



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

**Financial Statements**  
Year Ended December 31, 2019

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

---

Financial Statements  
Year Ended December 31, 2019

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

**Contents**

---

<b>Independent Auditor’s Report</b>	3-4
<b>Management’s Discussion and Analysis</b>	5-9
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	10
Statement of Activities	11
<b>Fund Financial Statements</b>	
<i>Governmental Fund</i>	
Balance Sheet	12
Reconciliation of Fund Balance of Governmental Fund to the Net Position of Governmental Activities on the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to Statement of Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balance -Budget and Actual - General Fund	16
Notes to Financial Statements	17-23
<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b>	24-25



## **Independent Auditor's Report**

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and the General Fund (a major fund) of the Downtown Economic Growth Authority of the City of Kalamazoo, Michigan (the DEGA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the DEGA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the DEGA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DEGA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

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 General Fund (a major fund) of the DEGA, as of December 31, 2019, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the DEGA, and do not purport to, and do not, present fairly the financial position of the City of Kalamazoo, as of December 31, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 26, 2020 on our consideration of the DEGA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 DEGA's internal control over financial reporting and compliance.

*BDO USA, LLP*

June 26, 2020

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

## Management's Discussion and Analysis

---

This section of the Downtown Economic Growth Authority's (the DEGA's) annual financial report presents management's discussion and analysis of the DEGA's financial performance during the year ended December 31, 2019. The City of Kalamazoo (the City) established the DEGA in October 2018, with operations beginning January 1, 2019. Please read it in conjunction with the DEGA's financial statements, which immediately follow this section.

### *Using this Annual Report*

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader understands the DEGA's finances as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole DEGA, presenting both an aggregate view of the DEGA's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

### *Reporting the DEGA as a Whole - Government-Wide Financial Statements*

One of the most important questions asked about the DEGA is, "As a whole, what is the DEGA's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the DEGA's financial statements, report information on the DEGA as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the DEGA's net position - the difference between assets and liabilities, as reported in the Statement of Net Position - as one way to measure the DEGA's financial health or financial position. Over time, increases or decreases in the DEGA's net position - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the DEGA's operating results. However, the DEGA's goal is to stimulate public and private investment in downtown Kalamazoo, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the economic growth and the physical development in the downtown area to assess the overall health of the DEGA.

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

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

**Management's Discussion and Analysis**

---

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

The DEGA's fund financial statements provide detailed information about the operating fund - not the DEGA as a whole. The DEGA, similar to other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The governmental fund of the DEGA uses the following accounting approach -

Governmental fund - All of the DEGA's services are reported in the General Fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances remaining at year-end that are available for spending. They are reported using the accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the DEGA and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that may be spent in the near future to finance the DEGA's operations. The differences are described between governmental activities reported in the Statement of Net Position and the Statement of Activities and governmental funds in a reconciliation.

***The DEGA as a Whole - Government-Wide Financial Statements***

Recall that the Statement of Net Position provides the perspective of the DEGA as a whole. It is important to note that the DEGA was established in October 2018, and operations commenced January 1, 2019; therefore, the financial statement information is a one-year presentation. The following provides a summary of the DEGA's net deficit:

<i>December 31, 2019</i>	Governmental Activities
<b>Assets</b>	
Current and other assets	\$ 132,398
<b>Total Assets</b>	<b>\$ 132,398</b>
<b>Liabilities</b>	
Current liabilities	\$ 43,419
Long-term liabilities	300,000
<b>Total Liabilities</b>	<b>343,419</b>
<b>Net Position (Deficit)</b>	
Unrestricted	(211,021)
<b>Net Position (Deficit)</b>	<b>(211,021)</b>
<b>Total Liabilities and Position (Deficit)</b>	<b>\$ 132,398</b>

The preceding analysis focuses on the net deficit. The \$211,021 net deficit of governmental activities represents the *accumulated* results of the past year's operations. The DEGA's net deficit is entirely unrestricted at December 31, 2019. The debt will be repaid with taxes collected as the debt service becomes due.

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

**Management's Discussion and Analysis**

The results of this year's operations for the DEGA as a whole are reported in the following Statement of Activities, which shows the change in net position for 2019:

<i>Year ended December 31, 2019</i>	<b>Governmental Activities</b>
<b>Revenue</b>	
General revenue:	
Contributions	\$ 150,000
Property taxes	48,350
Interest income	985
Other	75,880
<b>Total Revenue</b>	
	275,215
<b>Functions/Program Expenses</b>	
Health and welfare	486,236
<b>Change in Net Position (Deficit)</b>	
	(211,021)
<b>Net Position (Deficit), beginning of year</b>	
	-
<b>Net Position (Deficit), end of year</b>	
	\$ (211,021)

As reported in the Statement of Activities, the cost of all of the DEGA's activities this year was \$486,236. These "public benefit" activities of the DEGA were funded with contributions from the Downtown Development Authority of the City of Kalamazoo, Michigan, collected taxes, and with other revenues such as interest and sponsorships.

As a result of the expenses exceeding revenues, the DEGA experienced a net deficit of \$211,021 in 2019.

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



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

## Management's Discussion and Analysis

---

### *The DEGA's Governmental Fund*

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

As the DEGA completed its first year of operations, the General Fund reported a fund balance of \$40,629. For fiscal year 2019, the excess of expenditures over revenues of \$259,371 was offset by the note issued for \$300,000 due to the City of Kalamazoo, Michigan.

### *General Fund Budgetary Highlights*

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

Originally budgeted revenues of \$379,565 were amended to \$319,830, which is attributed to a change in expected property taxes during the year.

Other financing sources of \$384,557 were amended to \$300,209 to more accurately reflect the amount of the note payable issued to the City of Kalamazoo, Michigan.

Originally budgeted expenditures of \$764,122 were amended to \$620,039 to be in line with the amount of activities performed throughout the fiscal year.

The actual amounts reported for total revenue were approximately \$93,000 under the final budget due to tax revenue being lower than originally projected.

The actual amounts reported for total expenditures were approximately \$134,000 under the final budget. This variance was due to administrative and coalition expenditures being lower than originally projected.

### *Debt Administration*

#### *Debt*

At the end of this year, the DEGA had \$300,000 in long-term obligations outstanding. This is comprised of a note payable to the City of Kalamazoo.

Additional information that is more detailed about the DEGA's long-term obligations is presented in the notes to the financial statements in Note 4, Page 22.

### *Significant Currently Known Facts*

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

The DEGA's Board of Directors and management consider many factors when setting the DEGA's 2020 budget. One of the most important factors affecting the budget is to ensure sufficient funds are available for debt service payments. The 2020 budget was adopted in January 2020, based on projected revenues. Approximately 65% of total General Fund revenue is from contributions from the Downtown Development Authority of the City of Kalamazoo, Michigan and the property tax levy.

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

**Management's Discussion and Analysis**

---

*COVID-19*

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The DEGA is dependent upon its workforce to see through its support of the economic growth and development of downtown Kalamazoo. Developments such as social distancing and shelter-in-place directives could impact the DEGA's ability to deploy its workforce effectively. The outbreak could have a continued impact on economic and market conditions and trigger a period of global economic slowdown, which may depress the DEGA's asset values.

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

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

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

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

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

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

<i>December 31, 2019</i>	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 84,048
Taxes receivable	48,350
<b>Total Assets</b>	<b>\$ 132,398</b>
<b>Liabilities</b>	
Accounts payable - trade	\$ 42,257
Unearned revenue	1,162
Long-term liabilities:	
Due in more than a year:	
Notes payable	300,000
<b>Total Liabilities</b>	<b>343,419</b>
<b>Net Position (Deficit)</b>	
Unrestricted	(211,021)
<b>Total Net Position (Deficit)</b>	<b>(211,021)</b>
<b>Total Liabilities and Net Position (Deficit)</b>	<b>\$ 132,398</b>

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

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

**Government Wide Financial Statements  
Statement of Activities**

		<u>Program Revenues</u>		<u>Governmental Activities</u>
<i>Year ended December 31, 2019</i>	Expenses	Charges for Services		Net Revenue (Expenses) and Change in Net Deficit
<b>Functions/Programs</b>				
Governmental activities:				
Health and welfare	\$ 486,236	\$ -		\$ (486,236)
<b>Total Governmental Activities</b>	<b>\$ 486,236</b>	<b>\$ -</b>		<b>(486,236)</b>
<b>General Revenues</b>				
Contributions				150,000
Property taxes				48,350
Interest income				985
Other				75,880
<b>Total General Revenues</b>				<b>275,215</b>
<b>Change in Net Position (Deficit)</b>				<b>(211,021)</b>
<b>Net Position (Deficit), beginning of year</b>				<b>-</b>
<b>Net Position (Deficit), end of year</b>				<b>\$ (211,021)</b>

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

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

**Governmental Fund  
Balance Sheet**

<i>December 31, 2019</i>	General Fund
<b>Assets</b>	
Cash and equivalents	\$ 84,048
Taxes receivable	48,350
<b>Total Assets</b>	<b>\$ 132,398</b>
 <b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	
<b>Liabilities</b>	
Accounts payable - trade	\$ 42,257
Unearned revenue	1,162
<b>Total Liabilities</b>	43,419
<b>Deferred Inflow of Resources - Unavailable Revenue - Property Taxes</b>	48,350
<b>Fund Balance</b>	
Unassigned	40,629
<b>Total Fund Balance</b>	40,629
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 132,398</b>

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

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

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

---

*December 31, 2019*

---

Total fund balance - governmental fund (from Page 12) \$ 40,629

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds:

Deferred inflow of resources - unavailable revenue -  
property taxes 48,350

Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund. Balances are as follows:

Notes payable (300,000)

Total long-term liabilities (300,000)

---

**Net Position (Deficit) of Governmental Activities \$ (211,021)**

---

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

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

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

<i>Year ended December 31, 2019</i>	General Fund
<b>Revenues</b>	
Contributions	\$ 150,000
Interest	985
Other	75,880
<b>Total Revenues</b>	<b>226,865</b>
<b>Expenditures</b>	
Current:	
Health and welfare	486,236
<b>Total Expenditures</b>	<b>486,236</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(259,371)</b>
<b>Other Financing Sources</b>	
Note issued	300,000
<b>Change in Fund Balance</b>	<b>40,629</b>
<b>Fund Balance, beginning of year</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ 40,629</b>

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

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

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

---

*Year ended December 31, 2019*

---

Net change in fund balance - governmental fund (from Page 14)	\$	40,629
Taxes receivable are recognized as revenue in the Statement of Activities, but as a deferred inflow of resources in the governmental fund, since they do not provide current financial resources:		
Deferred inflow of resources - unavailable revenue - property taxes		48,350
Issuance of a note payable is recognized as other financing sources in the government fund, but as a liability in the Statement of Net Position:		
Note payable issued		(300,000)
<b>Change in Net Position (Deficit) of Governmental Activities</b>	<b>\$</b>	<b>(211,021)</b>

---

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



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

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

<i>Year ended December 31, 2019</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Contributions	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Property taxes	170,355	88,000	-	(88,000)
Interest	-	1,000	985	(15)
Other	59,210	80,830	75,880	(4,950)
<b>Total Revenues</b>	<b>379,565</b>	<b>319,830</b>	<b>226,865</b>	<b>(92,965)</b>
<b>Expenditures</b>				
Health and welfare:				
DEGA administration	60,500	65,000	13,784	51,216
People coalition	113,210	115,953	92,308	23,645
Place coalition	235,578	167,244	157,508	9,736
Experience coalition	185,344	155,584	148,304	7,280
Growth coalition	115,000	106,758	74,332	32,426
Other obligations	9,500	9,500	-	9,500
<b>Total health and welfare</b>	<b>719,132</b>	<b>620,039</b>	<b>486,236</b>	<b>133,803</b>
Debt service:				
Principal payments	44,990	-	-	-
<b>Total debt service</b>	<b>44,990</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>764,122</b>	<b>620,039</b>	<b>486,236</b>	<b>133,803</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(384,557)</b>	<b>(300,209)</b>	<b>(259,371)</b>	<b>40,838</b>
<b>Other Financing Sources</b>				
Note issued	384,557	300,209	300,000	(209)
<b>Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>40,629</b>	<b>40,629</b>
<b>Fund Balance, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 40,629</b>	<b>\$ 40,629</b>

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

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

## Notes to Financial Statements

---

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

The City of Kalamazoo (the City) established the Downtown Economic Growth Authority (the DEGA) in October 2018, with operations beginning January 1, 2019. Its purpose is to stimulate public and private investment in downtown Kalamazoo and act as the catalyst for joint public and private action to bring about economic growth and physical development in the downtown area. The governing body of the DEGA is a board of directors consisting of the mayor of the City of Kalamazoo and eight other members.

#### *Summary of Significant Accounting Policies*

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

#### *Reporting Entity*

The DEGA is an independent entity with an appointed board of directors. The board consists of the mayor of the City and eight other members who are appointed to four-year terms. The board has responsibility and control over all matters affecting the DEGA, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the DEGA contain all activity for which the DEGA is financially accountable. The DEGA is a discretely presented component unit of the City as the City is financially accountable for the DEGA. The City is considered financially accountable for a component unit if it appoints a voting majority of the DEGA's governing body and it is able to impose its will on the DEGA by significantly influencing the programs, projects, activities, or level of services performed or provided by the DEGA, or there is a potential for the DEGA to provide specific financial benefits to, or impose specific financial burdens on, the City. Blended component units, although legally separate entities are, in substance, part of the City's operations, and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the Government-wide statements to emphasize that they are legally separate from the primary government.

#### *Basis of Presentation*

##### *Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities report information on all of the activities of the DEGA. The Government-wide financial statements categorize activities as either governmental or business-type. All of the DEGA's activities are classified as governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of

*See accompanying independent auditor's report.*

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

**Notes to Financial Statements**

---

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

*Fund Financial Statements*

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

The governmental fund is used to account for the DEGA's general activity. The focus is on determination of the financial position and changes in financial position rather than on income determination. The following is a description of the governmental fund of the DEGA - *General Fund* - The General Fund is the general operating fund of the DEGA. It is used to account for all financial resources. Funding is provided through property tax revenues, contributions from the Downtown Development Authority of the City of Kalamazoo, and other revenues.

***Measurement Focus and Basis of Accounting***

*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Fund Financial Statements*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if they are collected within the current period or soon enough after to pay liabilities for the current period. The DEGA considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

*Assets, Liabilities, and Net Position*

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

State statutes authorize the DEGA to invest in:

- Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

*See accompanying independent auditor's report.*

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

**Notes to Financial Statements**

---

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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

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

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

Net Position - Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments. Unrestricted net position represents net position that is not subject to externally imposed stipulations. It is the DEGA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

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

*Unassigned fund balance* - the residual fund balance of the General Fund.

The DEGA's spending policy considers restricted fund balances to be spent first when both restricted and unrestricted fund balances are available. When expenditures are recorded using unrestricted fund balances, assigned amounts are spent first, then unassigned amounts.

***Property Taxes***

Property taxes are levied on July 1, and attach as an enforceable lien on property as of January 1. The City acts as the collecting agent for the DEGA. Taxpayers may elect to pay their tax bills in six equal monthly installments beginning on July 1 and on the first day of the next five months. The result of installment payments is to delay one-half of taxes payable under the installment system beyond the fiscal year-end.

*See accompanying independent auditor's report.*

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

**Notes to Financial Statements**

---

***Contributions***

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/ expenses during the reporting period. Actual results could differ from those estimates.

***Subsequent Events***

Management has evaluated the period from January 1, 2020 through June 26, 2020, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, the following non-recognizable subsequent event was identified.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

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

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

**2. Stewardship, Compliance, and Accountability**

***Budgetary Information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund. All annual appropriations lapse at year-end.

*See accompanying independent auditor's report.*

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

**Notes to Financial Statements**

---

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

A budget is prepared by the staff and submitted to the DEGA Board.

1. The DEGA Board, at a public hearing, approves the submission of the budget to the City Commission of the City.
2. The City Commission approves the budget.
3. The DEGA Board formally adopts the budget through a board resolution.

The budgets must be approved by January 1 if the DEGA has not adopted an interim appropriation resolution authorizing the DEGA to continue normal operations until the budget is approved by the City Commission and are prepared on a basis consistent with accounting principles generally accepted in the United States of America.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the DEGA to have its budget in place January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year.

During the year ended December 31, 2019, the DEGA did not incur expenditures in the General Fund which were in excess of the amounts budgeted.

### **3. Deposits**

Following is a reconciliation of deposits as of December 31, 2019:

*December 31, 2019*

---

**Statement of Net Position (Deficit)**

Cash and cash equivalents	\$ 84,048
---------------------------	-----------

---

All of the DEGA's cash and cash equivalents and restricted cash and cash equivalents consists of deposits in checking and savings accounts.

#### ***Deposits***

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States. The DEGA's investment policy complies with the state of Michigan statutes and has no additional limitations on deposits.

#### ***Custodial Credit Risk - Deposits***

Custodial credit risk is the risk that, in the event of bank failure, the DEGA's deposits might not be recovered. The DEGA does not have a policy to mitigate this risk. At December 31, 2019, all of the DEGA's bank balances were insured and collateralized.

*See accompanying independent auditor's report.*

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

**Notes to Financial Statements**

**4. Note Payable**

The City of Kalamazoo note was issued in November 2019, and is due in annual interest-only payments of \$6,000 through July 2024 when the full principal balance is due. The purpose of the loan is to assist in funding operations as the DEGA's property tax capture grows.

Changes in the note payable at December 31, 2019, were as follows:

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

Long-term notes at December 31, 2019, are comprised of the following:

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

***Repayment Schedule***

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

<i>Year ending December 31,</i>	<u>Governmental Activities</u>		<u>Total</u>
	Principal	Interest	
2020	\$ -	\$ 6,000	\$ 6,000
2021	-	6,000	6,000
2022	-	6,000	6,000
2023	-	6,000	6,000
2024	300,000	6,000	306,000
	<b>\$ 300,000</b>	<b>\$ 30,000</b>	<b>\$ 330,000</b>

*See accompanying independent auditor's report.*

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

**Notes to Financial Statements**

---

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

The DEGA maintains a TIF plan to help fund capital improvements in downtown Kalamazoo. The plan allows the DEGA to capture and retain real property tax revenue on all development projects beyond an initial assessed value as determined at the date of the TIF plan. The remaining share of revenues from increases in real property assessed value will be distributed to all “taxing authorities.”

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

Business activities of the DEGA, Downtown Kalamazoo, Inc. (DKI), and Downtown Tomorrow, Inc. (DTI) are supported by one another. DKI is involved in the economic development, marketing, and activity of services to downtown Kalamazoo, while DTI raises funds through philanthropic contributions and other private sources to assist the DEGA and DKI in implementing development plans for downtown Kalamazoo. Although services are provided to one another, each remains a separate entity governed by its own board of directors.

For the year ended December 31, 2019, approximately \$163,000 was paid to DKI under a service agreement which is approved annually by the board of directors. The annual service agreement was renewed for 2020.

**7. Risk Management and Benefits**

The DEGA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. In order to minimize its exposure to these risks, the DEGA is insured through the City and a management company.

*See accompanying independent auditor’s report.*





## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund (a major fund) of the Downtown Economic Growth Authority of the City of Kalamazoo, Michigan (the DEGA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the DEGA's basic financial statements, and have issued our report thereon dated June 26, 2020.

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

In planning and performing our audit of the financial statements, we considered the DEGA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DEGA's internal control. Accordingly, we do not express an opinion on the effectiveness of the DEGA's internal control.

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

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

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

*BDO USA, LLP*

June 26, 2020