



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

**Financial Statements
Year Ended December 31, 2021**

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

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

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Independent Auditor's Report

The Board of Directors
Downtown Economic Growth Authority of the City of Kalamazoo
Kalamazoo, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of the Downtown Economic Growth Authority (the DEGA), 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 DEGA'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 major fund of the DEGA, as of December 31, 2021, and the respective changes in financial position 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 for twelve 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 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.

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 DEGA, 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 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 the DEGA's internal control over financial reporting and compliance.

BDO USA, LLP

June 30, 2022

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

Management's Discussion and Analysis

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.

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

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Management's Discussion and Analysis

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 position:

<i>December 31,</i>	2021	2020
Assets		
Current and other assets	\$ 657,096	\$ 765,246
Total Assets	\$ 657,096	\$ 765,246
Liabilities		
Current liabilities	\$ 96,551	\$ 18,374
Long-term liabilities	1,000,000	1,000,000
Total Liabilities	1,096,551	1,018,374
Net Position (Deficit)		
Unrestricted	(439,455)	(253,128)
Net Position (Deficit)	(439,455)	(253,128)
Total Liabilities and Net Position (Deficit)	\$ 657,096	\$ 765,246

The preceding analysis focuses on the net position (deficit). The \$439,455 net position of governmental activities represents the accumulated results of the past-year's operations. The DEGA's net position is entirely unrestricted at December 31, 2021. The debt will be repaid with taxes collected as the debt service becomes due.

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:

<i>Year ended December 31,</i>	2021	2020
Revenue		
General revenue:		
Contributions	\$ -	\$ 100,000
Property taxes	414,894	492,598
Interest income	127	434
Other	63,856	67,810
Total Revenue	478,877	660,842
Functions/Program Expenses		
Health and welfare	665,204	702,949
Change in Net Position	(186,327)	(42,107)
Net Position (Deficit), beginning of year	(253,128)	(211,021)
Net Position (Deficit), end of year	\$ (439,455)	\$ (253,128)

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Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of the DEGA's activities this year was \$665,204. These "public benefit" activities of the DEGA were funded with collected taxes and other revenues, such as interest and sponsorships.

As a result of the expenses exceeding revenues, the DEGA experienced an decrease in net position of \$186,327 in 2021.

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 \$146,515. For fiscal year 2021, the excess of expenditures over revenues of \$107,759 reduced DEGA's fund balance.

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.

Originally budgeted revenues of \$108,540 were amended to \$648,372, which is attributed to a change in expected property taxes during the year as well as anticipated revenue from inventory sales and contributions.

Other financing sources of \$700,000 were amended to \$250,000, which is attributed to a change in expected program expenses incurred during the year and increases in other types of revenue.

Originally budgeted expenditures of \$1,015,140 were amended to \$898,372 to be in line with the amount of activities performed throughout the fiscal year.

The actual amounts reported for total revenue were \$557,445 under the final budget due to social district cup sales and contribution revenue being lower than originally projected.

The actual amounts reported for total expenditures were \$665,204 under the final budget. This variance was due to coalition expenditures being lower than originally projected. Coalition expenditures represent four groups, representing four different aspects of downtown Kalamazoo, that assist the DEGA in setting goals and support ongoing projects.

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Management's Discussion and Analysis

Debt Administration

Debt

At the end of 2021, 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 21.

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 2022 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 90% of total General Fund revenue is from 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 mission of the DEGA is to provide economic support and drive investment in Downtown Kalamazoo. The DEGA 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 DEGA programming and for the DEGA to modify its planned expenditures. 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.

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
162 East Michigan Ave
Kalamazoo, MI 49007

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Government-Wide Financial Statements - Statement of Net Position

December 31, 2021

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 203,932
Taxes receivable	414,030
Accounts receivable	20,008
Inventory	19,126
Total Assets	\$ 657,096
Liabilities	
Accounts payable - trade	\$ 96,551
Long-term liabilities:	
Due in more than one year:	
Notes payable	1,000,000
Total Liabilities	1,096,551
Net Position (Deficit)	
Unrestricted	(439,455)
Total Net Position (Deficit)	(439,455)
Total Liabilities and Net Position (Deficit)	\$ 657,096

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

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Government-Wide Financial Statements - Statement of Activities

Year ended December 31, 2021

		Program Revenues		Governmental Activities
	Expenses	Charges for Services		Net Revenue (Expenses) and Change in Net Position
Functions/Programs				
Governmental activities:				
Health and welfare	\$ (665,204)	\$ -		\$ (665,204)
Total Governmental Activities	\$ (665,204)	\$ -		(665,204)
General Revenues				
Property taxes				414,894
Interest income				127
Reimbursement for City functions				34,118
Event income				29,738
Total General Revenues				478,877
Change in Net Position (Deficit)				(186,327)
Net Position (Deficit), beginning of year				(253,128)
Net Position (Deficit), end of year			\$	(439,455)

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

**Downtown Economic Growth Authority of the City of Kalamazoo
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Governmental Fund - Balance Sheet

December 31, 2021

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 203,932
Taxes receivable	414,030
Accounts receivable	20,008
Inventory	19,126
Total Assets	\$ 657,096
Liabilities	
Accounts payable	\$ 96,551
Deferred Inflow of Resources - Unavailable Revenue - Property Taxes	414,030
Fund Balance	
Unassigned	146,515
Total Fund Balance	146,515
Total Liabilities, Deferred Inflow of Resources, and Fund Balance	\$ 657,096

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

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**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 15)	\$ 146,515
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	414,030
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)
Total Long-Term Liabilities	(1,000,000)
Net Position (Deficit) of Governmental Activities	\$ (439,455)

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

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

Year ended December 31, 2021

	<u>General Fund</u>
Revenue	
Property taxes	\$ 493,462
Interest income	127
Reimbursement for City functions	34,118
Event income	29,738
Total Revenue	557,445
Expenditures	
Current:	
Health and welfare	665,204
Total Expenditures	665,204
Deficiency of Revenues Over Expenditures	(107,759)
Change in Fund Balance	(107,759)
Fund Balance, beginning of year	254,274
Fund Balance, end of year	\$ 146,515

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

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**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

Change in Fund Balance - Governmental Fund (Page 15)	\$ (107,759)
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	(78,568)
Change in Net Position (Deficit) of Governmental Activities	\$ (186,327)

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

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**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				
Property taxes	\$ 48,330	\$ 493,462	\$ 493,462	\$ -
Interest	1,000	700	127	(573)
Reimbursement for City functions	59,210	79,210	34,118	(45,092)
Event income	-	75,000	29,738	(45,262)
Total Revenues	108,540	648,372	557,445	(90,927)
Expenditures				
Health and welfare:				
DEGA administration	132,839	108,704	205,253	(96,549)
People coalition	246,262	58,277	54,900	3,377
Place coalition	209,552	266,987	165,554	101,433
Experience coalition	290,135	163,627	154,272	9,355
Growth coalition	136,352	300,777	73,458	227,319
Other obligations	-	-	11,767	(11,767)
Total Health and Welfare	1,015,140	898,372	665,204	233,168
Total Expenditures	1,015,140	898,372	665,204	233,168
Deficiency of Revenues Over Expenditures	(906,600)	(250,000)	(107,759)	(142,241)
Other Financing Sources				
Note issued	700,000	250,000	-	(250,000)
Change in Fund Balance	(206,600)	-	(107,759)	(107,759)
Fund Balance, beginning of year	254,274	254,274	254,274	-
Fund Balance, end of year	\$ 47,674	\$ 254,274	\$ 146,515	\$ (107,759)

*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

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 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 (U.S. 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 financial 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

See accompanying independent auditor's report.

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Notes to Financial Statements

of a particular function. Property taxes and other items not included among program revenues are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the 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 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.

See accompanying independent auditor's report.

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Notes to Financial Statements

- 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.
- 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.

Inventories - Inventories are carried at average cost, using the first-in, first-out (FIFO) method as of December 31, 2021.

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 (Deficit) - Net position (deficit) 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.

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 - This 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 unassigned fund balances are available. When expenditures are recorded using unassigned 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.

See accompanying independent auditor's report.

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Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Subsequent Events

Management has evaluated the period from January 1, 2021 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 events were identified.

2. Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with U.S. 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 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 budgets are approved by the City Commission and are prepared on a basis consistent with U.S. 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 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, 2021, the DEGA incurred expenditures in the General Fund, DEGA administration, and other obligations in excess of the amount budgeted. This excess is due to service fees paid to Kalamazoo Downtown Partnership being allocated to different budget categories than originally anticipated, resulting in excess expenditures in DEGA Administration. Total amounts paid to Kalamazoo Downtown Partnership were incurred as budgeted.

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

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, 2021, none of the DEGA's bank balances of \$209,017 were uninsured and uncollateralized.

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. The second note was issued in April 2020 with annual interest payments of \$14,000 to be paid through July 2025 when principal and 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, 2021 were as follows:

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

Long-term notes at December 31, 2021 are comprised of the following:

	Final Maturity Dates	Interest Rates (%)	Outstanding Balance
Governmental Activities			
The City of Kalamazoo Note - 2019	07/01/2024	2.00	\$ 300,000
The City of Kalamazoo Note - 2020	07/01/2029	2.00	700,000
Total Governmental Activities			\$ 1,000,000

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

Repayment Schedule

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

Year Ending December 31,

	<u>Governmental Activities</u>		
	Principal	Interest	Total
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
	\$ 1,000,000	\$ 102,556	\$ 1,102,556

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); Kalamazoo Downtown Partnership (KDP); and Downtown Tomorrow, Inc. (DTI) are supported by one another. DDA’s purpose is to stimulate public and private investment in downtown Kalamazoo. 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 DEGA 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 \$267,000 was paid to KDP under a service agreement that is approved annually by the Board of Directors. The annual service agreement was not renewed for 2022.

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*

The 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 (the DEGA), 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 DEGA'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 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 30, 2022