

**Economic Development and Industrial
Corporation of Boston**

Financial Statements
and
Auditors' Report

June 30, 2012 and 2011



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**Economic Development and Industrial
Corporation of Boston**

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The Board of Directors
**Economic Development and
Industrial Corporation of Boston**

Independent Auditors' Report

We have audited the accompanying balance sheets of Economic Development and Industrial Corporation of Boston (EDIC), a quasi-public corporation and component unit of the City of Boston, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of EDIC's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EDIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EDIC as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining schedule of revenues and expenses for the year ended June 30, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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.

Daniel Dennis + Company LPA

October 19, 2012

Economic Development and Industrial Corporation of Boston
Management's Discussion and Analysis
(Unaudited)
June 30, 2012

The following is the management's discussion and analysis of the financial performance of the Economic Development and Industrial Corporation of Boston (EDIC) for the fiscal year ended June 30, 2012. This discussion is a narrative overview and analysis of EDIC's financial operations and should be read in conjunction with the accompanying financial statements, which begin on page 10.

The Corporation as a Whole

The Economic Development and Industrial Corporation of Boston (EDIC), a quasi-public corporation, is a component unit of the City of Boston and an instrumentality of the Commonwealth of Massachusetts. The purpose of EDIC is to create and retain industrial companies and jobs in Boston's neighborhoods for Boston residents, including minorities and women, through economic development, industrial real estate management, financing, and job training. EDIC is exempt from federal income taxes as a political subdivision under Section 115 of the Internal Revenue Code.

EDIC's Office of Jobs and Community Services (JCS) is a multi-service agency that receives federal, state, and city funds to run a comprehensive system of education, job training, job placement, counseling, human services, and other support services for Boston residents.

EDIC's major sources of revenue during the year ended June 30, 2012 include funds generated from lease operations at its Boston Marine Industrial Park (BMIP) and grants/contracts with governmental agencies for JCS activities.

Basic Financial Statements

The basic financial statements are prepared using proprietary fund accounting, which is the same basis of accounting used by private-sector business enterprises. Under this method of accounting, the accrual basis of accounting is used. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. This report also includes footnotes accompanying the statements to fully explain the activities reported in them.

The balance sheet presents information on the assets and liabilities of EDIC. The difference between the two is net assets. Over time, increases and decreases in net assets may be an indicator of the financial stability of EDIC.

The statement of revenues, expenses, and changes in net assets reports the operating revenues and expenses of EDIC for the fiscal year. The difference (increase or decrease in net assets) then determines the net change in net assets for the fiscal year. This change in net assets added to last year's net assets will reconcile to the total net assets reported at year-end on the balance sheet.

The statement of cash flows reports activity of cash and cash equivalents during the fiscal year resulting from operating activities, investing activities, and capital and related financing activities. The net result of these activities is reconciled to the cash and cash equivalent balances reported at year-end on the balance sheet. This statement is prepared on a cash basis.

Economic Development and Industrial Corporation of Boston
Management's Discussion and Analysis - *Continued*
June 30, 2012

Financial Highlights

- Assets exceeded liabilities by \$27,745,091 at the close of the fiscal year.
- Revenues increased by \$2,125,033 or 7% from the previous fiscal year.
- Expenses decreased by \$1,393,907 or 4% from the previous fiscal year.
- Net assets increased \$2,941,874 from the previous fiscal year.

Balance Sheet

The following table shows assets, liabilities and net assets for the years ended June 30, 2012 and 2011, and the related fluctuations in these accounts between these two fiscal years:

	2012	2011	<i>Increase/ (Decrease)</i>
<i>Assets</i>			
Cash and cash equivalents	\$ 10,670,741	\$ 9,204,553	\$ 1,466,188
Cash and cash equivalents - restricted	455,804	1,420,764	(964,960)
Accounts receivable (net)	2,172,299	2,307,354	(135,055)
Grants/contracts receivable	3,285,991	2,676,827	609,164
Other current assets	377,316	369,047	8,269
Capital assets	69,875,035	67,825,659	2,049,376
Accumulated depreciation	(36,541,814)	(35,306,150)	(1,235,664)
Debt issuance costs - net	<u>86,833</u>	<u>97,813</u>	<u>(10,980)</u>
Total assets	<u>\$ 50,382,205</u>	<u>\$ 48,595,867</u>	<u>\$ 1,786,338</u>
<i>Liabilities</i>			
Accounts payable and accrued expenses	\$ 2,944,281	\$ 2,838,522	\$ 105,759
Grant/contracts payable	1,937,657	1,605,153	332,504
Long-term debt (inclusive of the related short-term portion)	16,919,655	18,621,643	(1,701,988)
Deferred revenue	134,894	107,298	27,596
Other liabilities	<u>700,627</u>	<u>620,034</u>	<u>80,593</u>
Total liabilities	<u>\$ 22,637,114</u>	<u>\$ 23,792,650</u>	<u>\$ (1,155,536)</u>

Economic Development and Industrial Corporation of Boston
Management's Discussion and Analysis - *Continued*
June 30, 2012

	2012	2011	(Decrease)
<i>Net Assets</i>			
Invested in capital assets, net of related debt	\$ 16,869,370	\$ 15,318,630	\$ 1,550,740
Restricted for grant programs	703,526	703,526	-
Unrestricted	<u>10,172,195</u>	<u>8,781,061</u>	<u>1,391,134</u>
Total net assets	<u>27,745,091</u>	<u>24,803,217</u>	<u>2,941,874</u>
Total liabilities and net assets	<u>\$ 50,382,205</u>	<u>\$ 48,595,867</u>	<u>\$ 1,786,338</u>

Explanations for significant fluctuations noted in the above table are as follows:

Cash and Cash Equivalents - Unrestricted

This increase is the net result of a decrease in restricted cash and cash equivalents, fiscal year 2012 net income, and increases in capital asset acquisitions and principal payments on debt. These fluctuations are highlighted on the statement of cash flows on pages 12 and 13.

Cash and Cash Equivalents - Restricted

This decrease is a result of the fiscal year 2012 interest payments on bond debt. These funds represent bond proceeds restricted to pay the first three year's interest on the fiscal year 2010 bond debt.

Grants/Contracts Receivable

This increase is the result of three new grants received in fiscal year 2012 and the timing of the related billing and collection process.

Capital Assets

This increase is primarily related to significant environmental, engineering, and security projects that were capitalized during fiscal year 2012.

Accumulated Depreciation

This increase is the result of normal depreciation of capital assets, taking into consideration additional capital assets being placed in service each fiscal year.

Grants/ Contracts Payable

This increase is the result of year end timing of corresponding payments to community based organizations.

Economic Development and Industrial Corporation of Boston
Management's Discussion and Analysis - Continued
June 30, 2012

Long-Term Debt

This decrease is a combined result of normal principal payments on debt, together with additional principal payments made on bond debt, which was a requirement for refinancing the interest rate on this debt in fiscal year 2012.

Net Assets Invested in Capital Assets, Net of Related Debt

This increase is the result of a net increase in capital assets after depreciation totaling approximately \$814,000, a decrease in bond proceeds held in escrow totaling approximately \$965,000 and a decrease of outstanding debt related to capital assets totaling approximately \$1,702,000.

Net Assets Unrestricted

This increase is the net result of an increase in net assets invested in capital assets, net of related debt, as noted above, and an increase in total net assets totaling approximately \$2.9 million for the year ended June 30, 2012.

Statement of Revenues, Expenses, and Changes in Net Assets

The following table shows revenues and expenses for the years ended June 30, 2012 and 2011, and the related fluctuations in these accounts between these two fiscal years:

	2012	2011	Increase/ (Decrease)
<i>Operating Revenue</i>			
Grant/contract income	\$13,667,743	\$13,061,548	\$ 606,195
Contributions	1,258,922	1,589,098	(330,176)
Rental income	17,967,547	15,959,691	2,007,856
Other income	290,835	449,677	(158,842)
Total operating revenues	<u>33,185,047</u>	<u>31,060,014</u>	<u>2,125,033</u>
<i>Operating Expenses</i>			
Salaries and fringe benefits	12,580,939	12,497,482	83,457
Grants/contracts to related party and community based organizations	7,051,506	7,551,003	(499,497)
Security and maintenance	1,119,471	1,196,155	(76,684)
Professional fees	3,058,208	2,962,650	95,558
Bad debt expense	433,346	1,486,721	(1,053,375)
Depreciation	1,235,664	1,248,277	(12,613)
Supplies and services	3,661,454	3,531,449	130,005
Rental expense	409,648	201,057	208,591
Interest expense/bank service costs	624,544	838,512	(213,968)
Other expenses	68,393	123,774	(55,381)
Total operating expenses	<u>30,243,173</u>	<u>31,637,080</u>	<u>(1,393,907)</u>
Change in net assets	2,941,874	(577,066)	3,518,940
Net assets at beginning of year	<u>24,803,217</u>	<u>25,380,283</u>	<u>(577,066)</u>
Net assets at end of year	<u>\$27,745,091</u>	<u>\$24,803,217</u>	<u>\$ 2,941,874</u>

Economic Development and Industrial Corporation of Boston
Management's Discussion and Analysis - *Continued*
June 30, 2012

Explanations for significant fluctuations noted in the above table are as follows:

Grant/Contract Income

This increase is primarily the net result of a new grant in fiscal year 2012 from the City of Boston to fund capital improvements at the BMIP totaling approximately \$1.3 million, and a fiscal year 2011 EPA revolving loan grant totaling approximately \$704,000 that did not reoccur in fiscal year 2012.

Contributions

Contributions consist of foundation grants and other donation income received for JCS programs. Related receipts are initially recorded as deferred revenue, and recognized as revenue as program expenses are incurred. The decrease in fiscal year 2012 revenue is the combined result of a decrease in contributions received in fiscal year 2012 and a decrease in program expenses funded through donation income, primarily under the Read Boston, Earned Income Tax Credit, and Youth Opportunity programs.

Rental Income

This increase is the combined result of an increase in tenant rental income totaling approximately \$632,000, an increase in parking income totaling approximately \$1.07 million, and an increase in tenant reimbursements for utilities and maintenance totaling approximately \$305,000.

Other Income

This decrease is primarily the result of a reduction in fiscal year 2012 salary and fringe reimbursements totaling approximately \$111,000 from a related party for EDIC employees who worked on the related party's projects.

Grants/Contracts to Related Party and Community Based Organizations

This decrease is the result of less grant activity compared to the previous year, primarily in youth programs.

Bad Debt Expense

This decrease is due to a one-time write-off of a related party receivable during fiscal year 2011 totaling approximately \$1,000,000.

Supplies and Services

This increase is the net result of an increase in water and sewer costs totaling approximately \$198,000, offset by decrease in several other supplies and services expense accounts. The increase in water and sewer costs were the combined result of increased usage by the BMIP tenants and increase in water and sewage rates in fiscal year 2012.

Economic Development and Industrial Corporation of Boston

Management's Discussion and Analysis - *Continued*

June 30, 2012

Rental Expense

This increase is the result of an EDIC nonprofit affiliate being able to absorb approximately \$201,000 of office space in fiscal year 2011 relating to the Youth Opportunity Boston program, which did not reoccur in fiscal year 2012.

Interest Expense/Bank Service Costs

This decrease is the combined result of mortgage loan being paid off during fiscal year 2012, annual interest payments on debt decreasing based on lower principal balances, and refinancing the bond debt to a lower interest rate in fiscal year 2012.

Analysis of Significant Variations between Budget Amounts

The following table shows a comparison of revenues and expenses for the year ended June 30, 2012 and budgeted revenue and expenses, and the related fluctuations:

	2012	Budget	Increase/ (Decrease)
<i>Operating Revenue</i>			
Grant/contract income	\$ 13,667,743	\$ 13,062,414	\$ 605,329
Rental income	17,967,547	16,982,000	985,547
Contributions	1,258,922	1,318,070	(59,148)
Other income	<u>290,835</u>	<u>261,000</u>	<u>29,835</u>
Total operating revenues	<u>33,185,047</u>	<u>31,623,484</u>	<u>1,561,563</u>
<i>Operating Expenses</i>			
Salaries and fringe benefits	12,580,939	13,250,219	(669,280)
Grants/contracts to related party and community based organizations	7,051,506	6,753,115	298,391
Security and maintenance	1,119,471	930,000	189,471
Professional fees	3,058,208	3,075,000	(16,792)
Bad debt expense	433,346	340,000	93,346
Depreciation	1,235,664	1,300,000	(64,336)
Supplies and services	3,661,454	3,259,000	402,454
Rental expense	409,648	420,000	(10,352)
Interest expense/bank service costs	624,544	1,000,000	(375,456)
Other expenses	<u>68,393</u>	<u>86,000</u>	<u>(17,607)</u>
Total operating expenses	<u>30,243,173</u>	<u>30,413,334</u>	<u>(170,161)</u>
Change in net assets	<u>\$ 2,941,874</u>	<u>\$ 1,210,150</u>	<u>\$ 1,731,724</u>

Explanations for significant fluctuations noted in the above table are as follows:

Grant/Contract Income

This increase was the result of three unbudgeted grant awards for JCS totaling approximately \$600,000 during the year.

Economic Development and Industrial Corporation of Boston
Management's Discussion and Analysis - *Continued*
June 30, 2012

Rental Income

This increase was primarily the result of favorable parking revenue totaling approximately \$915,000 due to additional events at the BMIP and an expansion of the cruise operation. Additionally, utility billing to tenants increased due to the cruise program expansion at the BMIP.

Salaries and Fringe Benefits

This decrease was the combined result of new positions budgeted for the full year and either placed later than planned or unfilled in fiscal year 2012, and other unplanned staff terminations during the year.

Grants/Contracts to Related Party and Community Based Organizations

This increase was primarily the result of unbudgeted expenses for three new grant awards during the year.

Security and Maintenance

This increase was the combined result of additional security costs totaling approximately \$104,000 for the expanded cruises and other additional events at the BMIP, as well as higher maintenance spending totaling approximately \$85,000 for fiscal year 2012.

Supplies and Services

This increase was primarily the result of higher utilities costs totaling approximately \$367,000 for the expanded operations at the BMIP.

Interest Expense/Bank Service Costs

This decrease is due to the Bond interest rate refinancing. Savings resulted from both a lower interest rate and reduction in principal.

Current Know Facts, Decisions, and Conditions

There are no currently known facts, decisions, or conditions that are expected to have a significant effect on EDIC's net assets or results operations.

Request for Information

This financial report is designed to provide a general overview of EDIC's finances and to demonstrate its accountability for the money it receives to carry out both economic development activities, and fiscal agent responsibilities to the City of Boston for its Jobs and Community Services grant programs. If you have any questions about this report, contact the Secretary's Office, 9th Floor, Boston City Hall.

Economic Development and Industrial Corporation of Boston
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	2012	2011
<i>Cash Flows from Operating Activities</i>		
Receipts from grants/contracts and contributions	\$ 14,345,097	\$ 15,901,772
Receipts from tenants	17,935,944	14,922,289
Receipts from interest	16,612	40,462
Receipts from affiliates	88,128	89,934
Payments to employees	(9,070,049)	(8,980,741)
Payments for employee benefits	(3,292,409)	(3,320,388)
Payments to community based organizations	(6,618,706)	(8,155,645)
Payments to vendors and suppliers	(8,529,322)	(7,700,417)
Payments for interest	<u>(622,703)</u>	<u>(826,259)</u>
Net cash provided by operating activities	<u>4,252,592</u>	<u>1,971,007</u>
<i>Cash Flows from Capital and Related Financing Activities</i>		
Acquisition of capital assets	(2,049,376)	(1,755,818)
Principal payments on debt	<u>(1,701,988)</u>	<u>(1,151,721)</u>
Net cash used in capital and related financing activities	<u>(3,751,364)</u>	<u>(2,907,539)</u>
Net increase/(decrease) in cash and cash equivalents	501,228	(936,532)
Cash and cash equivalents - beginning of year	<u>10,625,317</u>	<u>11,561,849</u>
Cash and cash equivalents - end of year	<u>\$ 11,126,545</u>	<u>\$ 10,625,317</u>
 <i>Reconciliation to Cash and Cash Equivalents on the Balance Sheet</i>		
	2012	2011
Cash and cash equivalents - unrestricted	\$ 10,670,741	\$ 9,204,553
Cash and cash equivalents - restricted, current	455,804	724,352
Cash and cash equivalents - restricted, noncurrent	<u>-</u>	<u>696,412</u>
Total	<u>\$ 11,126,545</u>	<u>\$ 10,625,317</u>

See accompanying notes to financial statements.

Economic Development and Industrial Corporation of Boston

Statements of Cash Flows - *Continued*

For the Years Ended June 30, 2012 and 2011

Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities

	2012	2011
Change in net assets	\$ 2,941,874	\$ (577,066)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,235,664	1,248,277
Provision for uncollectible accounts	433,346	1,486,721
Amortization of debt issuance costs	10,980	11,996
(Increase) in accounts receivable	(325,182)	(1,927,091)
(Increase)/decrease in grants/contracts receivable	(609,164)	1,332,371
(Increase)/decrease in other assets	(8,269)	25,316
Decrease in related party receivables	26,891	597,715
Increase/(decrease) in accounts payable	(540,354)	343,868
Increase/(decrease) in grants/contracts payable	432,800	(604,642)
Increase in accrued expenses	545,817	142,095
Increase/(decrease) in security deposits	80,593	(27,308)
Increase/(decrease) in deferred revenue	27,596	(81,245)
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 4,252,592</u>	<u>\$ 1,971,007</u>

See accompanying notes to financial statements.

Economic Development and Industrial Corporation of Boston
Notes to Financial Statements
June 30, 2012 and 2011

1. ***Financial Reporting Entity***

Economic Development and Industrial Corporation of Boston (EDIC), a quasi-public corporation, is a component unit of the City of Boston (Boston, or the City) and an instrumentality of the Commonwealth of Massachusetts. The purpose of EDIC is to create and retain industrial companies and jobs in the Boston's neighborhoods for Boston residents, including minorities and women, through economic development, industrial real estate management, financing, and job training. EDIC is exempt from federal income taxes as a political subdivision under Section 115 of the Internal Revenue Code.

EDIC owns and operates the Boston Marine Industrial Park (BMIP), which is leased out to manufacturing, industrial and light industrial business tenants. Further, EDIC's Office of Jobs and Community Services (JCS) is a multi-service agency that receives federal, state, and city funds to run a comprehensive system of education, job training, job placement, counseling, human services, and other support services for Boston residents.

2. ***Summary of Significant Accounting Policies***

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual method of accounting, as EDIC operates as a business type entity. Accordingly, revenue is recognized when earned and expenses are recorded when incurred.

Funding under cost reimbursement grants/contracts and contribution revenue are recognized as deferred revenue when received, and recorded as income when all eligibility requirements are met. Funding received for the improvement of depreciable capital assets are considered to be nonexchange transactions and are recorded as revenue when the related cost is incurred.

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, EDIC has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict with GASB pronouncements.

Operating Revenue and Expenses - Operating revenue generally result from funds generated from lease operations at the BMIP, grants/contracts with governmental agencies, and contributions for JCS activities. Operating expenses include all costs associated with these activities and depreciation on capital assets.

Grants/Contracts and Accounts Receivable - Grants/contracts receivable represent amounts due from funding sources for both JCS activities at June 30, 2012 and 2011, in addition to EDIC's revolving loan fund (Note 15) at June 30, 2011. Accounts receivable represent amounts due from tenants and related parties. Receivables are presented net of allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience and receivables are charged off when deemed uncollectible. Allowance for doubtful accounts receivable totaled \$1,136,666 and \$1,029,516 at June 30, 2012 and 2011, respectively. Management has determined that all grants/contracts receivable are collectible for the years then ended; therefore, no related allowance has been recorded.

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

2. *Summary of Significant Accounting Policies - Continued*

Cash and Cash Equivalents - Cash and cash equivalents consist of funds in EDIC's cash accounts and all highly liquid investments. EDIC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Debt Issuance Costs - Financing fees are being amortized using the straight-line method over the life of the respective debt instruments.

Capital Assets - Capital assets in excess of \$5,000 are recorded on the balance sheet at historical cost less accumulated depreciation. Depreciation is provided using the straight-line method over the following useful lives:

<i>Capital Asset Category</i>	<i>Life</i>
Land Improvements	5-50 Years
Maritime Assets	10-50 Years
Buildings and Improvements	10-50 Years
Machinery and Equipment	3-5 Years
Furniture and Fixtures	5 Years
Other Assets	5 Years

All real estate and tangible personal property of EDIC are deemed to be public property used for essentially public and governmental purposes and are exempt from taxation, except that the City and EDIC may determine an amount to be paid annually in lieu of taxes. No such payments were made to the City for the years ended June 30, 2012 and 2011.

Interest Cost - EDIC follows a policy of capitalizing interest as a component of construction in progress, where applicable. Interest incurred for the years ending June 30, 2012 and 2011 totaled \$624,276, and \$837,962, respectively, all of which was expensed.

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, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Derivatives - The interest rate swap agreement attached to EDIC mortgage debt is recorded at fair value, which is the estimated amount that EDIC would receive/(pay) to terminate the agreement at the reporting date, taking into account current interest rates and other factors as determined by the financial institution.

Grants/Contracts and Accounts Payable - Grants/contracts payable represent amounts due to community based organizations for JCS activities that are funded through grants/contracts with Federal, state and other agencies. Accounts payable represent amounts due to vendors and related parties.

Reclassifications – Certain reclassifications have been made to the fiscal year 2011 amounts to conform with the fiscal year 2012 presentation.

Economic Development and Industrial Corporation of Boston
Notes to Financial Statements - *Continued*
June 30, 2012 and 2011

2. ***Summary of Significant Accounting Policies - Continued***

Planned Major Maintenance - EDIC uses the direct expensing method to account for planned major maintenance activities, under which actual costs incurred are expensed directly when maintenance is performed.

3. ***Net Assets Invested in Capital Assets, Net of Related Debt***

Net assets invested in capital assets, net of related debt, consisted of the following:

	2012	2011	Change
Cost of capital assets acquired	\$ 69,875,035	\$67,825,659	\$ (2,049,376)
Less accumulated depreciation	(36,541,814)	(35,306,150)	1,235,664
Less outstanding debt related to capital assets	(16,919,655)	(18,621,643)	(1,701,988)
Add restricted debt proceeds	<u>455,804</u>	<u>1,420,764</u>	<u>964,960</u>
Net assets invested in capital assets, net	<u>\$ 16,869,370</u>	<u>\$15,318,630</u>	<u>\$ (1,550,740)</u>

4. ***Cash and Cash Equivalents***

Cash and cash equivalents as of June 30, 2012 and 2011 consisted of the following:

<i>Description</i>	2012	2011
Federally insured (FDIC) deposits	\$ 500,025	\$ 256,353
MA Depositor's Insurance Fund (DIF) insured deposits	-	5,934,904
Collateralized with Securities held by the Pledging Financial Institution in EDIC's name	-	-
Collateralized with Securities held by the Pledging Financial Institution's Trust Department or Agent, but not in EDIC's Name	4,256,359	4,095,241
Uncollateralized/unsecured deposits	<u>7,288,830</u>	<u>977,566</u>
Sub-total	12,045,214	11,264,064
Less net outstanding transactions	<u>(918,669)</u>	<u>(638,747)</u>
Total cash and cash equivalents	<u>\$11,126,545</u>	<u>\$10,625,317</u>

5. ***Deferred Revenue and Deferred Grants/Contracts***

Deferred revenue at June 30, 2012 and 2011 totaling \$134,894 and \$107,298, respectively, consisted primarily of foundation grants and other donation income in excess of related program expenses incurred at year-end for various JCS programs.

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

6. *Leasing Activities*

EDIC has numerous operating leases with tenants for space at the BMIP. Rental income totaled \$10,848,512 and \$10,216,748, for the year ended June 30, 2012 and 2011, respectively, inclusive of in lieu of tax payments received from certain tenants under agreements with the City of Boston. Parking income from a garage and other spaces at the BMIP, totaling \$4,071,097 and \$3,000,330 for the years then ended, respectively, is included in rental income on the statement of revenue, expenses and changes in net assets. In addition, tenant reimbursements for utilities and maintenance totaling \$3,047,938 and \$2,742,613, respectively, for the years then ended are included in rental income. Security deposits on these leases totaled \$700,627 and \$620,034 at June 30, 2012 and 2011, respectively.

Future minimum rental income on noncancelable operating leases over the next five years is as follows:

<i>Fiscal Year</i>	<i>Amount</i>
6/30/13	\$ 8,292,649
6/30/14	\$ 7,837,421
6/30/15	\$ 7,719,129
6/30/16	\$ 7,651,710
6/30/17	\$ 7,658,460

The above amounts do not include in lieu of tax payments and percentage rent for those tenants where related lease amounts are based on a percentage of gross receipts collected by the tenants from sublease agreements. In lieu of tax payments and percentage rent for such tenants totaled \$1,967,071 and \$1,872,223 for the years ended June 30, 2012 and 2011, respectively.

The cost of property held for leasing and total accumulated depreciation thereon is as follows:

	<i>2012</i>	<i>2011</i>
Land	\$ 2,100,909	\$ 2,100,909
Land improvements	12,742,090	12,142,254
Maritime assets	12,561,630	12,561,630
Buildings and improvements	<u>38,453,939</u>	<u>38,379,072</u>
Total	65,858,568	65,183,865
Less accumulated depreciation	<u>(35,822,172)</u>	<u>(34,665,984)</u>
Book value	<u>\$ 30,036,396</u>	<u>\$30,517,881</u>

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

7. Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011 was as follows:

	<i>Balance at</i>			<i>Balance at</i>
	<i>June 30, 2011</i>	<i>Additions</i>	<i>Disposals</i>	<i>June 30, 2012</i>
Land	\$ 2,100,909	\$ -	\$ -	\$ 2,100,909
Land improvements	12,142,254	599,836	-	12,742,090
Maritime assets	12,561,630	-	-	12,561,630
Buildings and improvements	38,379,072	74,867	-	38,453,939
Machinery and equipment	844,586	145,966	-	990,552
Other assets	118,603	-	-	118,603
Construction in progress	<u>1,678,605</u>	<u>1,228,707</u>	<u>-</u>	<u>2,907,312</u>
Totals at historical cost	<u>67,825,659</u>	<u>2,049,376</u>	<u>-</u>	<u>69,875,035</u>
Less accumulated depreciation for:				
Land improvements	(9,384,570)	(152,869)	-	(9,537,439)
Maritime assets	(8,842,386)	(146,406)	-	(8,988,792)
Buildings and improvements	(16,439,028)	(856,913)	-	(17,295,941)
Machinery and equipment	(534,425)	(76,825)	-	(611,250)
Other assets	<u>(105,741)</u>	<u>(2,651)</u>	<u>-</u>	<u>(108,392)</u>
Capital assets, net	<u>\$ 32,519,509</u>	<u>\$ 813,712</u>	<u>\$ -</u>	<u>\$ 33,333,221</u>

	<i>Balance at</i>			<i>Balance at</i>
	<i>June 30, 2010</i>	<i>Additions</i>	<i>Disposals</i>	<i>June 30, 2011</i>
Land	\$ 1,419,682	\$ 681,227	\$ -	\$ 2,100,909
Land improvements	12,142,254	-	-	12,142,254
Maritime assets	12,561,630	-	-	12,561,630
Buildings and improvements	38,359,372	19,700	-	38,379,072
Machinery and equipment	817,941	26,645	-	844,586
Other assets	118,603	-	-	118,603
Construction in progress	<u>650,359</u>	<u>1,028,246</u>	<u>-</u>	<u>1,678,605</u>
Totals at historical cost	<u>66,069,841</u>	<u>1,755,818</u>	<u>-</u>	<u>67,825,659</u>
Less accumulated depreciation for:				
Land improvements	(9,255,220)	(129,350)	-	(9,384,570)
Maritime assets	(8,724,551)	(117,835)	-	(8,842,386)
Buildings and improvements	(15,564,309)	(874,719)	-	(16,439,028)
Machinery and equipment	(410,702)	(123,723)	-	(534,425)
Other assets	<u>(103,090)</u>	<u>(2,651)</u>	<u>-</u>	<u>(105,741)</u>
Capital assets, net	<u>\$ 32,011,969</u>	<u>\$ 507,540</u>	<u>\$ -</u>	<u>\$ 32,519,509</u>

Depreciation expense for the years ended June 30, 2012 and 2011 totaled \$1,235,664 and \$1,248,277, respectively.

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

8. *Mortgage Payable*

Mortgage payable consisted of the following:

	2012	2011
City of Boston - Urban Development Action Grant (UDAG) loan bearing interest at 3% beginning in June 1990, due in June, 2012.	\$ -	\$ 169,496
Citizens Bank - mortgage note due in December, 2013 at a variable interest rate based on 1.5% above the one-month London Interbank Offer Rate (LIBOR), which was 1.74% and 1.70% at June 30, 2012 and 2011.	<u>500,775</u>	<u>865,090</u>
Total mortgage payable	500,775	1,034,586
Less current portion	<u>(383,112)</u>	<u>(534,106)</u>
Total long-term portion	<u>\$ 117,663</u>	<u>\$ 500,480</u>

The UDAG loan is secured by a second mortgage on the Boston Army Base property and improvements financed with the proceeds of the loan.

The Citizens Bank note is secured by a mortgage on 23-25 Drydock Ave. EDIC entered into an interest rate swap agreement with Citizens Bank to limit the effect of increases in interest rates on its mortgage note payable. The notional principal amount of the swap agreement is \$2,970,000. The effect of the agreement is to limit the interest rate expense to 4.49% on the original \$2,970,000 principal through the term of the swap agreement, which expires on December 19, 2013. EDIC holds the interest rate swap agreement for the purpose of hedging the risk of the variability of cash flow caused by the movement of the interest rate on its note payable, and not for speculation purposes.

The fair value of the swap agreement is a liability of \$19,161 and \$48,384 at June 30, 2012 and 2011, respectively. The change in the fair value of the swap agreement was a gain of \$29,223 and \$32,890 for the years ended June 30, 2012 and 2011, respectively, which is recorded in the statements of revenue, expenses, and changes in net assets as a component of the change in net assets.

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

8. ***Mortgage Payable - Continued***

Maturities of principal and interest are as follows:

<i>For the Year(s) Ended</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
6/30/2013	\$ 383,112	\$ 14,257	\$ 397,369
6/30/2014	<u>117,663</u>	<u>930</u>	<u>118,298</u>
Total	<u>\$ 500,775</u>	<u>\$ 15,187</u>	<u>\$ 515,667</u>

9. ***Notes Payable***

Notes payable consisted of the following:

	<i>2012</i>	<i>2011</i>
US Housing and Urban Development Section 108 loan due in March, 2015, bearing a variable interest rate, which was 6.4% at June 30, 2012 and 2011.	\$ 524,559	\$ 554,559
Less current portion	<u>(43,750)</u>	<u>(30,000)</u>
Total long-term portion	<u>\$ 480,809</u>	<u>\$ 524,559</u>

The above note was issued through the City of Boston's Department of Neighborhood Development for the purpose of renovating Building No. 54 of the BMIP in order to become the permanent home for an EDIC tenant. The loan will be paid back through rent received from the tenant, and is secured by a mortgage on the property.

Maturities of principal and interest are as follows:

<i>For the Year(s) Ended</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
6/30/2013	\$ 43,750	\$ 32,984	\$ 76,734
6/30/2014	48,750	30,332	79,082
6/30/2015	<u>432,059</u>	<u>33,974</u>	<u>466,033</u>
Total	<u>\$ 524,559</u>	<u>\$ 97,290</u>	<u>\$ 621,849</u>

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

10. ***Bonds Payable***

Bonds payable consisted of the following:	<i>2012</i>	<i>2011</i>
<i>Public Parking Facility Bond, 2010 Series</i>		
Issued for construction additions and refinancing of the existing parking garage in the BMIP, and additional mortgage refinancing in June 2010. The term bond's initial interest rate was 4.5% per annum for a period of ten years. The bond was refinanced in December 2011 to a fixed interest rate of 2.49%. This fixed rate will be readjusted after a subsequent ten year period based on the Federal Home Loan Bank plus 1.02%. The bond matures on July 21, 2030.	\$15,894,321	\$17,032,498
Less current portion	<u>(706,709)</u>	<u>(590,576)</u>
Total long-term portion	<u>\$15,187,612</u>	<u>\$16,441,922</u>

The Public Parking Facility Bond Series 2010 was issued in June, 2010 and is secured by all income and receipts of the parking garage. Debt service payments are deposited into a Bond Fund account held by the Trustee, Peoples United Bank (formerly Danversbank), and the Trustee makes the bond payments from this account. This fund also holds bond proceeds that are restricted to pay the first three year's interest on the debt, classified as restricted cash and cash equivalents on the balance sheet at June 30, 2012 and 2011.

Maturities of principal and interest are as follows:

<i>For the Year(s) Ended</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
6/30/2013	\$ 706,709	\$ 393,147	\$ 1,314,871
6/30/2014	724,759	375,098	1,314,871
6/30/2015	743,269	356,587	1,314,871
6/30/2016	761,332	338,524	1,314,900
6/30/2017	781,696	318,160	1,099,856
6/30/18 - 6/30/22	4,217,614	1,281,669	5,499,283
6/30/23 - 6/30/27	4,784,674	714,608	5,499,282
6/30/28 - 6/30/32	<u>3,174,268</u>	<u>125,301</u>	<u>3,299,569</u>
Total	<u>\$15,894,321</u>	<u>\$3,903,094</u>	<u>\$20,657,503</u>

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

13. ***Fair Value of Financial Instruments***

The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those financial instruments. The carrying value of accounts and related party receivables, grants/contracts receivable and long-term receivables approximate fair value.

The carrying amounts of accounts payable, grants/contracts payable and accrued expenses approximate fair value. The carrying amounts of notes and mortgage payable approximates fair value because those financial instruments bear interest at variable rates that approximate current market rates for notes of similar maturities and credit quality. The carrying amount of bonds payable is based on the current traded value.

14. ***Related Party Transactions***

Affiliated Nonprofit Organizations

Boston Local Development Corporation (BLDC) is a nonprofit corporation, established to provide long-term, low interest financing to firms and companies located in the City of Boston, Massachusetts in order to maintain and expand employment opportunities. Friends of Youth Opportunity Boston, Inc. (FYOB) is a nonprofit organization created to support the activities of Youth Opportunity Boston, a JCS program. Boston Industrial Development Financing Authority (BIDFA) was established as an industrial development financing authority, pursuant to Massachusetts General Laws Chapter 40D, acting by and on behalf of the City of Boston (the City) as its instrumentality. EDIC acts as fiscal agent for these entities.

BLDC, FYOB, and BIDFA employees are paid through EDIC's payroll system and are covered under EDIC's fringe benefit policies. Related party transactions concerning these agencies are summarized as follows:

	<i>Payroll and Fringe</i>		<i>EDIC</i>	
	<i>Benefits</i>		<i>Receivable/(Payable)</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
BLDC	\$ 261,133	\$ 238,339	\$ -	\$ -
FYOB	\$ 98,410	\$ 159,936	\$ (194,698)	\$ 254,620
BIDFA	\$ 66,788	\$ 82,902	\$ -	\$ -

EDIC has written off accounts receivable from BLDC and BIDFA totaling \$271,256 and \$54,940, respectively, for the year ended June 30, 2012. EDIC has written off accounts receivable from BLDC and BIDFA totaling \$824,037 and \$417,645, respectively, for the year ended June 30, 2011.

The amount payable to FYOB is included in grants/contracts payable on the June 30, 2012 balance sheet. The amount receivable from FYOB is included in related party receivables on the June 30, 2011 balance sheet.

Economic Development and Industrial Corporation of Boston
Notes to Financial Statements - *Continued*
June 30, 2012 and 2011

14. *Related Party Transactions - Continued*

The City of Boston

The City of Boston's Property Management Department provided security services to EDIC, totaling \$626,309 and \$596,807 for the years ended June 30, 2012 and 2011, respectively. Amounts payable to the City of Boston at June 30, 2012 and 2011 for these services totaled \$174,070 and \$86,627, respectively.

EDIC received a grant totaling \$1,315,375 from the City of Boston for the year ended June 30, 2012 for reimbursement of a portion of capital improvement activity at the BMIP. Amounts receivable from the City of Boston at June 30, 2012 for this activity totaled \$30,977.

Boston Redevelopment Authority

Commonwealth of Massachusetts legislation Chapter 341 named the Boston Redevelopment Authority (BRA) Board of Directors as the sole members of EDIC's Board of Directors. However, under the terms of the Chapter 341, actions taken by the BRA Board of Directors on behalf of BRA are not binding on EDIC and actions taken by the EDIC Board of Directors on behalf of EDIC are not binding on BRA.

The costs of BRA employees working on EDIC projects and/or JCS grants were billed to EDIC for the years ended June 30, 2012 and 2011 totaling \$29,342 and \$78,359, respectively. The cost of EDIC employees working on BRA projects were billed to BRA during the years then ended totaling \$140,718 and \$188,522, respectively. Further, EDIC paid other operating costs for the benefit of BRA and subsequently billed BRA for these costs during the years then ended totaling \$205,230 and \$202,176, respectively.

EDIC has a net receivable from BRA for these transactions totaling \$314,890 at June 30, 2012. At June 30, 2011, EDIC has written off a receivable from BRA for these transactions totaling \$998,285, recorded as bad debt expense on the statement of revenues, expenses and changes in net assets for the year then ended.

In fiscal year 2003, EDIC sold the Crosstown Industrial Park (CIP) to BRA for a sales price of \$4,134,695. EDIC received cash totaling \$3,400,000 for the sale, which was used to pay lease termination fees to two EDIC tenants at the CIP. The balance of the sales price, totaling \$734,695, was recorded as an interest-free long term receivable, which will be paid by BRA in future years through rental income collected from the developer of the property. This receivable has an outstanding balance of \$20,931 and \$107,435 at June 30, 2012 and 2011, respectively. Management has estimated the current portion of this receivable is \$20,931 and \$90,000, respectively, for the years then ending, which is classified as related party receivable on the balance sheet. The balance of this receivable is included in long-term related party receivables on the balance sheet.

Economic Development and Industrial Corporation of Boston

Notes to Financial Statements - *Continued*

June 30, 2012 and 2011

15. *Revolving Loan Fund*

EDIC received a grant from the U.S. Environmental Protection Agency (EPA) in fiscal year 2011 to establish a revolving loan fund (RLF) that provides funding for cleanup of contaminated Brownsfield properties in the City of Boston. An intercompany loan to EDIC's Economic Development Division totaling \$703,526 was made from the RLF to fund the cleanup and remediate the vacant building located at 6 Tide Street within the BMIP, which was completed as of June 30, 2011. Of this amount, \$475,000 had been advanced to EDIC in 2003 and recorded as deferred grants/contracts on the balance sheet. EDIC has recognized these funds, interest earned thereon, and an additional \$199,551 receivable from EPA at June 30, 2011 as grant/contract income during the year then ended. Costs related to the demolition and land cleanup totaling \$681,227 have been capitalized on the June 30, 2011 balance sheet as an addition to land.

The intercompany loan is noninterest bearing and will be paid to the RLF in a lump sum at the end of a five year period. EDIC anticipates that it will use the RLF to fund other qualified Brownsfield properties during the life of the fund. Funding for the RLF has been classified as net assets restricted for grant purposes on the balance sheet.

16. *Retirement Plans*

All regular employees of EDIC are eligible to participate in a Thrift Savings Plan (the Plan) after three months of service. The Plan is a defined contribution plan and an eligible tax-deferred plan under Internal Revenue Service (IRS) Code Sections 457 and 401(a). The Plan is serviced by The Great-West Life Assurance Company. Participants can contribute one percent (1%) to twenty-five percent (25%) of their taxable compensation on a pre-tax basis, subject to the maximum deferral limits as set by the Internal Revenue Service. EDIC will match the first six percent (6%) of compensation that is contributed by the participant. Participants can also contribute one percent (1%) to fifteen (15%) of their total compensation on an after-tax basis, also subject to a maximum deferral limit, which is inclusive of EDIC's match amount.

All regular non-union employees of EDIC are also eligible for per diem contributions made to a defined contribution plan, tax deferred under Section 401(a) on the IRS Code. The per diem amount of \$12.60 is paid by EDIC for all paid days of work, including vacation days, holidays, paid sick days, and paid personal days. Participants of this plan, as well as the Thrift Saving Plan, are sixty percent (60%) vested after one year of service, and one hundred percent (100%) vested after two years of service.

EDIC also contributes to the I.A.M. Pension Fund National Pension Plan on behalf of their custodial and maintenance workers based on a collective bargaining agreement with the related union. The contribution is calculated at \$12.40 per day per eligible employee.

Retirement plan expense for the years ending June 30, 2012 and 2011 was approximately \$843,000 and \$827,000, respectively. Employee contributions to the above plans for the years then ended totaled approximately \$662,000 and \$652,000, respectively.

Economic Development and Industrial Corporation of Boston
Notes to Financial Statements - *Continued*
June 30, 2012 and 2011

17. ***Concentration***

EDIC maintains its cash accounts at five financial institutions. Balances in two institutions are fully insured or collateralized. The balances in the other three institutions, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor. The uninsured/unsecured balances at June 30, 2012 and 2011 totaled \$7,288,830 and \$977,566, respectively. EDIC has not experienced any losses in these accounts. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institutions minimizes such risk.

18. ***Contingencies***

EDIC contracts with governmental agencies and third party payors. The contracts are subject to audit by the respective funding source and could result in the recapture of revenue previously reported by EDIC. Management does not believe that any such disallowance, if found, would be material to EDIC's financial statements. Accordingly, no provision for any liability that may result has been made in the financial statements.

19. ***Subsequent Events***

EDIC has evaluated subsequent events through October 19, 2012, which is the date the financial statements were issued. There are no recognized subsequent events that provide additional evidence about conditions that existed at the statement of financial position date, or non-recognized subsequent events or events that provide evidence about conditions that did not exist at the statement of financial position date, but would be necessary to disclose to keep the financial statements from being misleading.

**COMBINING SCHEDULE OF
REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

Economic Development and Industrial Corporation of Boston
Combining Schedule of Revenues and Expenses
For the Year Ended June 30, 2012

	<i>EDIC</i> <i>Operations</i>	<i>JCS</i> <i>Operations</i>	<i>Total</i>
<i>Operating Revenues</i>			
Grant/contract income	\$ 1,315,376	\$ 12,352,367	\$ 13,667,743
Contributions	-	1,258,922	1,258,922
Rental income	17,967,547	-	17,967,547
Interest income	16,612	-	16,612
Miscellaneous income	274,223	-	274,223
	<u>19,573,758</u>	<u>13,611,289</u>	<u>33,185,047</u>
<i>Operating Expenses</i>			
Salaries	4,895,019	4,400,961	9,295,980
Fringe benefits	1,745,561	1,539,398	3,284,959
Grants/contracts to related party and community based organizations	-	7,051,506	7,051,506
Utilities	2,693,909	22,642	2,716,551
Security and maintenance	1,060,022	59,449	1,119,471
Travel and transportation	58,923	42,756	101,679
Insurance	282,841	1,968	284,809
Professional fees	826,641	2,231,567	3,058,208
Printing	32,296	18,691	50,987
Provision for uncollectible accounts/bad debt expense	433,346	-	433,346
Depreciation	1,235,664	-	1,235,664
Supplies	21,830	42,064	63,894
Rental expense	14,579	395,069	409,648
Telecommunications	36,483	56,722	93,205
Professional development	614	37,989	38,603
Data processing	57,222	25,715	82,937
Marketing	97,315	611	97,926
Educational supplies	-	130,863	130,863
Interest expense	624,276	-	624,276
Bank service costs	268	-	268
Other expense	42,998	25,395	68,393
	<u>14,159,807</u>	<u>16,083,366</u>	<u>30,243,173</u>
Change in net assets	<u>\$ 5,413,951</u>	<u>\$ (2,472,077)</u>	<u>\$ 2,941,874</u>