



# Kalamazoo County Land Bank Authority

## Financial Statements Years Ended December 31, 2012 and 2011

# **Kalamazoo County Land Bank Authority**

---

Financial Statements  
For Years Ended December 31, 2012 and 2011

# Kalamazoo County Land Bank Authority

## Contents

---

|                                                                                                                                                                                                                           |       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Management's Discussion and Analysis                                                                                                                                                                                      | 3-5   |
| Independent Auditor's Report                                                                                                                                                                                              | 6-8   |
| Basic Financial Statements:                                                                                                                                                                                               |       |
| Statements of Net Position                                                                                                                                                                                                | 9     |
| Statements of Revenues, Expenses, and Changes in Net Position                                                                                                                                                             | 10    |
| Statements of Cash Flows                                                                                                                                                                                                  | 11    |
| Notes to Financial Statements                                                                                                                                                                                             | 12-14 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>    | 15-16 |
| Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by <i>OMB Circular A-133</i> | 17-18 |
| Schedule of Expenditures of Federal Awards                                                                                                                                                                                | 19    |
| Notes to Schedule of Expenditures of Federal Awards                                                                                                                                                                       | 20    |
| Schedule of Findings and Questioned Costs                                                                                                                                                                                 | 21    |

# Kalamazoo County Land Bank Authority

## Management's Discussion and Analysis

---

This section of the Kalamazoo County Land Bank Authority's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended December 31, 2012. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

### *Using this Annual Report*

This annual report consists of financial statements and notes to those statements. These statements are organized so the reader understands the Authority's finances as a whole. The Financial Statements provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances.

### *Reporting the Authority as a Whole*

One of the most important questions asked about the Authority is, "As a whole, what is the Authority's financial condition as a result of the year's activities?" The Statements of Net position and the Statements of Revenues, Expenses, and Changes in Net Position, which appear first in the Authority's financial statements, report information on the Authority as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position - the difference between assets and liabilities, as reported in the Statement of Net position - as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Authority's operating results. However, the Authority's goal is to create vibrant communities through eliminating blighted properties, creating affordable housing opportunities, stabilizing property values by acquiring, developing, and selling properties, and ultimately returning properties to the tax rolls, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the amount of tax base returned to the tax rolls to assess the overall health of the Authority.

The Statement of Net position and the Statement of Activities report all activities for the Authority, which encompass all of the Authority's services and grant funded activities. For 2012, as in 2011, the majority of the Authority's activities were grant funded, mainly the Neighborhood Stabilization 2 grant program.

# Kalamazoo County Land Bank Authority

## Management's Discussion and Analysis

---

### *The Authority as a Whole*

Recall that the Statements of Net Position provides the perspective of the Authority as a whole. The following Statements of Net Position provide a summary of the Authority's net position.

| <i>December 31,</i>                       | <i>2012</i>         | <i>2011</i>         |
|-------------------------------------------|---------------------|---------------------|
| <b>Assets</b>                             |                     |                     |
| <b>Total Current Assets</b>               | <b>\$ 6,603,332</b> | <b>\$ 2,812,201</b> |
| <b>Total Current Liabilities</b>          | <b>565,630</b>      | <b>114,413</b>      |
| <b>Net Position</b>                       | <b>6,037,702</b>    | <b>2,697,788</b>    |
| <b>Total Liabilities and Net Position</b> | <b>\$ 6,603,332</b> | <b>\$ 2,812,201</b> |

The preceding analysis focuses on the net position. The change in net position of the Authority is discussed below. The Authority's assets are primarily made up of improved inventory. A fourteen unit senior housing development was constructed in 2012, making up \$2,248,391 of the total \$6,603,332 in inventory shown. There are no related liabilities for this property. Total liabilities are primarily made up of Accounts Payable at year end. There was a significant increase in construction activities in 2012 from 2011. This resulted in year-end inventory being much higher than in the previous year. As a result, year-end assets were significantly increased over the previous year. As inventory sells, it is expected these numbers will decrease.

The results of this year's operations for the Authority as a whole are reported in the following Statements of Revenues, Expenses, and Changes in Net Position, which show the changes in net position for 2012 and 2011.

# Kalamazoo County Land Bank Authority

## Management's Discussion and Analysis

---

| <i>Year ended December 31,</i>         | <i>2012</i>         | <i>2011</i>         |
|----------------------------------------|---------------------|---------------------|
| <b>Revenue:</b>                        |                     |                     |
| Operating revenue:                     |                     |                     |
| Grants                                 | \$ 3,273,342        | \$ 2,136,395        |
| Property sales                         | 1,464,399           | 572,807             |
| Site inspection                        | 78,600              | 99,089              |
| Donations                              | 7,825               | 24,122              |
| <b>Total Operating Revenue</b>         | <b>4,824,166</b>    | <b>2,832,413</b>    |
| <b>Total Operating Expenses</b>        | <b>1,585,217</b>    | <b>963,946</b>      |
| <b>Net Operating Income</b>            | <b>3,238,949</b>    | <b>1,868,467</b>    |
| <b>Total Nonoperating Revenue</b>      | <b>100,965</b>      | <b>100,235</b>      |
| <br>                                   |                     |                     |
| <b>Change in Net Position</b>          | <b>3,339,914</b>    | <b>1,968,702</b>    |
| <br>                                   |                     |                     |
| <b>Net Position, beginning of year</b> | <b>2,697,788</b>    | <b>729,086</b>      |
| <br>                                   |                     |                     |
| <b>Net Position, end of year</b>       | <b>\$ 6,037,702</b> | <b>\$ 2,697,788</b> |

As reported in the Statements of Revenues, Expenses, and Changes in Net Position, the expenses related to the Authority's activities this year were \$1,585,217, with operating revenues in the amount of \$4,824,166 and non-operating income of \$100,965.

The Authority experienced an increase in net position of \$3,339,914, bringing the year end net position to \$6,037,702. This is largely due to how the Authority handles certain property-related expenses during the properties holding period.

### *Economic Factors and Next Year's Budgets and Rates*

The Authority's Board of Directors and management consider many factors when setting the Authority's annual budget. One of the most important factors affecting the budget is ensuring sufficient funds are available for ongoing costs. The 2013 budget was adopted in November, 2012 based on projected revenues.

### *Contacting the Authority's Financial Management*

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

Kalamazoo County Land Bank  
229 East Michigan Avenue  
Suite 340  
Kalamazoo, Michigan 49007



## Independent Auditor's Report

Board of Directors  
Kalamazoo County Land Bank Authority  
Kalamazoo, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the Kalamazoo County Land Bank Authority (the Authority), a discretely presented component unit Enterprise Fund of the County of Kalamazoo, Michigan (the County), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



As discussed in Note 1, the financial statements present only the Enterprise Fund, and do not purport to, and do not, present fairly the financial position of the County, as of December 31, 2012 and 2011, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of January 1, 2012.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*BDO USA, LLP*

Kalamazoo, Michigan

May 15, 2013

## Basic Financial Statements

---

# Kalamazoo County Land Bank Authority

## Statements of Net Position

---

| <i>December 31,</i>                       | 2012               | 2011                |
|-------------------------------------------|--------------------|---------------------|
| <b>Assets:</b>                            |                    |                     |
| Cash and cash equivalents (Note 2)        | \$ 257,190         | \$ 90,801           |
| Accounts receivable                       | 79,017             | 32,300              |
| Prepays                                   | 5,456              | -                   |
| Inventory                                 | 6,261,669          | 2,689,100           |
| <hr/>                                     |                    |                     |
| <b>Total Assets</b>                       | <b>\$6,603,332</b> | <b>\$ 2,812,201</b> |
| <hr/>                                     |                    |                     |
| <b>Liabilities:</b>                       |                    |                     |
| Accounts payable                          | \$ 558,473         | \$ 104,646          |
| Accrued liabilities                       | 7,157              | 9,767               |
| <hr/>                                     |                    |                     |
| <b>Total Liabilities</b>                  | <b>565,630</b>     | <b>114,413</b>      |
| <hr/>                                     |                    |                     |
| <b>Net Position - Restricted</b>          | <b>6,037,702</b>   | <b>2,697,788</b>    |
| <hr/>                                     |                    |                     |
| <b>Total Liabilities and Net Position</b> | <b>\$6,603,332</b> | <b>\$ 2,812,201</b> |

*See accompanying independent auditor's report  
and notes to financial statements.*

# Kalamazoo County Land Bank Authority

## Statements of Revenues, Expenses, and Changes in Net Position

| <i>Year ended December 31,</i>         | 2012                | 2011                |
|----------------------------------------|---------------------|---------------------|
| <b>Operating Revenue:</b>              |                     |                     |
| Grants                                 | \$ 3,273,342        | \$ 2,136,395        |
| Property sales                         | 1,464,399           | 572,807             |
| Site inspection                        | 78,600              | 99,089              |
| Donations                              | 7,825               | 24,122              |
| <b>Total Operating Revenue</b>         | <b>4,824,166</b>    | <b>2,832,413</b>    |
| <b>Operating Expenses:</b>             |                     |                     |
| Cost of property sold                  | 531,170             | 88,812              |
| Contractual services                   | 277,730             | 186,666             |
| Interim property costs                 | 275,850             | 203,497             |
| Salaries and fringe benefits           | 265,768             | 299,578             |
| Property acquisition costs             | 87,486              | 89,846              |
| Supplies                               | 29,352              | 16,719              |
| Technology                             | 28,853              | 24,743              |
| Building maintenance                   | 22,275              | 7,933               |
| Rent                                   | 18,048              | 11,499              |
| Property taxes                         | 13,040              | 11,431              |
| Meetings and conferences               | 12,269              | 8,201               |
| Vehicle expenses                       | 7,906               | 7,099               |
| Community gardening                    | 6,839               | 6,108               |
| Memberships                            | 4,177               | 251                 |
| Recording fees                         | 1,734               | 1,563               |
| Miscellaneous                          | 2,720               | -                   |
| <b>Total Operating Expenses</b>        | <b>1,585,217</b>    | <b>963,946</b>      |
| <b>Net Operating Income</b>            | <b>3,238,949</b>    | <b>1,868,467</b>    |
| <b>Nonoperating Revenue:</b>           |                     |                     |
| Kalamazoo County appropriations        | 100,000             | 100,000             |
| Interest revenue                       | 965                 | 235                 |
| <b>Total Nonoperating Revenue</b>      | <b>100,965</b>      | <b>100,235</b>      |
| <b>Change in Net Position</b>          | <b>3,339,914</b>    | <b>1,968,702</b>    |
| <b>Net Position, beginning of year</b> | <b>2,697,788</b>    | <b>729,086</b>      |
| <b>Net Position, end of year</b>       | <b>\$ 6,037,702</b> | <b>\$ 2,697,788</b> |

*See accompanying independent auditor's report  
and notes to financial statements.*

# Kalamazoo County Land Bank Authority

## Statements of Cash Flows

| <i>Year ended December 31,</i>                                                                | 2012              | 2011               |
|-----------------------------------------------------------------------------------------------|-------------------|--------------------|
| <b>Operating Activities:</b>                                                                  |                   |                    |
| Receipts from customers                                                                       | \$ 4,777,450      | \$ 2,819,464       |
| Cash paid to suppliers                                                                        | (4,712,026)       | (2,904,454)        |
| <b>Cash Provided by (Used in) Operating Activities</b>                                        | <b>65,424</b>     | <b>(84,990)</b>    |
| <b>Cash Provided by Non-Capital Financing Activities -</b>                                    |                   |                    |
| Kalamazoo County appropriations                                                               | 100,000           | 100,000            |
| <b>Cash Provided by Investing Activities -</b>                                                |                   |                    |
| Interest received                                                                             | 965               | 235                |
| <b>Increase in Cash and Cash Equivalents</b>                                                  | <b>166,389</b>    | <b>15,245</b>      |
| <b>Cash and Cash Equivalents, beginning of year</b>                                           | <b>90,801</b>     | <b>75,556</b>      |
| <b>Cash and Cash Equivalents, end of year</b>                                                 | <b>\$ 257,190</b> | <b>\$ 90,801</b>   |
| <b>Reconciliation of Operating Income to</b>                                                  |                   |                    |
| <b>Cash Provided by (Used in) Operating Activities:</b>                                       |                   |                    |
| Operating income                                                                              | \$ 3,238,949      | \$ 1,868,467       |
| Adjustments to reconcile operating income to cash provided by (used in) operating activities: |                   |                    |
| Changes in assets:                                                                            |                   |                    |
| Accounts receivable                                                                           | (46,717)          | (12,949)           |
| Prepays                                                                                       | (5,456)           | 294                |
| Inventory                                                                                     | (3,572,569)       | (1,957,325)        |
| Changes in liabilities:                                                                       |                   |                    |
| Accounts payable                                                                              | 453,827           | 9,513              |
| Accrued liabilities                                                                           | (2,610)           | 7,010              |
| <b>Cash Provided by (Used in) Operating Activities</b>                                        | <b>\$ 65,424</b>  | <b>\$ (84,990)</b> |

*See accompanying independent auditor's report and notes to financial statements.*

# Kalamazoo County Land Bank Authority

## Notes to Financial Statements

---

### 1. Nature of Business and Summary of Significant Accounting Policies

Kalamazoo County Land Bank Authority (the Authority) is a discretely presented component unit Enterprise Fund of the County of Kalamazoo, Michigan, (the County). The Authority works to create vibrant communities through eliminating blighted properties, creating affordable housing opportunities, stabilizing property values by acquiring, developing, and selling properties, and ultimately returning properties to the tax rolls.

The financial statements of the Authority do not include other operations of the County.

#### *Basis of Accounting*

The accounts of the Authority are organized on the basis of proprietary and enterprise funds. These funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Authority is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Enterprise 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 Authority relate to charges for services to customers for residential rental and sales of property as well as funds provided by local source project grants. Operating expenses for the Authority include the cost of property rental 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.

#### *Cash Equivalents*

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

*See accompanying independent auditor's report.*

# Kalamazoo County Land Bank Authority

## Notes to Financial Statements

---

### *Receivables and Payables*

Transactions between the Authority and provider agencies that represent the differences outstanding at year-end between amounts advanced from agencies and qualifying expenditures are included in accounts receivable/payables. Accounts receivable representing outstanding balances or charges for services, are considered fully collectible.

### *Inventory*

Inventory is valued at cost. Some of the properties in inventory are initially offered to the Authority by the County prior to going to auction for the outstanding delinquent tax amount. In general, most parcels that are transferred to the Authority and foreclosed properties that have not sold at auction, which automatically revert to the Authority, have minimal value and are valued at \$1.

### *Prepaid Items*

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

### *Use of Estimates*

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### *Reclassification*

Certain 2011 balances have been reclassified to conform to the December 31, 2012, presentation.

### *Subsequent Event Reporting*

Management has evaluated the period from January 1, 2013, through May 15, 2013, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements.

## **2. Deposits**

At December 31, 2012 and 2011, the Authority did not have any investments.

The County's treasurer has custody and authority to make investment decisions for the Authority. As such, the deposits and investments of the Authority are subject to the County's investment policy.

*See accompanying independent auditor's report.*

# Kalamazoo County Land Bank Authority

## Notes to Financial Statements

---

### *Deposits*

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The County's investment policy complies with the state's statutes and has no additional limitations on deposits.

### *Custodial Credit Risk - Deposits*

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to the Authority. The deposits of \$272,161 and \$159,152 were reflected in the accounts of the bank at December 31, 2012 and 2011, respectively. Federal depository insurance is applied to the County's deposits as a whole. Therefore, the portion of the deposit covered by FDIC is not determinable.

### **3. Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The Authority purchases workers' compensation insurance through a third party provider. The Authority participated in the County's risk management program for other exposures, through June 20, 2011.

As of June 21, 2011, the Authority purchased coverage for risk management through Michigan Municipal Risk Management Authority (MMRMA), and no longer participates in the County's risk management program.

### **4. Implementation of GASB Statement No. 63**

For the year ended December 31, 2012, the Authority implemented Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which resulted in reclassifying "Net Assets" to "Net Position".

*See accompanying independent auditor's report.*



**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

Board of Directors  
Kalamazoo County Land Bank Authority  
Kalamazoo, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kalamazoo County Land Bank Authority (the Authority) a discretely presented component unit Enterprise Fund of the County of Kalamazoo, Michigan (the County), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 15, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

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

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



## Compliance and Other Matters

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

## Purpose of this Report

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

*BDO USA, LLP*

Kalamazoo, Michigan

May 15, 2013



**Independent Auditor's Report on Compliance For Each  
Major Federal Program; Report on Internal Control Over Compliance;  
and Report on the Schedule of Expenditures of Federal Awards  
Required by *OMB Circular A-133***

Board of Directors  
Kalamazoo County Land Bank Authority  
Kalamazoo, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited the Kalamazoo County Land Bank Authority's (the Authority's) a discretely presented component unit Enterprise Fund of the County of Kalamazoo, Michigan's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the years ended December 31, 2012 and 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.



## *Opinion on Each Major Federal Program*

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2012 and 2011.

## **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

*BDO USA, LLP*

Kalamazoo, Michigan

May 15, 2013

# Kalamazoo County Land Bank Authority

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2012

|                                                                                                                    | <i>Federal<br/>CFDA<br/>Number</i> | <i>Current<br/>Year</i> |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------|
| <i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>                                               |                                    |                         |
| <b>U.S. Department of Housing and Urban Development:</b>                                                           |                                    |                         |
| <i>Passed-through Michigan State Housing Development Authority -<br/>ARRA - Neighborhood Stabilization Program</i> | 14.256                             | \$3,095,979             |
| <i>Passed-through Local Initiatives Support Corporation -<br/>Local Initiatives Support Group- B-08-CB-NY-0001</i> | 14.252                             | 85,000                  |
| <b>Total U.S. Department of Housing and Urban Development</b>                                                      |                                    | <b>3,180,979</b>        |
| <b>Federal Department of Housing and Urban Development -<br/>Passed-through City of Kalamazoo -</b>                |                                    |                         |
| Community Development Block Grants/Entitlement Grants                                                              | 14.218                             | 19,041                  |
| <b>Total Federal Awards</b>                                                                                        |                                    | <b>\$3,200,020</b>      |

# Kalamazoo County Land Bank Authority

## Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2012

---

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Kalamazoo County Land Bank Authority (the Authority) under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority. Therefore, some amounts presented in the schedule may differ from amounts presented in the financial statements.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting.

# Kalamazoo County Land Bank Authority

## Schedule of Findings and Questioned Costs Year Ended December 31, 2012

### Section I - Summary of Auditor's Results

#### *Financial Statements*

|                                                       |               |
|-------------------------------------------------------|---------------|
| Type of auditor's report issued:                      | Unqualified   |
| Internal control over financial reporting:            |               |
| • Material weakness(es) identified?                   | No            |
| • Significant deficiencies identified?                | None Reported |
| Noncompliance material to financial statements noted? | No            |

#### *Federal Awards*

|                                                                                                                                |               |
|--------------------------------------------------------------------------------------------------------------------------------|---------------|
| Internal control over financial reporting:                                                                                     |               |
| • Material weakness(es) identified?                                                                                            | No            |
| • Significant deficiencies identified?                                                                                         | None Reported |
| Type of auditor's report issued on compliance for major programs:                                                              | Unqualified   |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of <i>OMB Circular A-133</i> ? | No            |
| Dollar threshold used to distinguish between Type A and Type B Programs:                                                       | \$300,000     |
| Auditee qualified as low-risk auditee?                                                                                         | Yes           |

Identification of major programs:

| <u>No.</u> | <u>Name of Federal Program or Cluster</u> |
|------------|-------------------------------------------|
|------------|-------------------------------------------|

|        |                                           |
|--------|-------------------------------------------|
| 14.256 | ARRA - Neighborhood Stabilization Program |
|--------|-------------------------------------------|

### Section II - Financial Statement Findings

No matters were reported.

### Section III - Federal Award Findings and Questioned Costs

No matters were reported.

### Section IV - Prior Audit Findings

None.