



**Downtown Economic Growth  
Authority of the City of Kalamazoo**  
(A Component Unit of the City of Kalamazoo)

**Financial Statements**  
Year Ended December 31, 2020

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

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Financial Statements  
Year Ended December 31, 2020

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Contents**

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<b>Independent Auditor’s Report</b>	3-5
<b>Management’s Discussion and Analysis</b>	6-10
<b>Government-Wide Financial Statements</b>	
Statement of Net Position as of December 31, 2020	11
Statement of Activities for the Year Ended December 31, 2020	12
<b>Fund Financial Statements</b>	
<i>Governmental Fund</i>	
Balance Sheet as of December 31, 2020	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, 2020	14
Statement of Revenues, Expenditures, and Changes in Fund Balance for the Year Ended December 31, 2020	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, 2020	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund for the Year Ended December 31, 2020	17
Notes to Financial Statements	18-24
<b>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 <i>Government Auditing Standards</i></b>	25-26



## **Independent Auditor's Report**

Board of Directors  
Downtown Economic Growth 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 Economic Growth Authority of the City of Kalamazoo, Michigan (the DEGA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the DEGA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund (a major fund) of the DEGA, as of December 31, 2020, and the respective changes in financial position and 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.

#### ***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 DEGA 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 DEGA's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



### ***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 DEGA'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 DEGA'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.

### **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 6 through 10 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 DEGA, and do not purport to, and do not, present fairly the financial position of the City of Kalamazoo, as of December 31, 2020, 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 29, 2021 on our consideration of the DEGA'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 DEGA'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 DEGA's internal control over financial reporting and compliance.

*BDO USA, LLP*

June 29, 2021

# Downtown Economic Growth Authority of the City of Kalamazoo (A Component Unit of the City of Kalamazoo)

## Management's Discussion and Analysis

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This section of the Downtown Economic Growth Authority's (the DEGA's) annual financial report presents management's discussion and analysis of the DEGA's financial performance during the year ended December 31, 2020. The City of Kalamazoo (the City) established the DEGA in October 2018, with operations beginning January 1, 2019. Please read it in conjunction with the DEGA'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 DEGA's finances as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole DEGA, presenting both an aggregate view of the DEGA'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 DEGA as a Whole - Government-Wide Financial Statements*

One of the most important questions asked about the DEGA is, "As a whole, what is the DEGA'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 DEGA's financial statements, report information on the DEGA 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 DEGA's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the DEGA's financial health or financial position. Over time, increases or decreases in the DEGA'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 DEGA's operating results. However, the DEGA'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 DEGA.

The statement of net position and the statement of activities report the governmental activities for the DEGA, which encompass the DEGA's services, including community development (health and welfare). Property taxes revenue finance most of these activities.

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

**Management's Discussion and Analysis**

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***Reporting the DEGA's Fund Financial Statements***

The DEGA's fund financial statements provide detailed information about the operating fund - not the DEGA as a whole. The DEGA, 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 DEGA uses the following accounting approach:

*Governmental Fund* - All of the DEGA'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 DEGA 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 DEGA'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 DEGA as a Whole - Government-Wide Financial Statements***

Recall that the statement of net position provides the perspective of the DEGA as a whole. The following provides a summary of the DEGA's net deficit:

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current and other assets	\$ 765,246	\$ 132,398
<b>Total Assets</b>	\$ 765,246	\$ 132,398
<b>Liabilities</b>		
Current liabilities	\$ 18,374	\$ 43,419
Long-term liabilities	1,000,000	300,000
<b>Total Liabilities</b>	<b>1,018,374</b>	<b>343,419</b>
<b>Net Position (Deficit)</b>		
Unrestricted	(253,128)	(211,021)
<b>Net Position (Deficit)</b>	<b>(253,128)</b>	<b>(211,021)</b>
<b>Total Liabilities and Position (Deficit)</b>	\$ 765,246	\$ 132,398

The preceding analysis focuses on the net deficit. The \$253,128 net deficit of governmental activities represents the *accumulated* results of the past year's operations. The DEGA's net deficit is entirely unrestricted at December 31, 2020. The debt will be repaid with taxes collected as the debt service becomes due.



**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Management's Discussion and Analysis**

The results of this year's operations for the DEGA as a whole are reported in the following statement of activities, which shows the change in net position for 2020:

<i>Year ended December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>		
General revenue:		
Contributions	\$ 100,000	\$ 150,000
Property taxes	492,598	48,350
Interest income	434	985
Other	67,810	75,880
<b>Total Revenue</b>	<b>660,842</b>	<b>275,215</b>
<b>Functions/Program Expenses</b>		
Health and welfare	702,949	486,236
<b>Change in Net Position (Deficit)</b>	<b>(42,107)</b>	<b>(211,021)</b>
<b>Net Position (Deficit), beginning of year</b>	<b>(211,021)</b>	<b>-</b>
<b>Net Position (Deficit), end of year</b>	<b>\$ (253,128)</b>	<b>\$ (211,021)</b>

As reported in the statement of activities, the cost of all of the DEGA's activities this year was \$702,949. These "public benefit" activities of the DEGA were funded with contributions from the Downtown Development Authority of the City of Kalamazoo, Michigan, collected taxes, and with other revenues such as interest and sponsorships.

As a result of the expenses exceeding revenues, the DEGA experienced an increase in net deficit of \$42,107 in 2020.

The change in net position shows the financial burden placed on the DEGA. Since, in future years, property taxes for operations will constitute the vast majority of the DEGA's operating revenue sources, the board and management must annually evaluate the needs of the DEGA and balance those needs with ongoing obligations to citizens and creditors.

***The DEGA's Governmental Fund***

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

As the DEGA completed this year, the General Fund reported a fund balance of \$254,274. For fiscal year 2020, the excess of expenditures over revenues of \$213,645 was offset by the note issued for \$700,000 due to the City of Kalamazoo, Michigan.

***General Fund Budgetary Highlights***

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

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Management's Discussion and Analysis**

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Originally budgeted revenues of \$336,827 were amended to \$364,040, which is attributed to a change in expected property taxes during the year.

Other financing sources of \$700,000 remained consistent with the budget, as the budget reflects the amount of the note payable issued to the City of Kalamazoo, Michigan.

Originally budgeted expenditures of \$1,036,827 were amended to \$1,064,040 to be in line with the amount of activities performed throughout the fiscal year.

The actual amounts reported for total revenue were approximately \$147,000 under the final budget due to tax revenue being lower than originally projected.

The actual amounts reported for total expenditures were approximately \$312,000 under the final budget. This variance was due to coalition expenditures being lower than originally projected.

***Debt Administration***

***Debt***

At the end of this year, the DEGA had \$1,000,000 in long-term obligations outstanding. This is comprised of two notes payable to the City of Kalamazoo.

Additional information that is more detailed about the DEGA's long-term obligations is presented in the notes to the financial statements in Note 4, page 23.

***Significant Currently Known Facts***

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

The DEGA's Board of Directors and management consider many factors when setting the DEGA's 2021 budget. One of the most important factors affecting the budget is to ensure sufficient funds are available for debt service payments. The 2021 budget was adopted in January 2021, based on projected revenues. Approximately 55% of total General Fund revenue is from contributions from the Downtown Development Authority of the City of Kalamazoo, Michigan and the property tax 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 spreads 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 DEGA is dependent upon its workforce to see through its support of the economic growth and development of downtown Kalamazoo. Developments such as social distancing and shelter-in-place directives could impact the DEGA's ability to deploy its workforce effectively. The outbreak could have a continued impact on economic and market conditions and trigger a period of global economic slowdown, which may depress the DEGA's asset values.

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Management's Discussion and Analysis**

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On March 27, 2020, as a result of the expected economic impact of COVID-19, the U.S. Federal government approved and enacted the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) to provide financial relief to individuals and organizations. The DEGA is still in process of assessing the impact the CARES Act will have on the DEGA for the year ending December 31, 2021.

***Contacting the DEGA's Financial Management***

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

Downtown Economic Growth Authority of the City of Kalamazoo  
141 East Michigan Avenue, Suite 501  
Kalamazoo, Michigan 49007

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

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

*December 31, 2020*

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 270,962
Taxes receivable	492,598
Accounts receivable	1,686
<b>Total Assets</b>	<b>\$ 765,246</b>
<b>Liabilities</b>	
Accounts payable - trade	\$ 17,212
Unearned revenue	1,162
Long-term liabilities:	
Due in more than a year:	
Notes payable	1,000,000
<b>Total Liabilities</b>	<b>1,018,374</b>
<b>Net Position (Deficit)</b>	
Unrestricted	(253,128)
<b>Net Position (Deficit)</b>	<b>(253,128)</b>
<b>Total Liabilities and Position (Deficit)</b>	<b>\$ 765,246</b>

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

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

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

*Year ended December 31, 2020*

		Program Revenues		Governmental Activities
	Net Revenue (Expenses)	Charges for Services		Net Revenue (Expenses) and Change in Net Deficit
<b>Functions/Programs</b>				
Governmental activities:				
Health and welfare	\$ (702,949)	\$ -		\$ (702,949)
<b>Total Governmental Activities</b>	<b>\$ (702,949)</b>	<b>\$ -</b>		<b>\$ (702,949)</b>
<b>General Revenues</b>				
Contributions			\$	100,000
Property taxes				492,598
Interest income				435
Other				67,809
<b>Total General Revenues</b>				<b>660,842</b>
<b>Change in Net Deficit</b>				<b>(42,107)</b>
<b>Net Deficit, beginning of year</b>				<b>(211,021)</b>
<b>Net Deficit, end of year</b>			<b>\$</b>	<b>(253,128)</b>

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

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Governmental Fund - Balance Sheet**

*December 31, 2020*

		General Fund
<b>Assets</b>		
Cash and cash equivalents	\$	270,962
Taxes receivable		492,598
Accounts receivable		1,686
<b>Total Assets</b>	<b>\$</b>	<b>765,246</b>
<b>Liabilities</b>		
Accounts payable - trade	\$	17,212
Unearned revenue		1,162
<b>Total Liabilities</b>		<b>18,374</b>
<b>Deferred Inflow of Resources - Unavailable Revenue - Property Taxes</b>		<b>492,598</b>
<b>Fund Balance</b>		
Unassigned		254,274
<b>Total Fund Balance</b>		<b>254,274</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$</b>	<b>765,246</b>

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

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

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

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*December 31, 2020*

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<b>Total Fund Balance - Governmental Fund (from page 13)</b>	<b>\$ 254,274</b>
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 inflow of resources - unavailable revenue - property taxes	492,598
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund. Balances are as follows:	
Notes payable	(1,000,000)
<b>Total Long-Term Liabilities</b>	<b>(1,000,000)</b>
<b>Net Position (Deficit) of Governmental Activities</b>	<b>\$ (253,128)</b>

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

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

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

*Year ended December 31, 2020*

	General Fund
<b>Revenue</b>	
Contributions	\$ 100,000
Property taxes	48,350
Interest income	435
Other	67,809
<b>Total Revenue</b>	216,594
<b>Expenditures</b>	
Current:	
Health and welfare	702,949
<b>Total Expenditures</b>	702,949
<b>Deficiency of Revenues Over Expenditures</b>	(486,355)
<b>Other Financing Sources</b>	
Note issued	700,000
<b>Change in Fund Balance</b>	213,645
<b>Fund Balance, beginning of year</b>	40,629
<b>Fund Balance, end of year</b>	\$ 254,274

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



**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

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

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*Year ended December 31, 2020*

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<b>Net Change in Fund Balance - Governmental Fund</b> (from page 15)	\$	213,645
Taxes receivable are recognized as revenue in the statement of activities, but as a deferred inflow of resources in the governmental fund, since they do not provide current financial resources:		
Deferred inflow of resources - unavailable revenue - property taxes		444,248
Issuance of a note payable is recognized as other financing sources in the government fund, but as a liability in the statement of net position:		
Note payable issued		(700,000)
<b>Change in Net Position (Deficit) of Governmental Activities</b>	<b>\$</b>	<b>(42,107)</b>

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

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

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

*Year ended December 31, 2020*

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Contributions	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Property taxes	94,617	48,330	48,350	20
Interest	1,000	1,000	435	(565)
Other	141,210	214,710	67,809	(146,901)
<b>Total Revenues</b>	<b>336,827</b>	<b>364,040</b>	<b>216,594</b>	<b>(147,446)</b>
<b>Expenditures</b>				
Health and welfare:				
DEGA administration	85,677	42,939	41,885	1,054
People coalition	128,980	246,262	103,557	142,705
Place coalition	287,770	209,552	107,284	102,268
Experience coalition	370,848	290,135	298,145	(8,010)
Growth coalition	114,652	136,252	135,336	916
Other obligations	-	90,000	16,742	73,258
<b>Total Health and Welfare</b>	<b>987,927</b>	<b>1,015,140</b>	<b>702,949</b>	<b>312,191</b>
Debt service:				
Principal payments	48,900	48,900	-	48,900
<b>Total Debt Service</b>	<b>48,900</b>	<b>48,900</b>	<b>-</b>	<b>48,900</b>
<b>Total Expenditures</b>	<b>1,036,827</b>	<b>1,064,040</b>	<b>702,949</b>	<b>361,091</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(700,000)</b>	<b>(700,000)</b>	<b>(486,355)</b>	<b>(213,645)</b>
<b>Other Financing Sources</b>				
Note issued	700,000	700,000	700,000	-
<b>Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>213,645</b>	<b>213,645</b>
<b>Fund Balance, beginning of year</b>	<b>-</b>	<b>-</b>	<b>40,629</b>	<b>40,629</b>
<b>Fund Balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 254,274</b>	<b>\$ 254,274</b>

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

# Downtown Economic Growth Authority of the City of Kalamazoo (A Component Unit of the City of Kalamazoo)

## Notes to Financial Statements

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

The City of Kalamazoo (the City) established the Downtown Economic Growth Authority (the DEGA) in October 2018, with operations beginning January 1, 2019. 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 DEGA is a board of directors consisting of the mayor of the City of Kalamazoo and eight other members.

#### *Summary of Significant Accounting Policies*

The financial statements of the DEGA 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 DEGA's significant accounting policies are described below.

#### *Reporting Entity*

The DEGA 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 DEGA, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the DEGA contain all activity for which the DEGA is financially accountable. The DEGA is a discretely presented component unit of the City as the City is financially accountable for the DEGA. The City is considered financially accountable for a component unit if it appoints a voting majority of the DEGA's governing body and it is able to impose its will on the DEGA by significantly influencing the programs, projects, activities, or level of services performed or provided by the DEGA, or there is a potential for the DEGA 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 DEGA. The Government-wide financial statements categorize activities as either governmental or business-type. All of the DEGA'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.*

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

**Notes to Financial Statements**

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*Fund Financial Statements*

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

The governmental fund is used to account for the DEGA'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 DEGA - *General Fund* - The General Fund is the general operating fund of the DEGA. It is used to account for all financial resources. Funding is provided through property tax revenues, contributions from the Downtown Development Authority of the City of Kalamazoo, and other 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 DEGA 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 are recorded only when payment is due.

*Assets, Liabilities, and Net Position*

*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 DEGA to invest in:

- Bond, 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.

*See accompanying independent auditor's report.*

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

**Notes to Financial Statements**

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- 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.

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

*Long-Term Obligations* - In the government-wide financial statements, long-term debt is reported as a liability.

In the fund financial statements, the face amount of debt is reported as other financing sources. Issuance costs are recorded as expenditures during the current period.

*Net Position* - Net position represents the difference between assets and liabilities. 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 represents net position that is not subject to externally imposed stipulations. It is the DEGA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

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

*Unassigned Fund Balance* - includes the entire fund balance of the General Fund.

The DEGA'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 DEGA. 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.

***Contributions***

Contributions represent amounts received from the Downtown Development Authority of the City of Kalamazoo, Michigan.

*See accompanying independent auditor's report.*

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Notes to Financial Statements**

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***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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.

***Subsequent Events***

Management has evaluated the period from January 1, 2021 through June 29, 2021, 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 were identified.

***Risks and Uncertainties***

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 spreads 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 full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude of the impact that the pandemic will have on the DEGA's future operations. Management is actively monitoring the global situation, making all efforts to remain flexible in their activities and programs that support the downtown. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the DEGA is not able to estimate at this time the permanent effects of the COVID-19 outbreak on its operations.

On March 7, 2020, as a result of the expected economic impact of COVID-19, the U.S. Federal government approved and enacted the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) to provide financial relief to individuals and organizations. The DEGA is still in the process of assessing the impact the CARES Act will have on the DEGA for the year ending December 31, 2021.

Although the DEGA cannot estimate the length or gravity of the impact of COVID-19, the outbreak could have a permanent effect on how the DEGA operates in order to continue to achieve their mission to stimulate investment in the community.

**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.

*See accompanying independent auditor's report.*

**Downtown Economic Growth Authority of the City of Kalamazoo**  
**(A Component Unit of the City of Kalamazoo)**

**Notes to Financial Statements**

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

1. A budget is prepared by the staff and submitted to the DEGA Board.
2. The DEGA 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 DEGA Board formally adopts the budget through a board resolution.

The budgets must be approved by January 1 if the DEGA has not adopted an interim appropriation resolution authorizing the DEGA 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.

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 DEGA 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, 2020, the DEGA incurred expenditures in the General Fund, health and welfare, experience coalition, which were in excess of the amount budgeted. This excess is due to increased expenditures for programs assisting businesses, located downtown, that were impacted by COVID-19.

### **3. 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 DEGA'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 DEGA's deposits might not be recovered. The DEGA does not have a policy to mitigate this risk. At December 31, 2020, \$15,444 of the DEGA's bank balances of \$287,623 were uninsured and uncollateralized.

*December 31, 2020*

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<b>Uninsured and Uncollateralized</b>		
Money market	\$	15,444
<b>Total Uninsured and Uncollateralized</b>	\$	15,444

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*See accompanying independent auditor's report.*

**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Notes to Financial Statements**

**4. Notes Payable**

The DEGA, has two notes with the City of Kalamazoo; one was issued in November 2019, and is due in annual interest-only payments of \$6,000 through July 2024 when the full principal balance is due. A second note was issued in April 2020 with annual interest payments of \$14,000 to be paid through July 2025 when principal & interest payments totaling \$148,510 begin and continue until July 2029. The purpose of these loans is to assist in funding operations as the DEGA's property tax capture grows.

Changes in the notes payable at December 31, 2020, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Notes payable - direct borrowings	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
Notes payable - direct borrowings	-	700,000	-	700,000	-
<b>Total</b>	<b>\$ 300,000</b>	<b>\$ 700,000</b>	<b>\$ -</b>	<b>\$ 1,000,000</b>	<b>\$ -</b>

Long-term notes at December 31, 2020, are comprised of the following:

	Final Maturity Dates	Interest Rates (%)	Outstanding Balance
<b>Governmental Activities</b>			
The City of Kalamazoo Note - 2019	7/1/2024	2.00	\$ 300,000
The City of Kalamazoo Note - 2020	7/1/2029	2.00	700,000
<b>Total Governmental Activities</b>			<b>\$ 1,000,000</b>

***Repayment Schedule***

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

<i>Year ending December 31,</i>	Governmental Activities			Total
	Principal	Interest		
2021	\$ -	\$ 20,000	\$	20,000
2022	-	20,000		20,000
2023	-	20,000		20,000
2024	300,000	20,000		320,000
2025	134,511	14,000		148,511
2026	137,201	11,310		148,511
2027	139,945	8,567		148,512
2028	142,744	5,767		148,511
2029	145,599	2,912		148,511
	<b>\$ 1,000,000</b>	<b>\$ 122,556</b>	<b>\$</b>	<b>1,122,556</b>

*See accompanying independent auditor's report.*



**Downtown Economic Growth Authority of the City of Kalamazoo  
(A Component Unit of the City of Kalamazoo)**

**Notes to Financial Statements**

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**5. Tax Increment Financing (TIF)**

The DEGA maintains a TIF plan to help fund capital improvements in downtown Kalamazoo. The plan allows the DEGA to capture and retain 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.”

**6. Service Agreement and Related Party Transactions**

Business activities of the DEGA, Downtown Development Authority (DDA), Downtown Kalamazoo, Inc. (DKI), and Downtown Tomorrow, Inc. (DTI) are supported by one another. DDA’s purpose is to stimulate public and private investment in downtown Kalamazoo, 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 DEGA 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, 2020, approximately \$267,000 was paid to DKI under a service agreement which is approved annually by the board of directors. The annual service agreement was renewed for 2021.

For the year ended December 31, 2020, DDA contributed approximately \$100,000 to the DEGA to assist with costs related to coalition programs.

**7. Risk Management and Benefits**

The DEGA 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 DEGA 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 Economic Growth Authority of the City of Kalamazoo  
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 Economic Growth Authority of the City of Kalamazoo, Michigan (the DEGA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the DEGA's basic financial statements, and have issued our report thereon dated June 29, 2021.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the DEGA'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 DEGA's internal control. Accordingly, we do not express an opinion on the effectiveness of the DEGA'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 DEGA'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 DEGA'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 DEGA'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 DEGA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

June 29, 2021