



**Downtown Development Authority
of the City of Kalamazoo, Michigan**
(A Component Unit of the City of Kalamazoo)

Financial Statements
Year Ended December 31, 2013

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City of Kalamazoo, Michigan**
(A Component Unit of the City of Kalamazoo)

Financial Statements
Year Ended December 31, 2013

Downtown Development Authority of the City of Kalamazoo, Michigan

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Independent Auditor's Report

Board of Directors
Downtown Development Authority of the City of Kalamazoo, Michigan
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Downtown Development Authority of the City of Kalamazoo, Michigan (the DDA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the DDA'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the DDA, as of December 31, 2013, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the DDA, and do not purport to, and do not, present fairly the financial position of the City of Kalamazoo, as of December 31, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 9, 2014 on our consideration of the DDA'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 DDA's internal control over financial reporting and compliance.

BDO USA, LLP

Kalamazoo, Michigan

June 9, 2014

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

This section of the Downtown Development Authority's (the DDA's) annual financial report presents our discussion and analysis of the DDA's financial performance during the year ended December 31, 2013. Please read it in conjunction with the DDA's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader understands the DDA's finances as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole DDA, presenting both an aggregate view of the DDA's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

Reporting the DDA as a Whole - Government-Wide Financial Statements

One of the most important questions asked about the DDA is, "As a whole, what is the DDA's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the DDA's financial statements, report information on the DDA 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 DDA's net position - the difference between assets and liabilities, as reported in the Statement of Net Position - as one way to measure the DDA's financial health or financial position. Over time, increases or decreases in the DDA'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 DDA's operating results. However, the DDA's goal is to stimulate public and private investment in downtown Kalamazoo, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the economic growth and the physical development in the downtown area to assess the overall health of the DDA.

The Statement of Net Position and the Statement of Activities report the governmental activities for the DDA, which encompass all of the DDA's services, including general government, parking (public works), and community development (health and welfare). Property taxes and parking revenue finance most of these activities.

Reporting the DDA's Fund Financial Statements

The DDA's fund financial statements provide detailed information about the operating fund - not the DDA as a whole. The DDA, similar to other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The governmental fund of the DDA uses the following accounting approach -

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

Governmental fund - All of the DDA's services are reported in the governmental fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances remaining at year-end that are available for spending. They are reported using the accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the DDA and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that may be spent in the near future to finance the DDA's operations. The differences are described between governmental activities reported in the Statement of Net Position and the Statement of Activities and governmental funds in a reconciliation.

The DDA as a Whole - Government-Wide Financial Statements

Recall that the Statement of Net Position provides the perspective of the DDA as a whole. The following provides a summary of the DDA's net position.

<i>December 31,</i>	<i>Governmental Activities</i>	
	<i>2013</i>	<i>2012</i>
Assets:		
Current and other assets	\$ 1,251,915	\$ 1,667,370
Capital assets, net of accumulated depreciation	682,776	306,250
Total Assets	\$ 1,934,691	\$ 1,973,620
Liabilities:		
Current liabilities	\$ 939,020	\$ 1,139,403
Long-term liabilities	2,607,369	3,142,959
Total Liabilities	3,546,389	4,282,362
Net Position (Deficit):		
Invested in capital assets, net of related debt	682,776	306,250
Unrestricted	(2,294,474)	(2,614,992)
Total Net Deficit	(1,611,698)	(2,308,742)
Total Liabilities and Net Position	\$ 1,934,691	\$ 1,973,620

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

The preceding analysis focuses on the net position. The change in net position of the DDA's governmental activities is discussed below. The DDA's unrestricted deficit was \$2,294,474 at December 31, 2013. The capital assets, net of related debt totaling \$682,776 compares the original cost, less depreciation of the DDA's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from TIF taxes collected as the debt service becomes due.

The \$1,611,698 deficit of governmental activities represents the *accumulated* results of all past years' operations. The deficit balance is a result of the bond obligations of the DDA and the rebated tax liability.

The results of this year's operations for the DDA as a whole are reported in the following Statement of Activities, which shows the changes in net position for 2013 and 2012.

<i>Year ended December 31,</i>	<i>Governmental Activities</i>	
	<i>2013</i>	<i>2012</i>
Revenue:		
Program revenue -		
Charges for services	\$ 2,691,007	\$ 2,724,294
General revenue:		
Property taxes	1,971,347	2,127,835
Interest income	508	3,324
Other	454,397	126,905
Total Revenue	5,117,259	4,982,358
Functions/Program Expenses:		
General government	301,601	381,712
Public works	3,579,918	3,665,564
Health and welfare	441,645	1,096,362
Interest on long-term debt	97,051	118,752
Total Expenses	4,420,215	5,262,390
Change in Net Deficit	697,044	(280,032)
Net Deficit, beginning of year	(2,308,742)	(2,028,710)
Net Deficit, end of year	\$ (1,611,698)	\$ (2,308,742)

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

As reported in the Statement of Activities, the cost of all of the DDA's activities this year was \$4,420,215. Certain activities were partially funded from those who benefited from the operations through charges for services of \$2,691,007. The remaining "public benefit" portion of the DDA's activities were paid with \$1,971,347 in taxes and with other revenues such as transfers and interest.

The DDA experienced an increase in net position of \$697,044. This was due primarily to a reduction in all expenses.

As discussed above, the net cost shows the financial burden placed on the DDA and the DDA's taxpayers by each of these functions. Since property taxes for operations and parking revenue constitute the vast majority of the DDA's operating revenue sources, the board and management must annually evaluate the needs of the DDA and balance those needs with ongoing obligations to citizens and creditors.

The DDA's Governmental Fund

As noted earlier, the DDA uses the General Fund to help control and manage money for particular purposes. Looking at the General Fund helps the reader consider whether the DDA is being accountable for the resources taxpayers and others provide to it and may provide more insight into the DDA's overall financial health.

As the DDA completed this year, the General Fund reported a fund balance of \$870,046, which is a decrease of \$506,223 from last year. The decrease is discussed below under General Fund Budgetary Highlights.

General Fund Budgetary Highlights

A schedule showing the DDA's original and final budget amounts compared to amounts actually paid and received is provided in the basic financial statements.

Actual revenue came in over budgeted revenue by \$54,661 mainly due to an increase in other revenue. Other revenue increased in the current year as a result of funds being transferred from two related parties, Downtown Kalamazoo, Inc. (DKI) and DKA Charities (DKAC) to support the operations of the DDA. The DDA received approximately \$339,000 from DKI and \$21,000 from DKAC during the year ended December 31, 2013. Detailed discussion of related party transactions is provided in Note 9.

The actual amounts reported for total expenditures were \$231,195 under the final budget. This variance was mainly due to public works expenditures coming in under budget to be carried over to next year.

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2013, the DDA had \$682,776 invested in capital assets, including land, leasehold improvements, general and administrative equipment, equipment, and equipment under capital leases. This amount represents an increase of \$376,526 or 123% from last year due to capital additions exceeding depreciation.

<i>December 31,</i>	<i>2013</i>	<i>2012</i>
Land	\$ 58,162	\$ 58,162
Leasehold improvements	684,881	334,064
General and administrative equipment	210,724	210,724
Equipment	603,789	533,707
Equipment under capital leases	157,621	157,621
	1,715,177	1,294,278
Less accumulated depreciation	(1,032,401)	(988,028)
Net Capital Assets	\$ 682,776	\$ 306,250

Additional information that is more detailed about the DDA's capital assets is presented in the notes to the financial statements in Note 4, Page 24.

Rebated Tax Liability

At the end of this year, the DDA had \$684,000 in rebated tax outstanding compared to \$700,000 in the previous year, a decrease of 2%. The rebated tax liabilities consisted of the following:

<i>December 31,</i>	<i>2013</i>	<i>2012</i>
Rebated tax liabilities	\$ 684,000	\$ 700,000

Additional information that is more detailed about the DDA's related tax liabilities is presented in the notes to the financial statements in Note 5, Page 25.

Debt

At the end of this year, the DDA had \$2,467,174 in long-term obligations outstanding compared to \$3,153,059 in the previous year, a decrease of 22%. The long-term obligations consisted of the following:

<i>December 31,</i>	<i>2013</i>	<i>2012</i>
Bonds and notes payable	\$ 2,467,174	\$ 3,153,059

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

Tax supported debt continues to remain relatively stable as a percentage of the State Equalized Valuation (SEV) property of the DDA at 1% and is well under the 10% of SEV legal debt limitations for Michigan municipalities.

Additional information that is more detailed about the DDA's long-term obligations is presented in the notes to the financial statements in Note 6, Page 26.

Economic Factors and Next Year's Budgets and Rates

The DDA's Board of Directors and management consider many factors when setting the DDA's 2014 budget. One of the most important factors affecting the budget is insuring sufficient funds are available for debt service payments. The 2014 budget was adopted in January, 2014, based on projected revenues. Approximately 83% of total General Fund revenue is from user fees, TIF taxes, and the levy.

Contacting the DDA's Financial Management

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

Downtown Development Authority of the City of Kalamazoo
141 East Michigan Avenue
Kalamazoo, Michigan 49007

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Government Wide Financial Statements
Statement of Net Position (Deficit)**

<i>December 31, 2013</i>	<i>Governmental Activities</i>
Assets:	
Cash	\$ 40,683
Restricted cash and investments	832,720
Receivables:	
Taxes	265,611
Parking system	85,268
Health and welfare	27,633
Capital assets, net of accumulated depreciation	682,776
Total Assets	\$ 1,934,691
Liabilities:	
Accounts payable - trade	\$ 324,407
Accrued interest	45,341
Unearned revenue	13,612
Other liabilities	11,855
Rebated tax liability:	
Due within one year	17,920
Due in more than one year	666,080
Noncurrent liabilities:	
Due within one year	525,885
Due in more than one year	1,941,289
Total Liabilities	3,546,389
Net Position (Deficit):	
Invested in capital assets, net of related debt	682,776
Unrestricted	(2,294,474)
Total Net Deficit	(1,611,698)
Total Liabilities and Net Position	\$ 1,934,691

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

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Government Wide Financial Statements
Statement of Activities**

<i>Year ended December 31, 2013</i>	<i>Expenses</i>	<i>Program Revenues</i>	<i>Governmental Activities</i>
		<i>Charges for Services</i>	<i>Net Revenue (Expenses) and Change in Net Deficit</i>
Functions/Programs:			
Governmental activities:			
General government	\$ 301,601	\$ -	\$ (301,601)
Public works	3,579,918	2,691,007	(888,911)
Health and welfare	441,645	-	(441,645)
Interest on long-term debt	97,051	-	(97,051)
Total Governmental Activities	\$ 4,420,215	\$ 2,691,007	(1,729,208)
General Revenues:			
			1,971,347
Property taxes			508
Interest income			454,397
Other			-
Total General Revenues			2,426,252
Change in Net Deficit			697,044
Net Deficit, beginning of year			(2,308,742)
Net Deficit, end of year			\$ (1,611,698)

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

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Governmental Fund
Balance Sheet**

<i>December 31, 2013</i>	<i>General Fund</i>
Assets:	
Cash	\$ 40,683
Restricted cash and investments	832,720
Receivables:	
Taxes	233,616
Parking system	85,268
Health and welfare	27,633
Total Assets	\$ 1,219,920
 Liabilities and Fund Balance	
Liabilities:	
Accounts payable - trade	\$ 324,407
Unearned revenue	13,612
Other liabilities	11,855
Total Liabilities	349,874
 Fund Balance:	
Restricted for -	
Ramp 3 settlement	86,216
Committed for -	
Ramp 3 maintenance	232,287
Assigned for:	
Projected budgetary deficits	5,451
Parking system	150,000
Unassigned	396,092
Total Fund Balance	870,046
Total Liabilities and Fund Balance	\$ 1,219,920

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

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Governmental Fund
Reconciliation of Fund Balance of Governmental Fund to the Net Position (Deficit)
of Governmental Activities on the Statement of Net Position (Deficit)**

December 31, 2013

Total fund balance - governmental fund (from Page 13) \$ 870,046

Amounts reported for governmental activities in the
Statement of Net Position (Deficit) are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the fund. These
assets consist of:

Capital assets, at cost	1,715,177	
Accumulated depreciation	<u>(1,032,401)</u>	
Net capital assets		682,776

Other long-term assets are not available to pay for current
period expenditures and therefore are unearned in the funds.
These assets consist of -

Taxes receivable	31,995
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Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the fund. Balances are as follows:

Bonds payable	(2,140,000)	
Notes payable	<u>(327,174)</u>	
Total long-term liabilities		(2,467,174)

Rebated tax liability	(684,000)
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Accrued interest payable on long-term debt	<u>(45,341)</u>
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Net Deficit of Governmental Activities	\$ (1,611,698)
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*See accompanying independent auditor's report
and notes to financial statements.*

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Governmental Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance**

<i>Year ended December 31, 2013</i>	<i>General Fund</i>
Revenues:	
Charges for services - parking system	\$ 2,691,007
Taxes:	
TIF revenue	1,611,178
Two-mill levy	233,315
Interest	508
Other	454,397
Total Revenues	4,990,405
Expenditures:	
Current:	
General government	299,817
Public works	3,958,228
Health and welfare	457,645
Debt service:	
Principal	685,885
Interest and other charges	95,053
Total Expenditures	5,496,628
Decrease in Fund Balance	(506,223)
Fund Balance, beginning of year	1,376,269
Fund Balance, end of year	\$ 870,046

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

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Governmental Fund
Reconciliation of Statement of Revenues, Expenditures, and
Changes in Fund Balance of the Governmental Fund to Statement of Activities**

Year ended December 31, 2013

Net change in fund balance - governmental fund (from Page 15) \$ (506,223)

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

Governmental funds report capital outlays as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation expense :

Capital outlay	435,458
Depreciation expense	(58,649)
Loss on disposal	(283)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the fund -

Taxes receivable	126,854
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Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position -

Repayments	685,885
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:

Rebated tax liability	16,000
Accrued interest	(1,998)

Change in Net Deficit of Governmental Activities \$ 697,044

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

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - General Fund**

<i>Year ended December 31, 2013</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
Revenues:				
Charges for services - parking system	\$2,748,653	\$2,748,653	\$ 2,691,007	\$ (57,646)
Taxes:				
TIF revenue	1,636,759	1,491,468	1,611,178	119,710
Two-mill levy	291,927	291,927	233,315	(58,612)
Interest	4,100	2,318	508	(1,810)
Other	482,949	401,378	454,397	53,019
Total Revenues	5,164,388	4,935,744	4,990,405	54,661
Expenditures:				
<i>General government -</i>				
Contractual and other services	300,570	300,570	298,075	2,495
Rebated taxes	20,000	1,742	1,742	-
<i>Total general government</i>	320,570	302,312	299,817	2,495
<i>Public works:</i>				
Lease expense	1,454,674	1,492,342	1,454,901	37,441
Contractual and other services	1,447,956	1,493,956	1,415,718	78,238
Salaries	786,021	786,021	760,011	26,010
Capital outlay	37,800	37,800	12,596	25,204
Supplies	79,441	79,441	82,165	(2,724)
Fringe benefits	90,533	90,533	96,949	(6,416)
Payroll taxes	149,344	149,344	135,888	13,456
<i>Total public works</i>	4,045,769	4,129,437	3,958,228	171,209
<i>Health and welfare:</i>				
Contractual and other services	22,200	42,910	40,643	2,267
Downtown maintenance/improvements	85,500	110,314	107,898	2,416
Marketing	131,000	81,000	78,108	2,892
Festival Place	75,000	-	-	-
Metropolitan Center	48,900	48,900	-	48,900
Rebated taxes	25,000	119,680	119,676	4
Business Recruitment Retention	40,000	11,320	11,320	-
Other obligations	198,000	100,000	100,000	-
<i>Total health and welfare</i>	625,600	514,124	457,645	56,479

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - General Fund**

<i>Year ended December 31, 2013</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
Expenditures (Concluded):				
<i>Debt service:</i>				
Principal payments	\$ 682,782	\$ 685,885	\$ 685,885	\$ -
Interest and other changes	96,065	96,065	95,053	1,012
<i>Total debt service</i>	778,847	781,950	780,938	1,012
Total Expenditures	5,770,786	5,727,823	5,496,628	231,195
Decrease in Fund Balance	(606,398)	(792,079)	(506,223)	285,856
Fund Balance, beginning of year	1,376,269	1,376,269	1,376,269	-
Fund Balance, end of year	\$ 769,871	\$ 584,190	\$ 870,046	\$ 285,856

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

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

1. Nature of Business and Summary of Accounting Policies

The City of Kalamazoo (the City) established the Downtown Development Authority (the DDA) on March 1, 1982. Its purpose is to stimulate public and private investment in downtown Kalamazoo and act as the catalyst for joint public and private action to bring about economic growth and physical development in the downtown area. The governing body of the DDA is a board of directors consisting of the chief executive officer of the City and ten other members.

Summary of Significant Accounting Policies

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

Reporting Entity

The DDA is an independent entity with an appointed board of directors. The board consists of the chief executive officer of the City and ten other members who are appointed to four-year terms. The board has responsibility and control over all matters affecting the DDA, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the DDA contain all activity for which the DDA is financially accountable. The DDA is a discretely presented component unit of the City as the City is financially accountable for the DDA. The City is considered financially accountable for a component unit if it appoints a voting majority of the DDA's governing body and it is able to impose its will on the DDA by significantly influencing the programs, projects, activities, or level of services performed or provided by the DDA, or there is a potential for the DDA to provide specific financial benefits to, or impose specific financial burdens on, the City. Blended component units, although legally separate entities are, in substance, part of the City's operations, and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the Government-wide statements to emphasize that they are legally separate from the primary government.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the activities of the DDA. The Government-wide financial statements categorize activities as either governmental or business-type. All of the DDA's activities are classified as governmental.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the DDA's governmental fund.

The governmental fund is used to account for the DDA's general activity. The focus is on determination of the financial position and changes in financial position rather than on income determination. The following is a description of the governmental fund of the DDA - *General Fund* - The General Fund is the general operating fund of the DDA. It is used to account for all financial resources. Funding is provided through charges for services from the Parking System and property tax revenues.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if they are collected within the current period or soon enough after to pay liabilities for the current period. The DDA considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recorded only when payment is due.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control by the DDA. Annual operating budgets are adopted each fiscal year through passage of a board resolution. The DDA follows these procedures in establishing the two mill and TIF budgets:

A budget is prepared by the staff and submitted to the DDA Board.

1. The DDA Board, at a public hearing, approves the submission of the budget to the City Commission of the City.
2. The City Commission approves the budget.
3. The DDA Board formally adopts the budget through a board resolution.

The budgets must be approved by January 1 if the DDA has not adopted an interim appropriation resolution authorizing the DDA to continue normal operations until the budget is approved by the City Commission and are prepared on a basis consistent with accounting principles generally accepted in the United States of America.

Assets, Liabilities, and Net Position

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less. Investments are stated at fair value.

Capital Assets - Capital assets, which include leasehold improvements and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs typically exceed \$500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated fixed assets are recorded at their fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed.

Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	10 - 15 Years
Equipment	3 - 10 Years

The DDA evaluates its capital assets for impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Properties to be disposed of would be recognized at the lower of carrying value or fair value less the estimated cost of disposal. Properties held and in use are reviewed for impairment whenever indicators of impairment exist. All recognized impairment losses, whether for properties to be disposed of or properties to be held and used, are recorded as operating expenses. No impairments have been identified as of December 31, 2013.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums and discounts are reported as other financing sources (uses) while issuance costs are reported as expenditures.

Net Position (Deficit) - Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

Fund Balance - Fund balance represents the difference between assets and liabilities in the governmental fund financial statements.

The DDA's fund balance is classified in the following categories:

Nonspendable fund balance - represents amounts that cannot be spent due to legal requirements or because it is not in spendable form.

Restricted fund balance - restricted for specific purposes imposed by grantors, bondholders, constitutional provisions, or enabling legislation.

Committed fund balance - amounts to be used for specific purposes imposed by the Board of Directors by formal action.

Assigned fund balance - intended to be used for specific purposes imposed by the Board of Directors or management.

Unassigned fund balance - the residual fund balance of the General Fund.

The DDA's spending policy considers restricted fund balances to be spent first when both restricted and unrestricted fund balances are available. When expenditures are recorded using unrestricted fund balances, assigned amounts are spent first, then unassigned amounts.

Property Taxes

Property taxes are levied on July 1 and attach as an enforceable lien on property as of January 1. The City acts as the collecting agent for the DDA. The DDA can levy taxes up to \$2.00 per \$1,000 of assessed value of property in the downtown DDA, which is the maximum permitted under P.A. 197. Taxpayers may elect to pay their tax bills in six equal monthly installments beginning on July 1 and on the first day of the next five months. The result of installment payments is to delay one-half of taxes payable under the installment system beyond the fiscal year-end.

See accompanying independent auditor's report.

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

Notes to Financial Statements

Use of Estimates

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

Subsequent Events

Management has evaluated the period from January 1, 2014, through June 9, 2014, the date the financial statements were available for issuance, for subsequent events requiring recognition of disclosure in the financial statements. During the period, no material recognizable subsequent events were indentified.

2. Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund. All annual appropriations lapse at year-end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the DDA to have its budget in place January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year.

During the year ended December 31, 2013, the DDA did incur expenditures in the General Fund which were in excess of the amounts budgeted. This comparison includes expenditure budget overruns. Expenditure budget overruns were as follows:

<u>Year ended December 31, 2013</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Public Works - Supplies	\$ 79,441	\$ 79,441	\$ 82,165	\$ (2,724)
Public Works - Fringe Benefits	\$ 90,533	\$ 90,533	\$ 96,949	\$ (6,416)

3. Deposits and Investments

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 DDA's investment policy complies with the state of Michigan statutes and has no additional limitations on deposits.

See accompanying independent auditor's report.

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

Notes to Financial Statements

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of bank failure, the DDA's deposits might not be recovered. The DDA does not have a policy to mitigate this risk. At December 31, 2013, of the DDA's bank balances of \$1,006,388 the following were exposed to custodial credit:

Uninsured and Uncollateralized:

Cash and savings	\$ 368,628
Money market	347,077
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Total Uninsured and Uncollateralized	\$ 715,705

4. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	<i>Balance December 31, 2012</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance December 31, 2013</i>
Governmental Activities:				
Capital assets not depreciated -				
Land	\$ 58,162	\$ -	\$ -	\$ 58,162
Capital assets depreciated:				
Leasehold improvements	334,064	350,817	-	684,881
General and administrative equipment	210,724	-	-	210,724
Equipment	533,707	84,641	(14,559)	603,789
Equipment under capital leases	157,621	-	-	157,621
Totals at Historical Cost	1,294,278	435,458	(14,559)	1,715,177
Less accumulated depreciation:				
Leasehold improvements	(180,950)	(27,634)	-	(208,584)
General and administrative equipment	(206,268)	(1,784)	-	(208,052)
Equipment	(443,189)	(29,231)	14,276	(458,144)
Equipment under capital leases	(157,621)	-	-	(157,621)
Total accumulated depreciation	(988,028)	(58,649)	14,276	(1,032,401)
Net Capital Assets	\$ 306,250	\$ 376,809	\$ (283)	\$ 682,776

Depreciation expense was charged to governmental functions as follows:

General government	\$ 1,784
Public works	56,865
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Total Depreciation Expense	\$ 58,649

See accompanying independent auditor's report.

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

Notes to Financial Statements

5. Rebated Tax Liability

Changes in rebated liabilities at December 31, 2013, were as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
Governmental Activities -					
Rebated tax liabilities	\$ 700,000	\$ -	\$ (16,000)	\$684,000	\$ 17,920

Rebated tax liabilities at December 31, 2013, are comprised of the following:

	<i>Final Maturity Dates</i>	<i>Interest Rates</i>	<i>Outstanding Balance</i>
Governmental Activities -			
Rebated tax liabilities	7/1/2029	12.00%	\$ 684,000

Repayment Schedule

The annual principal and interest payments on the rebated tax liabilities are as follows:

<i>Year ending December 31,</i>	<u><i>Governmental Activities</i></u>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2014	\$ 17,920	\$ 82,080	\$ 100,000
2015	20,070	79,930	100,000
2016	22,479	77,521	100,000
2017	25,176	74,824	100,000
2018	28,197	71,803	100,000
2019-2029	570,158	447,699	1,017,857
	\$ 684,000	\$ 833,857	\$ 1,517,857

See accompanying independent auditor's report.

**Downtown Development Authority of the
City of Kalamazoo, Michigan**

Notes to Financial Statements

6. Long-Term Obligations

Changes in long-term obligations at December 31, 2013, were as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
Governmental Activities -					
Bonds and notes payable -					
General obligation debt	\$3,153,059	\$ -	\$ (685,885)	\$2,467,174	\$ 525,885

Long-term bonds and notes at December 31, 2013, are comprised of the following:

	<i>Final Maturity Dates</i>	<i>Interest Rates</i>	<i>Outstanding Balance</i>
Governmental Activities:			
1997 Refunding Bonds	4/1/2018	5.20-5.35%	\$2,060,000
2004 Revenue Bonds	11/1/2014	4.40%	80,000
Catalyst Development Co. 3, L.L.C. Note	12/1/2014	n/a	327,174
Total Governmental Activities			\$2,467,174

7. Parking System Lease Obligations

On April 20, 1989, the DDA entered into an operating lease agreement ("Sublease") with the City to lease and operate the Kalamazoo Municipal Parking System ("Parking System"), which was restated by agreement dated December 6, 2002 ("Restated Sublease"). Terms of the Restated Sublease require the DDA to operate and maintain the Parking System, make annual payments of \$1, and fund the City's annual debt obligations on the Parking System. The term of the lease extends through the life of the outstanding bonds, effectively 2029. However, either party may terminate the lease at any time upon one year's written notice to the other party. The DDA has pledged all TIF revenues (See Note 8) and the net revenues of the Parking System for payment of these obligations.

In 2005, the Kalamazoo Mall Ramp ("KMR") was constructed and financed through a bond issue ("KMR Bond Issue"). The understanding between the DDA, City Building Authority, and the Brownfield Redevelopment Authority ("BRA") was to enter into a formal written amendment to the Restated Sublease whereby the debt service on the KMR Bond Issue would be shared between the DDA, the BRA, and Meyer C. Weiner ("MCW"). The commitment of MCW has been fulfilled. The sharing arrangement between the DDA and the BRA was determined based on the projected TIF capture of both the DDA and BRA. Due to property tax appeals and changing commercial property values, the following debt service schedule is based on projections prorated on the actual original TIF captures.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

The payments to the City by the DDA are charged to operations as a lease expense. As of December 31, 2013, the future debt service, inclusive of the BRA's portion, is as follows:

<i>Year</i>	<i>Total Debt Service</i>	<i>KMR Debt Service</i>	<i>DDA Portion of KMR Debt Service (80%)</i>	<i>BRA Portion of KMR Debt Service (20%)</i>
2014	\$ 1,470,000	\$ 831,296	\$ 665,037	\$ 166,259
2015	\$ 1,061,000	\$ 842,910	\$ 674,328	\$ 168,582
2016	\$ 1,071,000	\$ 842,924	\$ 674,339	\$ 168,585
2017	\$ 1,095,000	\$ 841,924	\$ 673,539	\$ 168,385
2018	\$ 845,000	\$ 844,910	\$ 675,928	\$ 168,982
2019 - 2023	\$ 4,224,000	\$ 4,223,924	\$ 3,379,139	\$ 844,785
2024 - 2028	\$ 4,237,000	\$ 4,236,836	\$ 3,389,469	\$ 847,367
2029 - 2033	\$ 848,000	\$ 847,788	\$ 678,230	\$ 169,558

In conjunction with the Restated Sublease, the DDA entered into an agreement, through its service agreement with DKI, with a management company to perform the day-to-day operations of the Parking System. Terms of the agreement require a minimum monthly management fee plus an additional 3% of the sum of the previous 12 months' fees. In 2013, the amount charged to operations for this service was \$235,000. An agreement was entered into during January, 2014, effective through December 31, 2016. Future minimum payments under the terms of the management agreement are \$180,000 annually, adjusted upward annually, to the lessor of 2.5% or the Consumer Price Index.

8. Tax Increment Financing (TIF)

The DDA maintains a TIF plan to help fund capital improvements in downtown Kalamazoo. The plan allows the DDA to capture and retain 80% of real property tax revenue on all development projects beyond an initial assessed value as determined at the date of the TIF plan. The remaining share of revenues from increases in real property assessed value will be distributed to all "taxing authorities."

All of the DDA's TIF revenue is pledged as security for payment on the Parking System and the DDA bond obligations as described in Notes 5 and 6.

9. Service Agreement and Related Party Transactions

Business activities of the DDA, DKI and DKAC are supported by one another. DKI is involved in the economic development, marketing, and activity of services to downtown Kalamazoo, while DKAC supports cultural, artistic, and promotional activities in the downtown district. Although services are provided to one another, each remains a separate entity governed by its own board of directors.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

For the year ended December 31, 2013, approximately \$339,000 was received from DKI relating to operating, marketing, business development, and maintenance expenses incurred by DDA. Approximately \$401,000 was paid to DKI under a service agreement which is approved annually by the board of directors. The annual service agreement was renewed for 2014 to reduce the amount to \$281,000.

For the year ended December 31, 2013, approximately \$21,000 was received from DKAC relating to event coordination.

10. Risk Management and Benefits

The DDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. In order to minimize its exposure to these risks, the DDA is insured through the City and a management company.

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
Downtown Development Authority of the City of Kalamazoo, Michigan
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 governmental activities and the General Fund of the Downtown Development Authority of the City of Kalamazoo, Michigan (the DDA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the DDA's basic financial statements, and have issued our report thereon dated June 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DDA'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 DDA's financial statements are free of 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

June 9, 2014