended December 31, 2012, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation:

Annual required contribution (ARC)	\$ 628,947
Interest on net OPEB obligation	46,827
Adjustment to annual required contribution	<u>(59,498)</u>
Annual OPEB cost (expense)	616,276
Contributions made	<u>(135,541)</u>
Increase in net OPEB obligation	480,735
Net OPEB obligation - beginning of year	<u>1,170,682</u>
Net OPEB obligation - end of year	<u><u>\$ 1,651,417</u></u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two prior years were as follows:

<u>Year</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2010	\$ 485,054	14.21%	\$ 790,083
2011	514,182	25.98%	1,170,682
2012	618,276	21.92%	1,651,417

Funded status and funding progress. As of December 31, 2012, the most recent valuation date, the plan had not been funded, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,284,865. The covered payroll (annual payroll of active employees covered by the plan) was \$3,268,697, and the ratio of the UAAL to the covered payroll was 162%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Vital Statistics Reports, The Life Tables for U.S. Males and Females, 2007 version, were used.

Turnover - Non-group-specific, age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the National Institute of Health Expenditure Projections, Table 3, 2005 - 2020. A rate of 5.5% initially, increased to an ultimate rate of 6.5% after six years, was used.

Health insurance premium - 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Payroll growth rate - The expected long-term payroll growth rate of 1% was used

Inflation rate - The expected long-term inflation assumption of 4% was used.

NOTE 14 - LONG-TERM LIABILITIES

Long-term obligation activity for the year ended December 31, 2012, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Due within one year</i>
Governmental activities:					
\$195,488 2006 Installment purchase agreement note, payable in annual installments of \$26,666, including interest at 3.34%; final	\$ 48,862	\$ -	\$ (24,431)	\$ 24,431	\$ 24,431
\$622,340 2009 Installment purchase agreement note, payable in annual installments of \$102,879, including interest at 5%; final payment due November 2013	191,301	-	(93,315)	97,986	97,986
\$175,123 2011 Installment purchase agreement note, payable in annual installments of \$62,126, including interest at 3.12%; final payment due December 2013	118,566		(58,355)	60,211	60,211
\$20,635 2011 Installment purchase agreement note, payable in annual installments of \$7,676, including interest at 7.27%; final payment due August 2014	18,557		(6,542)	12,015	7,034
\$37,265 2012 Installment purchase agreement note, payable in annual installments of \$12,422, with zero interest; final payment due August 2014	-	37,265	(12,422)	24,843	12,422
\$12,300 2012 Installment purchase agreement note, payable in annual installments of \$2,460, with zero interest; final payment due March 2017	-	12,300	(1,845)	10,455	2,460
Subtotal	377,286	49,565	(196,910)	229,941	204,544
Compensated absences	339,400	338,600	(327,900)	350,100	-
Postemployment healthcare benefits	1,170,682	616,276	(135,541)	1,651,417	-
Total governmental activities	<u>\$ 1,887,368</u>	<u>\$ 1,004,441</u>	<u>\$ (660,351)</u>	<u>\$ 2,231,458</u>	<u>\$ 204,544</u>

NOTE 14 - LONG-TERM LIABILITIES (Continued)

At December 31, 2012, debt service requirements, excluding compensated absences and postemployment healthcare benefits, were as follows:

<u>Year ended</u> <u>December 31:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 204,544	\$ 9,686
2014	19,862	137
2015	2,460	-
2016	2,460	-
2017	615	-
Totals	<u>\$ 229,941</u>	<u>\$ 9,823</u>

All debt is secured by the full faith and credit of the Township.

NOTE 15 - JOINT VENTURE

The Township is a member of the Kalamazoo Area Building Authority (the Authority), which is a joint venture of the Charter Townships of Comstock, Kalamazoo, Oshtemo, and Cooper. The administrative board of the Authority consists of members appointed by each participating unit and a member at-large. The Authority was established to administer and enforce the Michigan State Construction Code within its constituent municipalities. During the year ended December 31, 2012, the Township of Kalamazoo advanced \$41,000 (non-interest bearing) as its proportionate share. The advance is due to the Township from the Authority, subject to the Authority’s cash requirements. Complete audited financial statements for the Authority can be obtained by contacting the Authority at P.O. Box 292, Oshtemo, MI 49077.

The Township does not expect to receive residual equity from the joint venture. The Township is unaware of any indication that the joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit or burden on the Township in the near future.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Contingent liabilities:

Litigation. The Township is the defendant in various lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a materially adverse effect on the accompanying basic financial statements and, accordingly, no provision for losses has been recorded.

Accumulated non-vested sick pay. The Township is contingently liable to its employees for approximately \$288,000 in accumulated non-vested sick pay benefits.

NOTE 17 - RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2012, the Township adopted the provisions of the following accounting pronouncements:

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. Adoption of this standard did not result in restatement or reclassification of opening net position (formerly net assets) or fund balances.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This 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. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balances.

NOTE 18 - PENDING ACCOUNTING PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*, effective for periods beginning after June 15, 2012. This Statement, which is an amendment to Statements No. 14 and No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the Statement also clarifies the reporting of equity interest in legally separate organizations. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning January 1, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Township is currently evaluating the impact the following standards will have on the financial statements when adopted during the fiscal year beginning January 1, 2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded in the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. In this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such pensions, includes provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee service to which defined contributions pertain (as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). This Statement also establishes requirements to address accounting for forfeitures. The Statement also enhances accountability and transparency through revised note disclosures. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning January 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Kalamazoo

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended December 31, 2012

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 4,196,804	\$ 4,196,804	\$ 4,207,184	\$ 10,380
Federal grants	43,800	43,800	27,082	(16,718)
State grants	1,764,200	1,764,200	1,984,115	219,915
Fines and forfeitures	51,000	51,000	45,132	(5,868)
Licenses and permits	380,889	380,889	371,760	(9,129)
Charges for services	134,257	134,257	175,305	41,048
Interest and rentals	23,000	23,000	49,219	26,219
Other	503,450	503,450	463,301	(40,149)
Total revenues	<u>7,097,400</u>	<u>7,097,400</u>	<u>7,323,098</u>	<u>225,698</u>
EXPENDITURES				
Legislative	<u>79,800</u>	<u>79,800</u>	<u>78,749</u>	<u>1,051</u>
General government:				
Supervisor	157,600	157,600	146,179	11,421
Elections	60,200	60,200	58,974	1,226
Assessor	250,600	250,600	252,030	(1,430)
Clerk	153,700	153,700	164,200	(10,500)
General services administration	403,400	395,400	338,798	56,602
Treasurer	231,800	231,800	228,098	3,702
Data processing	84,300	84,300	123,088	(38,788)
Building and grounds	231,100	231,100	222,601	8,499
Cemetery	22,000	22,000	23,039	(1,039)
Total general government	<u>1,594,700</u>	<u>1,586,700</u>	<u>1,557,007</u>	<u>29,693</u>
Public safety:				
Police protection	3,878,500	3,878,500	3,844,112	34,388
Fire protection	1,275,400	1,275,400	1,218,164	57,236
Building inspections	98,800	98,800	115,753	(16,953)
Emergency preparedness	-	-	(1,918)	1,918
Total public safety	<u>5,252,700</u>	<u>5,252,700</u>	<u>5,176,111</u>	<u>76,589</u>
Public works - street maintenance	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Community and economic development - planning and zoning	<u>36,500</u>	<u>36,500</u>	<u>57,180</u>	<u>(20,680)</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2012

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
EXPENDITURES (Continued)				
Culture and recreation - parks	\$ 3,300	\$ 4,488	\$ 4,948	\$ (460)
Capital outlay	15,000	13,312	8,579	4,733
Debt service:				
Principal	-	3,300	3,271	29
Interest	-	700	567	133
Total expenditures	<u>6,992,000</u>	<u>6,987,500</u>	<u>6,886,412</u>	<u>101,088</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>105,400</u>	<u>109,900</u>	<u>436,686</u>	<u>326,786</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	35,298	35,298
Transfers to other funds	-	-	(25,427)	(25,427)
Net other financing sources	<u>-</u>	<u>-</u>	<u>9,871</u>	<u>9,871</u>
NET CHANGES IN FUND BALANCES	<u>105,400</u>	<u>109,900</u>	<u>446,557</u>	<u>336,657</u>
FUND BALANCES - BEGINNING	<u>1,850,078</u>	<u>1,850,078</u>	<u>1,850,078</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,955,478</u>	<u>\$ 1,959,978</u>	<u>\$ 2,296,635</u>	<u>\$ 336,657</u>

SCHEDULE OF FUNDING PROGRESS FOR THE EMPLOYEE RETIREMENT SYSTEM

(Municipal Employees' Retirement System of Michigan)

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated.

<i>Actuarial valuation date December 31,</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial liability (ALL) entry age (b)</i>	<i>Funded ratio (a)/(b)</i>	<i>Underfunded ALL (UAAL) (b-a)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
2009	\$ 7,136,942	\$ 8,374,067	85%	\$ 1,237,125	\$ 2,121,165	58%
2010	7,865,857	8,919,350	88%	\$ 1,053,493	2,072,158	51%
2011	8,208,713	9,619,001	85%	\$ 1,410,288	2,053,447	69%

*Plan participation began June 1, 2010

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

Year ended December 31, 2012

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated.

<i>Valuation date, December 31,</i>	<i>Actuarial accrued liability (AAL) (a)</i>	<i>Market value of assets (b)</i>	<i>Unfunded AAL (UAAL) (a-b)</i>	<i>Funded ratio (b/a)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((a-b)/c)</i>
2009	\$ 5,195,070	\$ -	\$ 5,195,070	0%	\$ 3,165,386	164%
2012	5,284,865	-	5,284,865	0%	3,268,697	162%

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - nonmajor governmental funds

December 31, 2012

	<i>Special revenue funds</i>					<i>Capital projects funds</i>				<i>Totals</i>	
	<i>Police Training</i>	<i>Drug Enforcement</i>	<i>Street Lighting</i>	<i>Recycling</i>	<i>Parks</i>	<i>911 Wireless</i>	<i>Police Capital</i>	<i>Fire Capital</i>	<i>Street</i>		<i>Water</i>
ASSETS											
Cash	\$ 28,783	\$ 40,933	\$ 218,434	\$ 239,810	\$ 10,917	\$ 170,067	\$ 373,959	\$ 664,716	\$ 112,636	\$ 220,589	\$ 2,080,844
Receivables	-	-	142,565	148,566	-	11,432	134,320	223,869	28,469	14,729	703,950
Total assets	<u>\$ 28,783</u>	<u>\$ 40,933</u>	<u>\$ 360,999</u>	<u>\$ 388,376</u>	<u>\$ 10,917</u>	<u>\$ 181,499</u>	<u>\$ 508,279</u>	<u>\$ 888,585</u>	<u>\$ 141,105</u>	<u>\$ 235,318</u>	<u>\$ 2,784,794</u>
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ 19,915	\$ 32,126	\$ -	\$ -	\$ 8,902	\$ 9,357	\$ -	\$ -	\$ 70,300
Deferred revenue	-	-	271,798	356,250	-	-	255,763	426,393	27,577	13,053	1,350,834
Total liabilities	<u>-</u>	<u>-</u>	<u>291,713</u>	<u>388,376</u>	<u>-</u>	<u>-</u>	<u>264,665</u>	<u>435,750</u>	<u>27,577</u>	<u>13,053</u>	<u>1,421,134</u>
Fund balances:											
Restricted for:											
Public safety	28,783	40,933	-	-	-	181,499	-	-	-	-	251,215
Public works	-	-	69,286	-	-	-	-	-	-	-	69,286
Capital outlay	-	-	-	-	-	-	243,614	452,835	-	-	696,449
Committed for culture and recreation	-	-	-	-	10,917	-	-	-	-	-	10,917
Assigned for public works	-	-	-	-	-	-	-	-	113,528	222,265	335,793
Total fund balances	<u>28,783</u>	<u>40,933</u>	<u>69,286</u>	<u>-</u>	<u>10,917</u>	<u>181,499</u>	<u>243,614</u>	<u>452,835</u>	<u>113,528</u>	<u>222,265</u>	<u>1,363,660</u>
Total liabilities and fund balances	<u>\$ 28,783</u>	<u>\$ 40,933</u>	<u>\$ 360,999</u>	<u>\$ 388,376</u>	<u>\$ 10,917</u>	<u>\$ 181,499</u>	<u>\$ 508,279</u>	<u>\$ 888,585</u>	<u>\$ 141,105</u>	<u>\$ 235,318</u>	<u>\$ 2,784,794</u>

Charter Township of Kalamazoo

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - nonmajor governmental funds

Year ended December 31, 2012

	Special revenue funds					Capital projects funds				Totals	
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Police Capital	Fire Capital	Street		Water
REVENUES											
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,859	\$ -	\$ -	\$ 15,859
State grants	5,274	-	-	-	-	-	-	-	10,046	-	15,320
Intergovernmental	-	-	-	-	-	46,370	-	-	-	-	46,370
Fines and forfeitures	-	2,797	-	-	-	-	-	-	-	-	2,797
Interest	-	-	475	352	-	795	1,132	1,853	673	1,161	6,441
Other	-	-	283,669	321,210	-	-	266,870	444,908	4,628	18,789	1,340,074
Total revenues	5,274	2,797	284,144	321,562	-	47,165	268,002	462,620	15,347	19,950	1,426,861
EXPENDITURES											
Public safety	-	8,037	-	-	-	10,060	-	-	-	-	18,097
Public works	-	-	246,957	380,176	-	-	-	-	179,308	27,533	833,974
Culture and recreation	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	7,860	152,858	191,439	121,053	-	-	473,210
Debt service:											
Principal	-	-	-	-	-	-	27,702	151,670	-	-	179,372
Interest	-	-	-	-	-	-	2,802	13,335	-	-	16,137
Total expenditures	-	8,037	246,957	380,176	7,860	162,918	221,943	286,058	179,308	27,533	1,520,790
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,274	(5,240)	37,187	(58,614)	(7,860)	(115,753)	46,059	176,562	(163,961)	(7,583)	(93,929)
OTHER FINANCING SOURCES											
Transfers in	-	-	-	25,427	-	-	-	-	160,000	-	185,427
NET CHANGES IN FUND BALANCES	5,274	(5,240)	37,187	(33,187)	(7,860)	(115,753)	46,059	176,562	(3,961)	(7,583)	91,498
FUND BALANCES - BEGINNING	23,509	46,173	32,099	33,187	18,777	297,252	197,555	276,273	117,489	229,848	1,272,162
FUND BALANCES - ENDING	\$ 28,783	\$ 40,933	\$ 69,286	\$ -	\$ 10,917	\$ 181,499	\$ 243,614	\$ 452,835	\$ 113,528	\$ 222,265	\$ 1,363,660

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June 5, 2013

To the Board of Trustees
Charter Township of Kalamazoo

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 5, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter Township of Kalamazoo are described in Note 1 to the financial statements. Except as described in Note 17 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Charter Township of Kalamazoo during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were capital asset depreciation, pension liability and changes therein, and postemployment benefits other than pension liabilities and changes therein.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. Management's estimate of the pension liability and changes therein was based on actuarial assumptions and the use of a specialist (actuary). Management's estimate of the liability for postemployment benefits other than pensions and changes therein is based on the use of the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. We evaluated the key factors and assumptions used to develop the pension and postemployment liabilities, and capital asset depreciation, in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2013.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter Township of Kalamazoo's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of Kalamazoo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified a deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

Material audit adjustments and financial statement preparation:

Condition and criteria: Policies and procedures to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record revenue accruals and deferrals, expense accruals, changes in capital assets and related long-term debt, and to develop appropriate footnote disclosures were not in place. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Effect: The Township's financial reporting system does not produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Cause: As in prior years, the Township has relied upon the auditor to identify and develop material adjustments necessary to prepare the financial statements and appropriate disclosures.

Auditor's Recommendation: We recommend that management analyze the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Township's annual financial statements versus contracting with its auditor for these services.

Management Response: The Township will be issuing a Request for Proposals for accounting services for the fiscal year ending December 31, 2013, and for quarterly accounting services for each of the following fiscal years ending December 31, 2014, 2015, and 2016. The firm/individual retained for these services will not be the same as the qualified independent certified public accountants retained for the annual audit of the Township's financial records.

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. We consider the following deficiency to be a significant deficiency:

Police receipting procedures

Condition and criteria: Current policies and procedures for certain police revenues do not effectively assure that revenues are recorded and deposited in a timely manner.

Effect: Receipts for certain police revenues and receivables are not consistently recorded and deposited in a timely manner.

Cause: Standardized policies and procedures have not been implemented to consistently document and report amounts received by the Police Department.

Auditor's Recommendation: We recommend that procedures be established within the police department to provide sufficient information regarding the nature and amounts of expected revenues, the dates of receipt, and the delivery of received items to the treasurer's office for deposit.

Management Response: A standardized policy and procedure will be developed and implemented to consistently document and report amounts received by the Police Department.

We did not audit the Charter Township of Kalamazoo's response to the internal control findings described above and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Trustees of the Charter Township of Kalamazoo and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.