Financial Statements Year Ended December 31, 2021



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#### Contents

Independent Auditor's Report	3-5
Management's Discussion and Analysis	6-10
Government-Wide Financial Statements	
Statement of Net Position as of December 31, 2021	11
Statement of Activities for the Year Ended December 31, 2021	12
Fund Financial Statements	
Governmental Fund	
Balance Sheet as of December 31, 2021	13
Reconciliation of Fund Balance of Governmental Fund to the Net Position of Governmental Activities on the Statement of Net Position for the Year Ended December 31, 2021	14
Statement of Revenues, Expenditures, and Changes in Fund Balance for the Year Ended December 31, 2021	15
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to Statement of Activities for the Year Ended December 31, 2021	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund for the Year Ended December 31, 2021	17
Notes to Financial Statements	18-26
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	27-28



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#### **Independent Auditor's Report**

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

#### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the financial statements of the governmental activities and the General Fund (a major fund) of the Downtown Development Authority (the DDA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the DDA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position 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.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DDA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the DDA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no
  such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the DDA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

#### **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, 2021, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2022, 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 solely 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 the effectiveness of the DDA's 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 DDA's internal control over financial reporting and compliance.

June 30, 2022

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#### 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, 2021. 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:

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

#### Management's Discussion and Analysis

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:

December 31,	2021	2020
Assets		
Current and other assets Capital assets, net	\$ 2,373,519 266,341	\$ 3,104,341 301,127
Total Assets	\$ 2,639,860	\$ 3,405,468
Liabilities Current liabilities Long-term liabilities	\$ 215,594 991,864	\$ 285,065 1,159,457
Total Liabilities	1,207,458	1,444,522
Net Position Investment in capital assets Restricted - ramp 3 maintenance Unrestricted	266,341 269,283 896,778	301,127 269,283 1,390,536
Total Net Position	1,432,402	1,960,946
Total Liabilities and Net Position	\$ 2,639,860	\$ 3,405,468

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 \$729,185 at December 31, 2021. The investment in capital assets totaling \$266,341 compares the original cost, less depreciation. Debt was not used to acquire these capital assets.

The \$1,264,809 net position of governmental activities represents the *accumulated* results of all past years' operations. Current and other assets decreased by approximately \$731,000 during the current year, which is primarily due to a decrease in cash and the outstanding note receivable.

#### Management's Discussion and Analysis

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:

Year ended December 31,	2021	2020
Revenue		
Program revenue:		
Charges for services	\$ 1,479,989	\$ 1,548,457
Operating grants and contributions	167,593	-
General revenue:		
Property taxes	260,293	269,047
Interest income	24,905	26,164
Other	70,422	41,722
Total Revenue	2,003,202	1,885,390
Functions/Program Expenses		
General government	1,089,193	249,909
Public works	1,436,584	2,260,752
Health and welfare	-	100,399
Interest on long-term debt	5,969	5,969
Total Expenses	2,531,746	2,617,029
Change in Net Position	(528,544)	(731,639)
Net Position, beginning of year	1,960,946	2,692,585
Net Position, end of year	\$ 1,432,402	\$ 1,960,946

As reported in the statement of activities, the cost of all of the DDA's activities this year was \$2,531,746. Certain activities were partially funded from those who benefited from the operations through charges for services of \$1,480,000. The remaining "public benefit" portion of the DDA's activities were paid with \$260,293 in taxes and with other revenues such as interest. Health and welfare related expenses decreased approximately \$100,000 due to the impacts of COVID-19 on slowdown of business development and engagement projects.

The DDA experienced a decrease in net position of approximately \$529,000 in 2021. This decrease is largely due to the impacts of COVID-19 shutdowns and restrictions on parking revenue in 2021.

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.

#### Management's Discussion and Analysis

As the DDA completed this year, the General Fund reported a fund balance of \$1,743,616 which is a decrease of \$379,654 from last year. The decrease is due to the results of operations of the General Fund.

#### General Fund Budgetary Highlights

A statement 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 when compared to the final budget, was approximately \$779,786 below the budgeted amount. This variance was due to parking revenues being below budget for the current year.

The actual amounts reported for total expenditures when compared with the budget, were approximately \$350,000 under the final budget. This variance can be attributed to the decrease in contractual expenses related to parking.

#### Capital Assets and Debt Administration

#### Capital Assets

As of December 31, 2021, the DDA had \$266,341 invested in capital assets, including land, leasehold improvements, general and administrative equipment, equipment, and equipment under capital leases. This amount represents a decrease of \$34,786 or 12% from last year due to depreciation exceeding capital additions.

2021		2020
\$ 58,162	\$	58,162
684,881		684,881
210,724		210,724
656,964		656,964
1,610,731		1,610,731
(1,344,390)		(1,309,604)
\$ 266,341	\$	301,127
\$	\$ 58,162 684,881 210,724 656,964 1,610,731 (1,344,390)	\$ 58,162 \$ 684,881 210,724 656,964 1,610,731 (1,344,390)

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 24.

#### Notes Payable - Related Tax Liability

At the end of this year, the DDA had \$532,864 in rebated tax liabilities outstanding, which is the same as last year, due to no payments being made on the outstanding rebated tax liability during 2021.

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, pages 24 and 25.

#### Management's Discussion and Analysis

Notes Payable - Other

At the end of this year, the DDA had \$459,000 in notes payable outstanding compared to \$626,593 in the previous year, a decrease of 26.7% due to the forgiveness of \$167,593 on the note payable to Catalyst.

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, pages 24 and 25.

#### Significant Currently Known Facts

Economic Factors and Next Year's Budgets and Rates

The DDA's Board of Directors and management considered many factors when setting the DDA's 2021 budget. One of the most important factors affecting the budget is to ensure sufficient funds are available for debt service payments. The 2022 budget was adopted in January 2022, based on projected revenues. Approximately 97% of total General Fund revenue is from user fees, sales proceeds, and the levy.

COVID-19

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The mission of the DDA is to provide economic support and drive investment in Downtown Kalamazoo. The DDA accomplishes this through various programs and initiatives. Some of which may be affected by developments such as social distancing and shelter-in-place directives. As the state of the pandemic fluctuates, implementation of directives such as these, may limit DDA programming and operations. The outbreak could have a continued impact on economic and market conditions and trigger a period of global economic slowdown, which may depress the DDA's asset values.

On March 11, 2021, as a result of the expected economic impact of COVID-19, the U.S. federal government approved and enacted the American Rescue Plan Act of 2021 (ARPA) to provide financial relief to individuals and organizations. The DDA is still in the process of assessing the impact the ARPA will have on the DDA for the year ending December 31, 2022.

#### 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 162 East Michigan Avenue Kalamazoo, MI 49007

#### Government-Wide Financial Statements - Statement of Net Position

December 51, Lot 1	Decemi	ber 3	31, .	2021
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	G	overnmental Activities
Assets		
Cash and cash equivalents	\$	1,489,792
Restricted cash and cash equivalents		269,283
Receivables:		40 OFF
Accounts receivable		10,055
Parking system Note receivable		61,048 543,341
Capital assets, net		266,341
Total Assets	\$	2,639,860
Liabilities		
Accounts payable - trade	\$	122,995
Unearned revenue		3,872
Accrued interest		79,032
Other liabilities		9,695
Long-term liabilities:		
Due within one year:		
Notes payable		858,648
Due in more than one year:		
Notes payable		133,216
Total Liabilities		1,207,458
Net Position		
Investment in capital assets		266,341
Restricted - ramp 3 maintenance		269,283
Unrestricted		896,778
Total Net Position		1,432,402
Total Liabilities and Net Position	\$	2,639,860

#### Government-Wide Financial Statements - Statement of Activities

Year ended December 31, 2021								
				Program	Reve	nues		vernmental Activities
		Expenses		Charges for Services		Operating Grants and ntributions	i	et Revenue (Expenses) and Change let Position
Functions/Programs Governmental activities: General government Public works Interest on long-term debt	\$	1,089,193 1,436,584 5,969	\$	- 1,479,989 -	\$	167,593 - -	\$	(921,600) 43,405 (5,969)
Total Governmental Activities	\$	2,531,746	\$	1,479,989	\$	167,593		(884,164)
General Revenues Property taxes Interest income Other					260,293 24,905 70,422			
Total General Revenues					355,620			
Change in Net Position					(528,544)			
	Net	Position, be	ginn	ing of year				1,960,946
	Net	Position, en	d of	year			\$	1,432,402

#### Governmental Fund - Balance Sheet

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	(	General Fund
Assets		
Cash and cash equivalents Restricted cash and cash equivalents Receivables:	\$	1,489,792 269,283
Parking system Other Note receivable		61,048 10,055 543,341
Total Assets	\$	2,373,519
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities Accounts payable Other Unearned revenue	\$	122,995 9,695 3,872
Total Liabilities		136,562
Deferred Inflow of Resources - Unavailable Revenue - Parking		493,341
Fund Balance Restricted for: Ramp 3 maintenance Assigned for:		269,283
Lot sale proceeds reserve Projected budgetary deficits Parking system Unassigned		488,094 527,275 132,674 326,290
Total Fund Balance		1,743,616
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$	2,373,519

### Governmental Fund - Reconciliation of Fund Balance of Governmental Fund to the Net Position of Governmental Activities on the Statement of Net Position

December 31, 2021	
Total Fund Balance - Governmental Fund (Page 13)	\$ 1,743,616
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 Accumulated depreciation	1,610,731 (1,344,390)
Capital Assets, Net	266,341
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds:	
Deferred inflows of resources - unavailable revenue - parking	493,341
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 Accrued interest	(991,864) (79,032)
Total Long-Term Liabilities	(1,070,896)
Net Position of Governmental Activities	\$ 1,432,402

### Governmental Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance

Year ended December 31, 2021	
	General Fund
Revenues Charges for services - parking system Property taxes Interest Other	\$ 1,479,989 260,293 633 70,422
Total Revenues	1,811,337
Expenditures Current: General government Public works	1,054,407 1,436,584
Total Expenditures	2,490,991
Deficiency of Revenues Over Expenditures	(679,654
Other Financing Sources Sale of properties	300,000
Change in Fund Balance	(379,654
Fund Balance, beginning of year	2,123,270
Fund Balance, end of year	\$ 1,743,616

### 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, 2021	
Net Change in Fund Balance - Governmental Fund (Page 15)	\$ (379,654)
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:	
Depreciation expense	(34,786)
Note receivable principal payments received is revenue in governmental funds, but the payments reduce long-term assets in the statement of net position:  Principal payments received	(275,728)
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:  Forgiveness of note payable - Catalyst	167,593
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:  Accrued interest	(5,969)
Change in Net Position of Governmental Activities	\$ (528,544)

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

Year ended December 31, 2021				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues Charges for services - parking system Property taxes Interest Other	\$ 1,473,480 267,000 11,800 838,843	\$ 1,473,480 267,000 11,800 838,843	\$ 1,479,989 260,293 633 70,422	\$ 6,509 (6,707) (11,167) (768,421)
Total Revenues	2,591,123	2,591,123	1,811,337	(779,786)
Expenditures General government: Contractual and other services	1,071,775	1,071,775	1,054,407	17,368
Total General Government	1,071,775	1,071,775	1,054,407	17,368
Public works: Lease expense Contractual and other services Salaries Supplies Fringe benefits Payroll taxes	924,487 130,000 488,668 45,275 88,004 87,374	924,487 130,000 488,668 45,275 88,004 87,374	909,860 39,000 328,155 29,259 72,709 57,601	14,627 91,000 160,513 16,016 15,295 29,773
Total Public Works	1,763,808	1,763,808	1,436,584	327,224
Health and welfare: Other obligations	5,000	5,000	-	5,000
Total Expenditures	2,840,583	2,840,583	2,490,991	349,592
Excess (Deficiency) of Revenues Over Expenditures	(249,460)	(249,460)	(679,654)	(1,129,378)
Other Financing Sources Sale of properties			300,000	300,000
Total Other Financing Sources	-	-	300,000	300,000
Change in Fund Balance	(249,460)	(249,460)	(379,654)	(130,194)
Fund Balance, beginning of year	2,123,270	2,123,270	2,123,270	<u>-</u>
Fund Balance, end of year	\$ 1,873,810	\$ 1,873,810	\$ 1,743,616	\$ (130,194)

#### **Notes to Financial Statements**

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

The City of Kalamazoo, Michigan (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 mayor of the City and eight other members.

#### Summary of Significant Accounting Policies

The financial statements of the DDA 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 mayor of the City and eight 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 activities.

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.

See accompanying independent auditor's report.

#### **Notes to Financial Statements**

#### 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 Kalamazoo Municipal Parking System (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 and rebated tax expenditures are recorded only when payment is due.

#### Assets, Liabilities, and Net Position/Fund Balance

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less.

#### State statutes authorize the DDA to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.

#### **Notes to Financial Statements**

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Non-Spendable - Includes items that are not in spendable form because they are either legally or contractually required to be maintained intact.

Restricted Cash and Cash Equivalents - Restricted cash and cash equivalents represents an amount restricted for the purpose of parking ramp 3 maintenance.

Capital Assets - Capital 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 acquisition 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:

Asset Category	Useful Life (Years)
Leasehold improvements	10-15
Equipment	3-10

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 held and in use are reviewed for impairment whenever indicators of impairment exist. If impairment is indicated, then an adjustment is made to the carrying value of the capital assets. No impairments have been identified as of December 31, 2021.

Deferred Inflows of Resources - The governmental fund reports unavailable revenues for the note receivable since the revenue is not available. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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

#### **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. Investment in capital assets consists of capital assets, net of accumulated depreciation. 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. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

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:

Restricted Fund Balance - Restricted for specific purposes imposed by grantors, bondholders, constitutional provisions, or enabling legislation.

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, committed amounts are spent first, then assigned, and finally 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.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

#### **Notes to Financial Statements**

#### **Subsequent Events**

Management has evaluated the period from January 1, 2022 through June 30, 2022, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no recognizable subsequent event was identified.

#### 2. Stewardship, Compliance, and Accountability

#### **Budgetary Information**

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

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 general and parking fund budgets:

- 1. A budget is prepared by the staff and submitted to the DDA Board.
- 2. The DDA Board, at a public hearing, approves the submission of the budget to the City Commission of the City.
- 3. The City Commission approves the budget.
- 4. 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 GAAP.

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, 2021, 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.

#### **Notes to Financial Statements**

Changes in the note receivable at December 31, 2021 were as follows:

	Beginning Balance Additions				Reductions	Ending Balance
Governmental Activities Note receivable	\$ 819,069	\$	-	\$	(275,728)	\$ 543,341

#### 4. 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.

#### 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, 2021, \$571,449 of the DDA's bank balances of \$1,755,492 were uninsured and uncollateralized.

December 31, 2021		
Uninsured and Uncollateralized		
Cash and savings	\$	142,789
Money market	·	428,660
Total Uninsured and Uncollateralized	\$	571,449

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#### **Notes to Financial Statements**

#### 5. Capital Assets

Capital asset activity was as follows:

	Dec	Balance, ember 31, 2020	Additions	De	eductions	Dec	Balance, cember 31, 2021
Governmental Activities							
Capital assets not depreciated:		F0 4/2					F0 4/2
Land	\$	58,162	\$ -	\$	-	\$	58,162
Capital assets depreciated: Leasehold improvements		684,881	_		_		684,881
General and administrative		004,001	_		_		004,001
equipment		210,724	_		-		210,724
Equipment		656,964	-		-		656,964
Total at Historical Cost		1,610,731	-		-		1,610,731
Less accumulated depreciation:							
Leasehold improvements		(468,895)	(29,824)		-		(498,719)
General and administrative		, , ,	(				, , ,
equipment		(210,724)	-		-		(210,724)
Equipment		(629,985)	(4,962)		-		(634,947)
Total Accumulated Depreciation	(	(1,309,604)	(34,786)		-		(1,344,390)
Net Capital Assets	\$	301,127	\$ (34,786)	\$	-	\$	266,341
Depreciation expense was charged to governmental functions as follows:							
Public works			\$ (34,786)				

#### 6. Notes Payable

Changes in notes payable at December 31, 2021 were as follows:

	Beginning Balance	Additions	R	eductions	Ending Balance	D	ue Within One Year
Governmental Activities Notes payable - direct borrowings	\$ 991,864	\$ -	\$	-	\$ 991,864	\$	858,648

Notes payable at December 31, 2021 are comprised of the following:

	Final Maturity Dates	Interest Rates (%)	Outstanding Balance
Governmental Activities			
The City of Kalamazoo Note	12/31/2022	N/A	\$ 459,000
The City of Kalamazoo Note - related tax			
liability	07/02/2024	2.59	532,864
Total Governmental Activities			\$ 991,864

#### **Notes to Financial Statements**

The City of Kalamazoo Note is due in full in December 2022. The note bears no interest.

The City of Kalamazoo Note - related tax liability is due in full in July 2024. The note bears interest of 2.59% annually.

The Catalyst Development note is due in annual installments of approximately \$52,000, plus interest accruing at 7% annually. The final payment of principal and accrued interest is due in December 2022. The DDA was not required to make payments in 2021 or 2020. The note was fully forgiven and recorded in operating grants and contributions - general government within the government wide statement of activities.

#### Repayment Schedule

The annual principal and interest payments on the notes payable as of December 31, 2021 are as follows:

Year ending December 31,

	 Government Direct B	_		
	Principal	Interest		Total
2022	\$ 858,648	\$ 88,884	\$	947,532
2023	66,608	9,852		76,460
2024	66,608	9,852		76,460
	\$ 991,864	\$ 108,588	\$	1,100,452

#### 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 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.

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.

#### **Notes to Financial Statements**

The payments to the City by the DDA are charged to operations as a lease expenditure. As of December 31, 2021, the future debt service, inclusive of the BRA's portion, is as follows:

December 31,

	KMR [	Total Debt Service	A Portion of ebt Service (80%)	 RA Portion of Debt Service (20%)
2022	 \$	776,000	\$ 620,800	\$ 155,200
2023		778,000	622,400	155,600
2024		783,000	626,400	156,600
2025		780,000	624,000	156,000
2026		783,000	626,400	156,600
2027-2029		2,349,000	1,879,200	469,800

In conjunction with the Restated Sublease, the DDA entered into an agreement, through its service agreement with Kalamazoo Downtown Partnership, (KDP), 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 now on a month-to-month basis.

#### 8. Service Agreement and Related Party Transactions

Business activities of the DDA, KDP, Downtown Economic Growth Authority (DEGA), and Downtown Tomorrow, Inc. (DTI) are supported by one another. KDP 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 KDP 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, 2021, approximately \$370,000 was paid to KDP under a service agreement which is approved annually by the board of directors. The annual service agreement was not renewed for 2022.

#### 9. 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.



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# 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 (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, 2021, 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 30, 2022.

#### Internal Control Over Financial Reporting

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

#### Purpose of this Report

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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.

June 30, 2022