

CITY OF KALAMAZOO, MICHIGAN

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(Federal Awards)**

YEAR ENDED DECEMBER 31, 2019



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Kalamazoo, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal award program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Kalamazoo, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We did not audit the financial statements of the City of Kalamazoo Downtown Development Authority and the Downtown Economic Growth Authority (discretely presented component units) which represent 43%, 39%, and 64%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We issued our report thereon dated June 29, 2020, which contained unmodified opinions on those financial statements based on our audit and the reports of other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maney Costeiran PC

June 29, 2020

**CITY OF KALAMAZOO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct programs				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants ^{(a)(b)}	14.218			
Program Year 2016-17		N/A	\$ 113,117	\$ 113,117
Program Year 2017-18		N/A	89,310	89,310
Program Year 2018-19		N/A	344,618	394,618
General Program Administration		N/A	-	306,237
Program Delivery		N/A	-	414,606
			<u>547,045</u>	<u>1,317,888</u>
Emergency Solutions Grant Program	14.231			
Program Year 2017-18		N/A	5,005	5,005
Home Investment Partnerships Program	14.239			
CDBG Home Administration		N/A	-	17,890
Program Year 2017-18		N/A	397,665	397,665
			<u>397,665</u>	<u>415,555</u>
HUD Lead Hazard Reduction Demonstration Grant	14.905	N/A	<u>-</u>	<u>80,772</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			949,715	1,819,220
U.S. DEPARTMENT OF THE INTERIOR				
Passed through Michigan State Housing Development Authority				
Historic Preservation Fund Grants-In-Aid	15.904	CG17-435A	-	8,615

See accompanying notes to the schedule of expenditures of federal awards.

**CITY OF KALAMAZOO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
YEAR ENDED DECEMBER 31, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF JUSTICE				
Direct programs				
Bulletproof Vest Partnership Program 2019	16.607	N/A	\$ -	\$ 8,224
Public Safety Partnership and Community Policing Grants 2018-2020	16.710	N/A	-	447,918
Edward Byrne Memorial Justice Assistance Grant Program Program Year 2017	16.738	N/A	-	67,763
Program Year 2019		N/A	-	7,407
			<u>-</u>	<u>75,170</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			-	531,312
U.S. DEPARTMENT OF TRANSPORTATION				
Highway Safety Cluster				
Passed through Michigan Department of State Police National Priority Safety Programs ^(c)	20.616	PS-19-05	-	20,763
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct program				
Staffing for Adequate Fire and Emergency Response 2018	97.083	N/A	-	669,192
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 949,715</u>	<u>\$ 3,049,102</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF KALAMAZOO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Kalamazoo, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note 3. The City has elected not to use the 10 percent de minimus indirect rate allowed under the Uniform Guidance.

NOTE 2 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (c) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Denotes program tested as a “major program”.
- (b) Denotes programs required to be clustered by the United States Department of Housing and Urban Development.
- (c) Denotes programs required to be clustered by the United States Department of Transportation.

CITY OF KALAMAZOO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 3 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the December 31, 2019, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	Inter- governmental Revenue	Adjustment: State/Local Revenue	Federal Award Expenditures
PRIMARY GOVERNMENT			
GENERAL FUND	\$ 14,041,004	\$ 14,041,004	\$ -
SPECIAL REVENUE FUNDS			
Neighborhood and Community Development	1,738,448	-	1,738,448
Grants and Donations	1,390,439	79,785	1,310,654
Other programs	10,219,700	10,219,700	-
Total Special Revenue Funds	13,348,587	10,299,485	3,049,102
CAPITAL PROJECTS FUNDS	8,066,976	8,066,976	-
ENTERPRISE FUNDS			
Wastewater	394,098	394,098	-
Water	465,982	465,982	-
Total Enterprise Funds	860,080	860,080	-
	<u>\$ 36,316,647</u>	<u>\$ 33,267,545</u>	<u>\$ 3,049,102</u>



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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***

Honorable Mayor and
Members of the City Commission
City of 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2020. Our report includes a reference to other auditors who audited the financial statements of the City of Kalamazoo Downtown Development Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

Purpose of this Report

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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

June 29, 2020

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	CDBG - Entitlement Grants Cluster

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019**

Section I - Summary of Auditor's Results (continued)

Federal Awards (continued)

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

**CITY OF KALAMAZOO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2019**

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with the Uniform Guidance.

No prior audit findings noted.