



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

Financial Statements
Year Ended December 31, 2018

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

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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 (a major 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, 2018, 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 DDA'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 DDA'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 (a major fund) of the DDA, as of December 31, 2018, 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, 2018, 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 9 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 17, 2019, 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 17, 2019

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 management's discussion and analysis of the DDA's financial performance during the year ended December 31, 2018. 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.

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

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 -

Governmental fund - All of the DDA's services are reported in the General 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>	
	2018	2017
Assets:		
Current and other assets	\$ 4,305,152	\$ 3,485,506
Capital assets, net of accumulated depreciation	367,092	445,437
Total Assets	\$ 4,672,244	\$ 3,930,943
Liabilities:		
Current liabilities	\$ 1,007,816	\$ 1,085,742
Long-term liabilities	448,945	514,233
Total Liabilities	1,456,761	1,599,975
Net Position:		
Net investment in capital assets	367,092	445,437
Unrestricted	2,848,391	1,885,531
Total Net Position	3,215,483	2,330,968
Total Liabilities and Net Position	\$ 4,672,244	\$ 3,930,943

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 net position was \$2,848,391 at December 31, 2018. The net investment in capital assets totaling \$367,092 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 taxes collected as the debt service becomes due.

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

The \$3,215,483 net position of governmental activities represents the *accumulated* results of all past years' operations.

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 2018 and 2017:

<i>Year ended December 31,</i>	<i>Governmental Activities</i>	
	2018	2017
Revenue:		
Program revenue -		
Charges for services	\$ 2,277,939	\$ 2,633,622
General revenue:		
Sale of properties	1,395,922	1,500,000
Property taxes	277,554	1,055,802
Interest income	47,548	30,860
Other	317,386	102,305
Total Revenue	4,316,349	5,322,589
Functions/Program Expenses:		
General government	241,567	245,420
Public works	2,791,411	3,083,961
Health and welfare	389,345	515,854
Interest on long-term debt	9,511	32,969
Total Expenses	3,431,834	3,878,204
Change in Net Position	884,515	1,444,385
Net Position, beginning of year	2,330,968	886,583
Net Position, end of year	\$ 3,215,483	\$ 2,330,968

As reported in the Statement of Activities, the cost of all of the DDA's activities this year was \$3,431,834. Certain activities were partially funded from those who benefited from the operations through charges for services of \$2,277,939. The remaining "public benefit" portion of the DDA's activities were paid with \$277,554 in taxes and with other revenues such as interest.

The DDA experienced an increase in net position of \$884,515 in 2018, which is less than the increase in net position in 2017. The DDA entered into the sale of Lot No. 9 and Lot No. 2 in 2018, which resulted in proceeds of approximately \$1,400,000. These proceeds were mitigated by a decrease in tax revenue. In 2017, the DDA entered into the sale of Ramp No. 4, which resulted in a gain of \$1,500,000.

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.

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

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 \$3,021,579 which is an increase of \$1,228,391 from last year. The increase 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 was consistent with the budget, coming in approximately \$7,000 over the budgeted amount.

The actual amounts reported for total expenditures were approximately \$1,372,000 under the final budget. This variance was due to two primary factors. First, the proceeds from the sale of Lot No. 2 and Lot No. 9 were not all expended. Instead, the balance of approximately \$1,200,000 was moved to a reserve account. Second, the 1997 Refunding Bond payments were not reimbursed to the City during the current year and will be repaid by the DDA at a later date.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2018, the DDA had \$367,092 invested in capital assets, including land, leasehold improvements, general and administrative equipment, equipment, and equipment under capital leases. This amount represents a decrease of \$78,345 or 18% from last year due to depreciation exceeding capital additions.

<i>December 31,</i>	2018	2017
Land	\$ 58,162	\$ 58,162
Leasehold improvements	684,881	684,881
General and administrative equipment	210,724	210,724
Equipment	490,499	587,808
Equipment under capital leases	157,621	157,621
	1,601,887	1,699,196
Less accumulated depreciation	(1,234,795)	(1,253,759)
Net Capital Assets	\$ 367,092	\$ 445,437

Additional information that is more detailed about the DDA's capital assets is presented in the notes to the financial statements in Note 5, Page 23.

Downtown Development Authority of the City of Kalamazoo, Michigan

Management's Discussion and Analysis

Rebated Tax Liability

At the end of this year, the DDA had \$576,544 in rebated tax outstanding compared to \$620,223 in the previous year, a decrease of 7% due to payments made on the outstanding rebated tax liability during 2018.

Additional information that is more detailed about the DDA's rebated tax liability is presented in the notes to the financial statements in Note 6, Page 24.

Debt

At the end of this year, the DDA had \$626,593 in long-term obligations outstanding compared to \$572,593 in the previous year, an increase of 9% due to the issuance of a note payable to the City of Kalamazoo, which was mitigated by principal payments made in 2018 on previous long-term obligations. The long-term obligations consisted of the following:

Additional information that is more detailed about the DDA's long-term obligations is presented in the notes to the financial statements in Note 7, Page 25.

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 2019 budget. One of the most important factors affecting the budget is to ensure sufficient funds are available for debt service payments. The 2019 budget was adopted in February 2019, based on projected revenues. Approximately 81% of total General Fund revenue is from user fees, sales proceeds, 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, Suite 501
Kalamazoo, Michigan 49007

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

**Government Wide Financial Statements
Statement of Net Position**

<i>December 31, 2018</i>	<i>Governmental Activities</i>
Assets:	
Cash	\$ 98,393
Restricted cash and investments	2,976,770
Receivables:	
Taxes	15,315
Parking system	73,600
Note receivable	1,141,074
Capital assets, net of accumulated depreciation	367,092
Total Assets	\$ 4,672,244
Liabilities:	
Accounts payable - trade	\$ 192,499
Accrued interest	61,125
Rebated tax liabilities:	
Due within one year	243,504
Due in more than one year	333,040
Bond and note liabilities:	
Due within one year	510,688
Due in more than one year	115,905
Total Liabilities	1,456,761
Net Position:	
Net investment in capital assets	367,092
Unrestricted	2,848,391
Total Net Position	3,215,483
Total Liabilities and Net Position	\$ 4,672,244

*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, 2018</i>	<i>Expenses</i>	<i>Program Revenues</i>	<i>Charges for Services</i>	<i>Governmental Activities</i>
				<i>Net Revenue (Expenses) and Change in Net Deficit</i>
Functions/Programs -				
Governmental activities:				
General government	\$ 241,567	\$ -		\$ (241,567)
Public works	2,791,411	2,277,939		(513,472)
Health and welfare	389,345	-		(389,345)
Interest on long-term debt	9,511	-		(9,511)
Total Governmental Activities	\$ 3,431,834	\$ 2,277,939		\$ (1,153,895)
General Revenues:				
Sale of properties				1,395,922
Property taxes				277,554
Interest income				47,548
Other				317,386
				<u>2,038,410</u>
				884,515
				<u>2,330,968</u>
				<u>\$ 3,215,483</u>

*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, 2018</i>	<i>General Fund</i>
Assets:	
Cash	\$ 98,393
Restricted cash and investments	2,976,770
Receivables:	
Taxes	15,315
Parking system	73,600
Note receivable	50,000
Total Assets	\$ 3,214,078
 Liabilities and Fund Balance	
Liabilities -	
Accounts payable - trade	\$ 192,499
 Fund Balance:	
Committed for -	
Ramp 3 maintenance	344,787
Assigned for:	
Lot sale proceeds reserve	1,246,016
Projected budgetary deficits	592,380
Parking system	132,674
Unassigned	705,722
Total Fund Balance	3,021,579
Total Liabilities and Fund Balance	\$ 3,214,078

*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 of
Governmental Activities on the Statement of Net Position**

December 31, 2018

Total fund balance - governmental fund (from Page 12)		\$ 3,021,579
Amounts reported for governmental activities in the Statement of Net Position 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	1,601,887	
Accumulated depreciation	<u>(1,234,795)</u>	
Net capital assets		367,092
Long-term assets, including note receivable, are not liquidated in the current period and therefore are not reported in the fund -		
Note receivable		1,091,074
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 -		
Notes payable	<u>(626,593)</u>	
Total long-term liabilities		(626,593)
Rebated tax liabilities		(576,544)
Accrued interest payable on long-term debt		(61,125)
Net Position of Governmental Activities		\$ 3,215,483

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, 2018</i>	<i>General Fund</i>
Revenues:	
Charges for services - parking system	\$ 2,277,939
Property taxes	277,554
Interest	2,746
Other	357,610
Total Revenues	
	2,915,849
Expenditures:	
Current:	
General government	241,567
Public works	2,753,289
Health and welfare	433,024
Debt service -	
Principal	405,000
Interest and other charges	9,500
Total Expenditures	
	3,842,380
Other Financing Sources:	
Sale of properties	1,695,922
Note proceeds	459,000
Total Other Financing Sources	
	2,154,922
Change in Fund Balance	1,228,391
Fund Balance, beginning of year	1,793,188
Fund Balance, end of year	
	\$ 3,021,579

*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, 2018

Net change in fund balance - governmental fund (from Page 14)	\$	1,228,391
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation expense:</p>		
Capital outlay		7,176
Depreciation expense		(45,297)
Loss on disposal		(40,224)
<p style="padding-left: 20px;">Issuance of a note payable is not recognized in governmental funds, but as a liability in the Statement of Net Position and expense is recognized in the Statement of Activities -</p>		
Note payable issued		(459,000)
<p style="padding-left: 20px;">Note receivable principal payments received is revenue in governmental funds, but the payments reduce long-term assets in the Statement of Net Position -</p>		
Principal payments received		(255,198)
<p style="padding-left: 20px;">Repayment of bond and note principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position -</p>		
Repayments		405,000
<p style="padding-left: 20px;">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:</p>		
Rebated tax liability		43,679
Accrued interest		(12)
Change in Net Deficit of Governmental Activities	\$	884,515

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, 2018</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	\$ 2,335,617	\$ 2,203,790	\$ 2,277,939	\$ 74,149
Property taxes	270,237	267,000	277,554	10,554
Interest	1,120	845	2,746	1,901
Other	209,089	436,876	357,610	(79,266)
Total Revenues	2,816,063	2,908,511	2,915,849	7,338
Expenditures:				
<i>General government:</i>				
Contractual and other services	247,850	242,076	241,471	605
Rebated taxes	10,000	10,000	96	9,904
Total general government	257,850	252,076	241,567	10,509
<i>Public works:</i>				
Lease expense	898,863	906,074	906,061	13
Contractual and other services	856,936	2,102,670	901,101	1,201,569
Salaries	712,498	657,200	657,158	42
Supplies	59,542	56,010	55,906	104
Fringe benefits	120,884	115,600	115,588	12
Payroll taxes	127,395	117,480	117,475	5
Total public works	2,776,118	3,955,034	2,753,289	1,201,745
<i>Health and welfare:</i>				
Contractual and other services	122,200	118,954	104,325	14,629
Downtown maintenance/improvement:	89,210	94,210	85,624	8,586
Brand & Engagement	100,000	100,000	100,000	-
Business development	100,000	165,972	96,775	69,197
Rebated taxes	71,300	68,657	46,300	22,357
Other obligations	128,473	-	-	-
Total health and welfare	611,183	547,793	433,024	114,769

*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, 2018</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	\$ 450,000	\$ 450,000	\$ 405,000	\$ 45,000
Interest and other charges	9,600	9,600	9,500	100
<i>Total debt service</i>	459,600	459,600	414,500	45,100
Total Expenditures	4,104,751	5,214,503	3,842,380	1,372,123
Other Financing Sources:				
Sale of properties	991,577	2,071,833	1,695,922	(375,911)
Note proceeds	-	-	459,000	459,000
Total Other Financing Sources	991,577	2,071,833	2,154,922	83,089
Change in Fund Balance	(297,111)	(234,159)	1,228,391	1,462,550
Fund Balance, beginning of year	1,398,783	501,508	1,793,188	1,291,680
Fund Balance, end of year	\$ 1,101,672	\$ 267,349	\$ 3,021,579	\$ 2,754,230

*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, rebated tax liabilities, 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 capital 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, 2018.

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

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

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 - Net position represents the difference between assets and liabilities. Net investment in capital assets 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.

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.

See accompanying independent auditor's report.

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

Notes to Financial Statements

Subsequent Events

Management has evaluated the period from January 1, 2019 through June 17, 2019, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no material recognizable subsequent events were identified.

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, 2018, the DDA did not incur expenditures in the General Fund which were in excess of the amounts budgeted.

3. Note Receivable

The DDA previously managed Parking Ramp No.4 for the City of Kalamazoo. On April 17, 2017, the City sold Parking Ramp No. 4 for the purchase price of \$3,000,000, of which \$1,500,000 was paid in cash to the City and a \$1,500,000 note was issued to the DDA. The note is due in 60 monthly installments of \$25,000, including interest at 3.5%, with the balance due July, 2022.

Changes in the note receivable at December 31, 2018, were as follows:

	<i>Beginning Balance</i>		<i>Additions</i>		<i>Reductions</i>		<i>Ending Balance</i>
Governmental Activities -							
Note receivable	\$ 1,396,272	\$		-	\$ (255,198)	\$	\$ 1,141,074

4. 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, 2018, of the DDA's bank balances of \$3,075,476, the following were exposed to custodial credit:

Uninsured and Uncollateralized:	
Cash and savings	\$ 731,597
Money market	1,747,203
<hr/>	
Total Uninsured and Uncollateralized	\$ 2,478,800

5. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	<i>Balance December 31, 2017</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance December 31, 2018</i>
Governmental Activities:				
Capital assets not depreciated -				
Land	\$ 58,162	\$ -	\$ -	\$ 58,162
Capital assets depreciated:				
Leasehold improvements	684,881	-	-	684,881
General and administrative equipment	210,724	-	-	210,724
Equipment	587,808	7,176	(104,485)	490,499
Equipment under capital leases	157,621	-	-	157,621
<hr/>				
Totals at Historical Cost	1,699,196	7,176	(104,485)	1,601,887
<hr/>				
Less accumulated depreciation:				
Leasehold improvements	(373,695)	(35,552)	-	(409,247)
General and administrative equipment	(210,724)	-	-	(210,724)
Equipment	(511,719)	(9,745)	64,261	(457,203)
Equipment under capital leases	(157,621)	-	-	(157,621)
<hr/>				
Total accumulated depreciation	(1,253,759)	(45,297)	64,261	(1,234,795)
<hr/>				
Net Capital Assets	\$ 445,437	\$ (38,121)	\$ (40,224)	\$ 367,092
<hr/>				
Depreciation expense was charged to governmental functions as follows -				
Public works		\$ 45,297		

See accompanying independent auditor's report.

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

Notes to Financial Statements

6. Rebated Tax Liabilities

Changes in rebated tax liabilities at December 31, 2018, was 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	\$ 620,223	\$ -	\$ (43,679)	\$ 576,544	\$ 243,504

Rebated tax liabilities at December 31, 2018, is comprised of the following:

	<i>Final Maturity Dates</i>	<i>Interest Rates</i>	<i>Outstanding Balance</i>
Governmental Activities:			
Rebated tax liability - Zoetis	7/1/2019	3.00%	\$ 43,680
Rebated tax liability - Radisson	7/2/2024	2.59%	532,864
Total Rebated Tax Liabilities			\$ 576,544

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>	
2019	\$ 243,504	\$ 11,162	\$ 254,666
2020	66,608	9,852	76,460
2021	66,608	9,852	76,460
2022	66,608	9,852	76,460
2023	66,608	9,852	76,460
2024	66,608	9,852	76,460
	\$ 576,544	\$ 60,422	\$ 636,966

See accompanying independent auditor's report.

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

Notes to Financial Statements

7. Long-Term Obligations

Changes in long-term obligations at December 31, 2018, 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 -					
Notes payable -					
General obligation debt	\$ 572,593	\$ 459,000	\$ (405,000)	\$ 626,593	\$ 510,688

Long-term notes at December 31, 2018, are comprised of the following:

	<i>Final Maturity Dates</i>	<i>Interest Rates</i>	<i>Outstanding Balance</i>
Governmental Activities:			
The City of Kalamazoo Note	12/31/2019	n/a	\$ 459,000
Catalyst Development Co. 3, L.L.C. Note	12/31/2022	n/a	167,593
Total Governmental Activities			\$ 626,593

Repayment Schedule

The annual principal and interest payments on the bonds and notes payable are as follows:

<i>Year ending December 31,</i>	<u><i>Governmental Activities</i></u>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2019	\$ 510,688	\$ -	\$ 510,688
2020	51,688	-	51,688
2021	51,688	-	51,688
2022	12,529	-	12,529
	\$ 626,593	\$ -	\$ 626,593

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

8. 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 9) 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.

The payments to the City by the DDA are charged to operations as a lease expense. As of December 31, 2018, the future debt service, inclusive of the BRA's portion, is as follows:

<i>Year</i>	<i>Total KMR Debt Service</i>	<i>DDA Portion of KMR Debt Service (80%)</i>	<i>BRA Portion of KMR Debt Service (20%)</i>
2019	\$ 782,505	\$ 626,004	\$ 156,501
2020	\$ 775,789	\$ 620,631	\$ 155,158
2021	\$ 782,343	\$ 625,874	\$ 156,469
2022	\$ 776,215	\$ 620,972	\$ 155,243
2023	\$ 778,089	\$ 622,471	\$ 155,618
2024-2028	\$ 3,911,757	\$ 3,129,406	\$ 782,351
2029	\$ 783,075	\$ 626,460	\$ 156,615

In conjunction with the Restated Sublease, the DDA entered into an agreement, through its service agreement with Downtown Kalamazoo, Inc. (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. An agreement was entered into during January 2015, effective through December 31, 2018. Future minimum payments under the terms of the management agreement were \$180,000 annually, adjusted upward annually, to the lessor of 2.5% or the Consumer Price Index. The agreement is on a month-to-month basis subsequent to December 31, 2018.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan

Notes to Financial Statements

9. 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 7 and 8.

10. Service Agreement and Related Party Transactions

Business activities of the DDA, Downtown Kalamazoo, Inc. (DKI), and Downtown Tomorrow, Inc. (DTI) are supported by one another. DKI is involved in the economic development, marketing, and activity of services to downtown Kalamazoo, while DTI raises funds through philanthropic contributions and other private sources to assist the DDA and DKI in implementing development plans for downtown Kalamazoo. Although services are provided to one another, each remains a separate entity governed by its own board of directors.

For the year ended December 31, 2018, approximately \$509,000 was paid to DKI under a service agreement which is approved annually by the board of directors. The annual service agreement was renewed for 2019.

11. 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, 2018, 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 17, 2019.

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 DDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the DDA'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 DDA'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 DDA'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 DDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Kalamazoo, Michigan

JUNE 17, 2019