

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
KALAMAZOO COUNTY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)**

**YEAR ENDED DECEMBER 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

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

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

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Kalamazoo Downtown Economic Growth Authority (the Authority), a component unit of the City of Kalamazoo, Michigan, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of December 31, 2022, and the respective changes in financial position thereof 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 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 Authority 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 Authority'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 generally accepted auditing standards 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 generally accepted auditing standards 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 Authority'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 Authority'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 and budgetary comparison information, as identified in the table of contents, 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 City of Kalamazoo Downtown Economic Growth Authority and do not purport to, and do not present fairly the financial position of the City of Kalamazoo, Michigan, as of December 31, 2022, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinions are 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, 2023 on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.

*Maney Costeiran PC*

June 29, 2023

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of financial performance provides a comparison overview of the City of Kalamazoo Downtown Economic Growth Authority's (the Authority) financial activities for FY 2022 and FY 2021. Please read this document in conjunction with the Authority's financial statements.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for FY 2022:

**A. Governmental Activities**

- Liabilities of the Authority exceeded its assets at the close of FY 2022 by \$450,222.
- The Authority's total net position decreased by \$767 as a result of current year activity.

**B. Governmental Fund**

- Assets of the Authority exceed its liabilities at the close of FY 2022 by \$276,027.
- The Authority's total fund balance increased by \$129,512 as a result of current year activity.

**Using this Annual Report**

This annual report consists of several financial statements. The statement of net position and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view which reveals how resources were spent during the year and what resources are available for future spending. Fund financial statements also report the operations of the Authority in more detail than the government-wide financial statements by providing information about the Authority's most significant fund.

**The Authority as a Whole**

The following table shows, in condensed format, a comparison of net position of the Authority as of December 31, 2021, and December 31, 2022. The 2021 information has not restated.

	2021	2022
ASSETS		
Current assets	\$ 657,096	\$ 799,259
LIABILITIES		
Current liabilities	96,551	249,481
Noncurrent liabilities	1,000,000	1,000,000
Total liabilities	1,096,551	1,249,481
NET POSITION (DEFICIT)		
Unrestricted	\$ (439,455)	\$ (450,222)

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following table shows the changes in net position during the previous and current year. The 2021 information has not been restated.

	2021	2022
REVENUE		
Program revenue		
Charges for services	\$ -	\$ 43,225
Operating grants and contributions	-	142,500
General revenue		
Taxes	414,894	280,776
Interest	127	66
Miscellaneous	63,856	-
	<u>478,877</u>	<u>466,567</u>
TOTAL REVENUE		
PROGRAM EXPENSES		
Public works	-	211,866
Community and economic development	665,204	235,468
Interest on long-term debt	-	20,000
	<u>665,204</u>	<u>467,334</u>
TOTAL EXPENSES		
Change in Net Position	<u>\$ (186,327)</u>	<u>\$ (767)</u>

**Governmental Activities**

The Authority's governmental revenues totaled \$466,567 with the largest revenue source being property taxes. Property taxes make up approximately 60% of the total governmental revenue.

The Authority incurred expenses of \$467,334 during the fiscal year, with expenses related to public works and community and economic development functions. Public works represents approximately 45% of the annual expenses and community and economic development represent approximately 50% of annual expenses. Expenses decreased \$197,870, or approximately 30% due to intentional efforts to adjust the budget to long term assumptions of the value of captured taxes.

**Fund Financial Statements**

The General Fund is the chief operating fund of the Authority. During the year, the fund balance increased \$129,512 to \$276,027, which represents 59% of annual expenditures. Total revenues increased by \$39,401, or approximately 7%, from the prior year, primarily due to increases in intergovernmental revenues. Total expenditures decreased by \$197,870, or approximately 30% over the prior year, primarily due to the intentional efforts to adjust the budget to long term assumptions of the value of captured taxes.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Budgetary Highlights**

During the year, the Authority made necessary budget amendments to fund unanticipated expenditures. Total budgeted revenues were increased by \$115,000 and budgeted expenditures were increased by \$165,000 with increases to downtown events. Actual revenues came in \$15,146 over the budgeted revenues. Actual expenditures came in \$164,366 under the budget appropriations due to downtown development and debt service activities.

**Long-Term Debt**

At December 31, 2022, the Authority had \$1,000,000 in long-term obligations outstanding. This is comprised of two notes payable to the City of Kalamazoo. The Authority was not required to make any principal payment on these notes payable in the current year. The current year debt service interest payment was not made as the City of Kalamazoo and the Authority are currently in the process of negotiations regarding the amounts owed and repayment terms due to changes in the Authority's projected TIF captures. Amounts that have become due on this note and remain unpaid as of the end of the fiscal year are reported as due to other governmental units in the General Fund balance sheet. The amount is still owed, but currently the City of Kalamazoo is not enforcing payments. A more detailed discussion of the Authority's long-term obligations is presented in Note 3 to the financial statements.

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

The taxable values and captured values continue to recover, and the Authority will see a decrease in captured tax revenue for 2023. The base captured value is expected to increase for 2023 as 2022 included a one-time increase of captured tax revenue due to the timing of completion of a Brownfield project.

**Contacting the Authority**

This financial report is intended to provide citizens, taxpayers, customers, and investors with the general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need any additional information, we welcome you to contact the City of Kalamazoo Downtown Economic Growth Authority, 241 W South Street., Kalamazoo, MI 49007.



## **BASIC FINANCIAL STATEMENTS**

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
STATEMENT OF NET POSITION  
DECEMBER 31, 2022**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 360,987
Receivables	287,226
Due from other governmental units	<u>151,046</u>
<b>TOTAL ASSETS</b>	<u>799,259</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	219,338
Due to other governmental units	20,143
Accrued interest payable	<u>10,000</u>
<b>Total current liabilities</b>	<u>249,481</u>
Noncurrent liabilities	
Noncurrent portion of notes payable	<u>1,000,000</u>
<b>TOTAL LIABILITIES</b>	<u>1,249,481</u>
<b>NET POSITION (DEFICIT)</b>	
Unrestricted	<u><u>\$ (450,222)</u></u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENED DECEMBER 31, 2022**

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Public works	\$ 211,866	\$ -	\$ -	\$ (211,866)
Community and economic development	235,468	43,225	142,500	(49,743)
Interest on long-term debt	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>
Total governmental activities	<u>\$ 467,334</u>	<u>\$ 43,225</u>	<u>\$ 142,500</u>	<u>(281,609)</u>
General revenues				
Property taxes				280,776
Interest				<u>66</u>
TOTAL GENERAL REVENUES				<u>280,842</u>
CHANGE IN NET POSITION				(767)
Restated net position (deficit), beginning of the year				<u>(449,455)</u>
Net position (deficit), end of the year				<u>\$ (450,222)</u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
GOVERNMENTAL FUND  
BALANCE SHEET  
DECEMBER 31, 2022**

<b>ASSETS</b>	
Cash	\$ 360,987
Receivables	
Accounts	6,450
Taxes	280,776
Due from other governmental units	<u>151,046</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 799,259</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 219,338
Due to other governmental units	<u>20,143</u>
<b>TOTAL LIABILITIES</b>	<u>239,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue	<u>283,751</u>
<b>FUND BALANCE</b>	
Unassigned	<u>276,027</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<u><u>\$ 799,259</u></u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2022**

<b>Total fund balance - governmental fund</b>	\$ 276,027
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Amounts reported for the governmental activities in the statement of net position are different because:

Long-term receivables are not available to pay for current period expenditures and are therefore unavailable in the fund.	283,751
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Long-term liabilities, are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year end consist of:

Notes payable	\$ (1,000,000)	
Accrued interest payable	<u>(10,000)</u>	
		<u>(1,010,000)</u>

<b>Net position (deficit) of governmental activities</b>	<b>\$ <u>(450,222)</u></b>
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**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2022**

REVENUES	
Property taxes	\$ 414,030
Intergovernmental	142,500
Charges for services	40,250
Interest	<u>66</u>
TOTAL REVENUES	<u>596,846</u>
EXPENDITURES	
Current	
Public works	211,866
Community and economic development	235,468
Debt service	<u>20,000</u>
TOTAL EXPENDITURES	<u>467,334</u>
EXCESS OF REVENUES OVER EXPENDITURES	129,512
Fund balance, beginning of year	<u>146,515</u>
Fund balance, end of year	<u><u>\$ 276,027</u></u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2022**

<b>Net change in fund balance - governmental fund</b>	\$ 129,512
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Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period these amounts consist of:

(Decrease) in unavailable revenue	<u>(130,279)</u>
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<b>Change in net position of governmental activities</b>	<u><u>\$ (767)</u></u>
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**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Kalamazoo (the City) established the Downtown Economic Growth Authority (the Authority) 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 Authority is a Board of Directors consisting of the mayor of the City and eight other members.

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

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements are exclusive presentations of the financial condition and results of operations of the City of Kalamazoo Downtown Economic Growth Authority. The Authority is considered a component unit of the City of Kalamazoo, Michigan, and is discretely presented in the City of Kalamazoo's (the primary government) financial statements. A copy of the City's audited financial statements may be obtained at the Kalamazoo City Hall.

Basis of Presentation

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities (the government-wide financial statements) report information for the government as a whole.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and property taxes and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The Authority uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Authority's individual major fund.

The major fund of the Authority is the General Fund. The General Fund is used to account for all financial resources of the Authority which are restricted to expenditures for downtown economic growth purposes.



**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes.

The government-wide financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded in the period in which it is earned, and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the Authority before it has legal claim to them, such as when program fees are received.

Governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The budget shown in the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Budgets and Budgetary Accounting (continued)

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to January 1, the budget is legally adopted at the total expenditure level through passage of a Board resolution. After the budget is adopted any revisions that alter the total expenditures of the fund must be approved by the Board before the end of the fiscal year.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Board during the year. Individual amendments were appropriately approved by the Board as required.

Cash

Cash consists of the Authority's cash on hand, demand deposits, and short-term investments with an original maturity date of three months or less.

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services, and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Receivables

Receivables consist of amounts due from other governmental units for various programs and accounts receivable for charges for services to other organizations.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the balance sheet and statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Authority reports deferred inflows of resources on the balance sheet in connection with unavailable revenues for property taxes that are not considered available to liquidate liabilities of the current period. The amount is deferred and recognized as an inflow of resources in the period the amounts become available.

Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statement when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Fund Balance Classifications

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five fund balance classifications:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Fund Balance Classifications (continued)

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Authority's highest level of decision-making authority is the Authority Board of Directors. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution by the Authority Board of Directors.

For assigned fund balance, the Authority Board of Directors is authorized to assign amounts to a specific purpose. The authorization policy is a full vote and approval by the Authority Board of Directors.

For the classification of fund balance amounts, the Authority's policy is to spend restricted amounts first, then unrestricted amounts when both restricted and unrestricted amounts are available. Similarly, the Authority's policy is to spend committed amounts first, then assigned amounts, and finally unassigned amounts when any of those unrestricted fund balance classifications could be used.

Property Taxes

The Authority was formed under the State of Michigan Corridor Authority Act (Public Act 280 of 2005) which allows the Authority to capture tax revenues within its district boundaries within the City of Kalamazoo on property values above the district's initial formation value. The City acts as a collecting agent for the Authority. The underlying property taxes are levied on July 1 and December 1 (lien dates) on the taxable value of property as of the preceding December 31. Unpaid property taxes as of March 1 assessed on real property is purchased by the County of Kalamazoo's Delinquent Tax Revolving Fund. Unpaid property taxes as of March 1 assessed on personal property continues to be collected by the City.

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.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS**

As of December 31, 2022, the Authority had deposits subject to the following risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2022, the Authority's bank balance of \$56,019 was fully insured by the Federal Deposit Insurance Corporation (FDIC). The carrying value on the books for deposits at the end of the year was \$55,319.

The cash balances reported in the basic financial statement include \$305,668 in cash that is on deposit with the City of Kalamazoo. The cash on deposit with the City of Kalamazoo is part of the pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. As of December 31, 2022, the Authority did not have any investments that would be subject to rating.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by security type and institution.

Foreign Currency Risk

The Authority is not authorized to invest in investments which have this type of risk.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations (including current portion) of the Authority for the year ended December 31, 2022:

	Balance Jan. 1, 2022	Additions	Deletions	Balance Dec. 31, 2022	Amount Due Within One Year
Governmental activities					
Direct borrowing/placements					
Note payable	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
Note payable	700,000	-	-	700,000	-
<b>TOTAL</b>	<b>\$ 1,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,000,000</b>	<b>\$ -</b>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$300,000 Note payable to the City of Kalamazoo, for the purpose of financing operations, dated November 2019, due in a lump sum July 2024, with interest of 2.00%, payable annually. \$ 300,000

\$700,000 Note payable to the City of Kalamazoo, for the purpose of financing operations, dated April 2020, due in annual installments of \$0 to \$145,599 through July 2029, with interest of 2.00%, payable annually. 700,000

\$ 1,000,000

The Authority's outstanding note payable from direct borrowings of \$1,000,000 is secured by tax increment revenues. In the event of default, the outstanding amounts may become immediately due.

The annual requirements to pay the debt principal and interest outstanding for the notes payable is as follows:

Year Ending December 31,	Direct Borrowing/Placements	
	Notes Payable	
	Principal	Interest
2023	\$ -	\$ 20,000
2024	300,000	20,000
2025	134,511	14,000
2026	137,201	11,310
2027	139,945	8,567
2028-2029	288,343	8,679
	<u>\$ 1,000,000</u>	<u>\$ 82,556</u>

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - RISK MANAGEMENT**

The Authority, as a component unit of the City of Kalamazoo, is protected from losses as described in the note captioned "Risk Management" within the City's annual financial report.

**NOTE 5 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT**

Beginning net position for governmental activities have been adjusted to correct understated accrued interest payable as noted below.

	<u>Governmental Activities</u>
Beginning net position (deficit)	\$ (439,455)
Accrued interest payable	<u>(10,000)</u>
Restated beginning net position (deficit)	<u><u>\$ (449,455)</u></u>

**NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2022, the Authority implemented the following new pronouncement: GASB Statement No. 87, *Leases*.

**Summary:**

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

There was no material impact on the Authority's financial statements after the adoption of GASB Statement No. 87.

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2023 fiscal year.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior period, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024 fiscal year.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024 fiscal year.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF KALAMAZOO  
DOWNTOWN ECONOMIC GROWTH AUTHORITY  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2022**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 422,000	\$ 422,000	\$ 414,030	\$ (7,970)
Intergovernmental	44,000	124,000	142,500	18,500
Charges for services	-	35,000	40,250	5,250
Interest	700	700	66	(634)
TOTAL REVENUES	466,700	581,700	596,846	15,146
EXPENDITURES				
Current				
Public works				
Downtown maintenance	-	-	211,866	(211,866)
Community and economic development				
Downtown development	274,350	274,350	88,600	185,750
Downtown events	-	165,000	146,868	18,132
Debt service	192,350	192,350	20,000	172,350
TOTAL EXPENDITURES	466,700	631,700	467,334	164,366
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(50,000)	129,512	179,512
Fund balance, beginning of year	146,515	146,515	146,515	-
Fund balance, end of year	\$ 146,515	\$ 96,515	\$ 276,027	\$ 179,512



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors of the  
City of Kalamazoo Downtown Economic Growth Authority  
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 major fund of the City of Kalamazoo Downtown Economic Growth Authority (the Authority), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 29, 2023.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

## PRIOR PERIOD ADJUSTMENT AND MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries to properly record amounts due to other governmental units and beginning equity were proposed by the auditors. These misstatements were not detected by the Authority's internal control over financial reporting. In addition, as a result of these misstatements, previously issued financial statements were materially misstated.

These entries were brought to the attention of management and were subsequently recorded in the Authority's general ledger.

Criteria: Auditing standards emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), and the notes to the financial statements, including the recording of all appropriate journal entries so that the trial balances, from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end balances in the current and prior year.

Effect: The Authority's financial reports and prior year financial statements contained material misstatements that were not otherwise identified by management. Without the recording of these journal entries the financial statements would have been materially misstated.

Recommendation: We recommend that the Authority take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management concurs with this finding. 2022 posed challenges in the transition away from the Authority's long-time service organization. We believe that procedures have been implemented to improve the tracking and monitoring of this error.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Manes Costeian PC*

June 29, 2023