

CITY OF KALAMAZOO, MICHIGAN

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

YEAR ENDED DECEMBER 31, 2022



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2425 E. Grand River Ave.,
Suite 1, Lansing, MI 48912

☎ 517.323.7500

☎ 517.323.6346

**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

Opinion on Each Major Federal Program

We have audited the City of Kalamazoo, Michigan's (the City) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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 *Government 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Kalamazoo and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Kalamazoo's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Kalamazoo's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Kalamazoo's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Kalamazoo's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Kalamazoo's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Kalamazoo's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Kalamazoo's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Maney Costerian PC

June 29, 2023

**CITY OF KALAMAZOO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing 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/Entitlement Grants ^(b)	14.218			
Program Year 2017-18		N/A	\$ -	\$ 4,861
Program Year 2018-19		N/A	-	53,830
Program Year 2019-20		N/A	66,278	126,868
Program Year 2020-21		N/A	195,741	379,397
Program Year 2021-22		N/A	276,906	565,804
Program Year 2022-23		N/A	-	92,905
Program Delivery		N/A	-	202,464
General Program Administration		N/A	-	402,543
Total CDBG - Entitlement Grants Cluster			<u>538,925</u>	<u>1,828,672</u>
Home Investment Partnerships Program	14.239			
CDBG Home Administration		N/A	-	17,875
Program Year 2018-19		N/A	-	99,997
Program Year 2020-21		N/A	-	118,724
Program Year 2021-22		N/A	-	6,225
Total Home Investment Partnerships Program			<u>-</u>	<u>242,821</u>
HUD Lead Hazard Reduction Demonstration Grant Program	14.905	N/A	-	459,575
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>538,925</u>	<u>2,531,068</u>

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, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing 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 2022	16.607	N/A	\$ -	\$ 19,762
Public Safety Partnership and Community Policing Grants 2018-2020	16.710	N/A	-	13,889
Edward Byrne Memorial Justice Assistance Grant Program COVID-19 BJA Supplemental Funding	16.738	N/A	-	70,855
TOTAL U.S. DEPARTMENT OF JUSTICE			-	104,506
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through Michigan Department of State Police Highway Planning and Construction Cluster Highway Safety Improvement Program ^(d)	20.205	HSIP 39000	-	7,459
U.S. DEPARTMENT OF TREASURY				
Direct program				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds ^(a)	21.027	N/A	1,998,558	3,360,181
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Drinking Water State Revolving Fund Cluster				
Passed through Michigan Department of Environment, Great Lakes, and Energy				
Capitalization Grants for Drinking Water State Revolving Funds ^(c)	66.468	N/A	-	70,252
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,537,483	\$ 6,073,466

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 4.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The City has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) 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 Environmental Protection Agency.
- (d) 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 4 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the December 31, 2022, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Inter- governmental Revenue</u>	<u>Adjustments: State/Local Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT			
GENERAL FUND	<u>\$ 15,852,013</u>	<u>\$ (15,852,013)</u>	<u>\$ -</u>
SPECIAL REVENUE FUNDS			
Neighborhood and Community Development	2,071,493	-	2,071,493
Major Streets	8,722,241	8,714,782	7,459
Grants and Donations	4,102,224	(177,962)	3,924,262
Other programs	<u>3,392,465</u>	<u>(3,392,465)</u>	<u>-</u>
Total Special Revenue Funds	<u>18,288,423</u>	<u>5,144,355</u>	<u>6,003,214</u>
CAPITAL PROJECTS FUNDS	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>
ENTERPRISE FUNDS			
Water	<u>535,666</u>	<u>(465,414)</u>	<u>70,252</u>
	<u>\$ 34,706,102</u>	<u>\$ (11,203,072)</u>	<u>\$ 6,073,466</u>



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Suite 1, Lansing, MI 48912

☎ 517.323.7500

☎ 517.323.6346

**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, 2022, 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, 2023.

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 or significant deficiencies may exist that were not identified.

Report on 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 an instance of noncompliance or other matter described in the accompanying schedule of findings and questioned costs as item 2022-001, that is required to be reported under *Government Auditing Standards*.

City's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Kalamazoo, Michigan's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Kalamazoo, Michigan's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Costerian PC

June 29, 2023

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

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?

 X Yes _____ 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:

_____ Assistance Listing Number(s) _____

_____ Name of Federal Program or Cluster _____

21.027

Coronavirus State and Local Fiscal Recovery Funds

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

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

Federal Awards (continued)

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

\$ 750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

Section II - Financial Statement Findings

2022-001 UNFAVORABLE BUDGET VARIANCES

Finding Type: Compliance and Other Matters.

Criteria: The Uniform Budgeting and Accounting Act requires the City to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that an "administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Condition: We noted that expenditures had exceeded the amounts appropriated for one special revenue fund.

Cause: The City did not sufficiently amend the budget when it became apparent expenditures were going to exceed the amounts appropriated.

Effect: The City has not maintained adequate control over budgetary compliance in accordance with State law.

Recommendation: We recommend the City continue to monitor expenditures against adopted budgets and make appropriate budget adjustments as needed.

View of Responsible Officials: Management agrees with the finding and will take appropriate steps to remedy noted findings in the future.

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
YEAR ENDED DECEMBER 31, 2022**

Section III - Federal Award Findings and Questioned Costs

None noted.



Department of Management Services

241 West South Street
Kalamazoo, MI 49007-4796

Phone: 269.337.8020

Fax: 269.337.8448

www.kalamazoo.org

Corrective Action Plan for the Year Ended December 31, 2022

2022-001 UNFAVORABLE BUDGET VARIANCES

Responsible Personnel: Steve Vicenzi, CFO

The City of Kalamazoo's Management Services Department acknowledges the importance of maintaining budgetary control. This budget variance stems from an agreement to have a third party manage all aspects of City owned golf operations. The third party is a private entity without detailed knowledge of GASB pronouncements. The recognition of GASB No. 87, the *leases* standard, significantly increased the recognition of capital expenditures. In addition, golf revenues were significantly increased this year, allowing for increased operational spending. The City will be implementing additional detailed reviews of golf financial activity and will move to a reimbursement basis for capital funding.

This corrective action will be fully implemented by September 30, 2023.

**CITY OF KALAMAZOO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2022**

FINDINGS/NONCOMPLIANCE

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

2021-001 PRIOR PERIOD ADJUSTMENTS

Condition: During the year, the City discovered unrecorded notes receivable. Payments were being receipted as current year revenue and the asset was not reflected on the balance sheet or statement of net position. While the City recorded the notes receivable prior to year-end, previously issued Annual Comprehensive Financial Reports were materially misstated.

Resolution: Prior period adjustments for the correction of errors were not necessary in the current year. We consider this issue to be resolved.

2021-002 BANK RECONCILIATIONS

Condition: Bank reconciliations were not always completed in a timely manner during the year. The December 2021 bank reconciliations for the City's primary operating cash accounts were completed in April 2022.

Resolution: During our review of the City's bank reconciliation process in 2022, we noted that bank reconciliations examined appear to have been completed in a timely manner. We consider this issue to be resolved.

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.