



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

Financial Statements
Year Ended December 31, 2020

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Independent Auditor's Report

Board of Directors
Downtown Development Authority of the City of Kalamazoo, Michigan
Kalamazoo, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the General Fund (a major fund) of the Downtown Development Authority of the City of Kalamazoo, Michigan (the DDA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the DDA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund (a major fund) of the DDA, as of December 31, 2020, and the respective changes in financial position and 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DDA 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 DDA's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DDA'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 DDA'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.

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 6 through 10 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 DDA, and do not purport to, and do not, present fairly the financial position of the City of Kalamazoo, as of December 31, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2021 on our consideration of the DDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DDA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DDA's internal control over financial reporting and compliance.

BDO USA, LLP

June 29, 2021

Downtown Development Authority of the City of Kalamazoo, Michigan (A Component Unit of the City of Kalamazoo)

Management's Discussion and Analysis

This section of the Downtown Development Authority's (the DDA's) annual financial report presents management's discussion and analysis of the DDA's financial performance during the year ended December 31, 2020. Please read it in conjunction with the DDA'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 DDA's finances as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole DDA, presenting both an aggregate view of the DDA'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 DDA as a Whole - Government-Wide Financial Statements

One of the most important questions asked about the DDA is, "As a whole, what is the DDA'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 DDA's financial statements, report information on the DDA 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 DDA's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the DDA's financial health or financial position. Over time, increases or decreases in the DDA'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 DDA's operating results. However, the DDA'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 DDA.

The statement of net position and the statement of activities report the governmental activities for the DDA, which encompass all of the DDA's services, including general government, parking (public works), and community development (health and welfare). Property taxes and parking revenue finance most of these activities.

Reporting the DDA's Fund Financial Statements

The DDA's fund financial statements provide detailed information about the operating fund - not the DDA as a whole. The DDA, 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 DDA uses the following accounting approach:

Governmental Fund - All of the DDA'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

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Management's Discussion and Analysis

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 DDA 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 DDA'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 DDA as a Whole - Government-Wide Financial Statements

Recall that the statement of net position provides the perspective of the DDA as a whole. The following provides a summary of the DDA's net position:

<i>December 31,</i>	2020	2019
Assets		
Current and other assets	\$ 3,104,341	\$ 3,809,096
Capital assets, net of accumulated depreciation	301,127	336,721
Total Assets	\$ 3,405,468	\$ 4,145,817
Liabilities		
Current liabilities	\$ 285,065	\$ 222,150
Long-term liabilities	1,159,457	1,231,082
Total Liabilities	1,444,522	1,453,232
Net Position		
Investment in capital assets	301,127	336,721
Restricted - ramp 3 maintenance	269,283	343,137
Unrestricted	1,390,536	2,012,727
Total Net Position	1,960,946	2,692,585
Total Liabilities and Net Position	\$ 3,405,468	\$ 4,145,817

The preceding analysis focuses on the net position. The change in net position of the DDA's governmental activities is discussed below. The DDA's unrestricted net position was \$1,390,536 at December 31, 2020. The investment in capital assets totaling \$301,127 compares the original cost, less depreciation. Debt was not used to acquire these capital assets.

The \$1,960,946 net position of governmental activities represents the *accumulated* results of all past years' operations. Current and other assets decreased by approximately \$740,000 during the current year, which is primarily due to a decrease in cash and the outstanding note receivable.

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Management's Discussion and Analysis

The results of this year's operations for the DDA as a whole are reported in the following statement of activities, which shows the changes in net position for 2020 and 2019:

<i>Year ended December 31,</i>	2020	2019
Revenue		
Program revenue:		
Charges for services	\$ 1,548,457	\$ 2,225,793
General revenue:		
Property taxes	269,047	271,310
Interest income	26,164	83,251
Other	41,722	41,815
Total Revenue	1,885,390	2,622,169
Functions/Program Expenses		
General government	249,909	253,085
Public works	2,260,752	2,724,759
Health and welfare	100,399	161,254
Interest on long-term debt	5,969	5,969
Total Expenses	2,617,029	3,145,067
Change in Net Position	(731,639)	(522,898)
Net Position, beginning of year	2,692,585	3,215,483
Net Position, end of year	\$ 1,960,946	\$ 2,692,585

As reported in the statement of activities, the cost of all of the DDA's activities this year was \$2,617,029. Certain activities were partially funded from those who benefited from the operations through charges for services of \$1,548,457. The remaining "public benefit" portion of the DDA's activities were paid with \$269,047 in taxes and with other revenues such as interest. Health and welfare related expenses decreased approximately \$61,000 due to the impacts of COVID-19 on slowdown of business development and engagement projects.

The DDA experienced a decrease in net position of \$731,639 in 2020. This decrease is largely due to the impacts of COVID-19 shutdowns and restrictions on parking revenue in 2020.

As discussed above, the net cost shows the financial burden placed on the DDA and the DDA's taxpayers by each of these functions. Since property taxes for operations and parking revenue constitute the vast majority of the DDA's operating revenue sources, the board and management must annually evaluate the needs of the DDA and balance those needs with ongoing obligations to citizens and creditors.

The DDA's Governmental Fund

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

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Management's Discussion and Analysis

As the DDA completed this year, the General Fund reported a fund balance of \$2,123,270 which is a decrease of \$703,971 from last year. The decrease is due to the results of operations of the General Fund.

General Fund Budgetary Highlights

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

Actual revenue when compared to the final budget, was approximately \$733,875 below the budgeted amount. This variance was due to parking revenues being below budget for the current year.

The actual amounts reported for total expenditures when compared with the budget, were approximately \$17,000 under the final budget. This variance was can be attributed to the decrease in contractual expenses related to parking.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2020, the DDA had \$301,127 invested in capital assets, including land, leasehold improvements, general and administrative equipment, equipment, and equipment under capital leases. This amount represents a decrease of \$35,594 or 11% from last year due to depreciation exceeding capital additions.

<i>December 31,</i>	2020	2019
Land	\$ 58,162	\$ 58,162
Leasehold improvements	684,881	684,881
General and administrative equipment	210,724	210,724
Equipment	656,964	655,335
	1,610,731	1,609,102
Less: accumulated depreciation	(1,309,604)	(1,272,381)
Net Capital Assets	\$ 301,127	\$ 336,721

Additional information that is more detailed about the DDA's capital assets is presented in the notes to the financial statements in Note 5, page 24.

Rebated Tax Liability

At the end of this year, the DDA had \$532,864 in rebated tax liabilities outstanding, which is the same as last year, due to no payments being made on the outstanding rebated tax liability during 2020.

Additional information that is more detailed about the DDA's rebated tax liability is presented in the notes to the financial statements in Note 6, pages 24 and 25.

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Management's Discussion and Analysis

Notes Payable

At the end of this year, the DDA had \$626,593 in notes payable outstanding compared to \$698,218 in the previous year, a decrease of 10.3% due to the payment of \$71,625 on a note payable to the City of Kalamazoo.

Additional information that is more detailed about the DDA's long-term obligations is presented in the notes to the financial statements in Note 7, pages 25 and 26.

Significant Currently Known Facts

Economic Factors and Next Year's Budgets and Rates

The DDA's Board of Directors and management considered many factors when setting the DDA's 2020 budget. One of the most important factors affecting the budget is to ensure sufficient funds are available for debt service payments. The 2021 budget was adopted in February 2021, based on projected revenues. Approximately 97% of total General Fund revenue is from user fees, sales proceeds, and the levy.

COVID-19

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spread 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 DDA 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 have impacted the DDA'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 DDA'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 DDA is still in process of assessing the impact the CARES Act will have on the DDA for the year ending December 31, 2021.

Contacting the DDA's Financial Management

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

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

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Government-Wide Financial Statements - Statement of Net Position

December 31, 2020

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,927,612
Restricted cash and cash equivalents	269,283
Receivables:	
Taxes	5,963
Parking system	82,414
Note receivable	819,069
Capital assets, net of accumulated depreciation	301,127
Total Assets	\$ 3,405,468
Liabilities	
Accounts payable - trade	\$ 212,002
Accrued interest	73,063
Long-term liabilities:	
Due within one year:	
Rebated tax liabilities	333,040
Notes payable	614,064
Due in more than one year:	
Rebated tax liabilities	199,824
Notes payable	12,529
Total Liabilities	1,444,522
Net Position	
Investment in capital assets	301,127
Restricted - ramp 3 maintenance	269,283
Unrestricted	1,390,536
Total Net Position	1,960,946
Total Liabilities and Net Position	\$ 3,405,468

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

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Government-Wide Financial Statements - Statement of Activities

Year ended December 31, 2020

		Program Revenues		Governmental Activities
	Expenses		Charges for Services	Net Revenue (Expenses) and Change in Net Position
Functions/Programs				
Governmental activities:				
General government	\$ 249,909	\$ -	\$ -	\$ (249,909)
Public works	2,260,752	1,548,457	-	(712,295)
Health and welfare	100,399	-	-	(100,399)
Interest on long-term debt	5,969	-	-	(5,969)
Total Governmental Activities	\$ 2,617,029	\$ 1,548,457		(1,068,572)
General Revenues				
Property taxes				269,047
Interest income				26,164
Other				41,722
Total General Revenues				336,933
Change in Net Position				(731,639)
Net Position, beginning of year				2,692,585
Net Position, end of year				\$ 1,960,946

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

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Governmental Fund - Balance Sheet

December 31, 2020

	General Fund
Assets	
Cash and cash equivalents	\$ 1,927,612
Restricted cash and cash equivalents	269,283
Receivables:	
Taxes	5,963
Parking system	82,414
Note receivable	819,069
Total Assets	\$ 3,104,341
Liabilities, Deferred Inflows of Resources, and Fund Balance	
Liabilities	
Accounts payable - trade	\$ 212,002
Total Liabilities	212,002
Deferred Inflow of Resources - Unavailable Revenue	769,069
Fund Balance	
Restricted for:	
Ramp 3 maintenance	269,283
Assigned for:	
Lot sale proceeds reserve	688,094
Projected budgetary deficits	464,401
Parking system	132,674
Unassigned	568,818
Total Fund Balance	2,123,270
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 3,104,341

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

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

December 31, 2020

Total Fund Balance - Governmental Fund (from page 13) \$ 2,123,270

Amounts reported for governmental activities in the
statement of net position
are different because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the fund. These assets consist of:

Capital assets, at cost	\$ 1,610,731
Accumulated depreciation	<u>(1,309,604)</u>

Net Capital Assets 301,127

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 inflows of resources	769,069
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Long-term liabilities, including bonds payable, are not
due and payable in the current period and, therefore,
are not reported in the fund. Balances are as follows:

Notes payable	(626,593)
Rebated tax liabilities	(532,864)
Accrued interest payable on long-term debt	<u>(73,063)</u>

Total Long-Term Liabilities (1,232,520)

Net Position of Governmental Activities \$ 1,960,946

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

Downtown Development Authority of the City of Kalamazoo, Michigan
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**Governmental Fund - Statement of Revenues, Expenditures, and
Changes in Fund Balance**

Year ended December 31, 2020

	General Fund
Revenues	
Charges for services - parking system	\$ 1,548,457
Property taxes	269,047
Interest	8,894
Other	41,722
Total Revenues	1,868,120
Expenditures	
Current:	
General government	249,909
Public works	2,225,158
Health and welfare	100,399
Debt service:	
Principal	71,625
Total Expenditures	2,647,091
Deficiency of Revenues Over Expenditures	(778,971)
Other Financing Sources	
Sale of properties	75,000
Total Other Financing Sources	75,000
Change in Fund Balance	(703,971)
Fund Balance, beginning of year	2,827,241
Fund Balance, end of year	\$ 2,123,270

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

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

Year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for services - parking system	\$ 2,399,537	\$ 1,490,106	\$ 1,548,457	\$ 58,351
Property taxes	267,000	267,000	269,047	2,047
Interest	45,732	14,575	8,894	(5,681)
Other	441,732	830,314	41,722	(788,592)
Total Revenues	3,154,001	2,601,995	1,868,120	(733,875)
Expenditures				
General government:				
Contractual and other services	266,645	266,645	249,909	16,736
Total General Government	266,645	266,645	249,909	16,736
Public works:				
Lease expense	923,183	913,050	908,743	4,307
Contractual and other services	1,062,389	817,328	742,757	74,571
Salaries	610,256	387,070	380,841	6,229
Supplies	56,542	35,300	24,459	10,841
Fringe benefits	120,821	108,569	102,351	6,218
Payroll taxes	109,114	69,208	66,007	3,201
Total Public Works	2,882,305	2,330,525	2,225,158	105,367
Health and welfare:				
Contractual and other services	-	-	399	(399)
Other obligations	100,000	100,000	100,000	-
Total Health and Welfare	100,000	100,000	100,399	(399)
Expenditures (Concluded)				
Debit service:				
Principal payments	-	-	71,625	(71,625)
Interest and other changes	-	-	-	-
Total Debt Service	-	-	71,625	(71,625)
Total Expenditures	3,248,950	2,697,170	2,647,091	50,079
Excess (Deficiency) of Revenues Over Expenditures	(94,949)-	(95,175)	(778,971)	(683,796)
Other Financing Sources				
Sale of properties	-	-	75,000	75,000
Total Other Financing Sources	-	-	75,000	75,000
Change in Fund Balance	(94,949)	(95,175)	(703,971)	(608,796)
Fund Balance, beginning of year	2,827,241	2,827,241	2,827,241	-
Fund Balance, end of year	\$ 2,732,292	\$ 2,732,066	\$ 2,123,270	\$ (608,796)

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

Downtown Development Authority of the City of Kalamazoo, Michigan (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, Michigan (the City) established the Downtown Development Authority (the DDA) on March 1, 1982. 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 DDA is a board of directors consisting of the chief executive officer of the City and ten other members.

Summary of Significant Accounting Policies

The financial statements of the DDA 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 DDA's significant accounting policies are described below.

Reporting Entity

The DDA is an independent entity with an appointed board of directors. The board consists of the chief executive officer of the City and ten other members who are appointed to four-year terms. The board has responsibility and control over all matters affecting the DDA, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the DDA contain all activity for which the DDA is financially accountable. The DDA is a discretely presented component unit of the City as the City is financially accountable for the DDA. The City is considered financially accountable for a component unit if it appoints a voting majority of the DDA's governing body and it is able to impose its will on the DDA by significantly influencing the programs, projects, activities, or level of services performed or provided by the DDA, or there is a potential for the DDA 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 DDA. The Government-wide financial statements categorize activities as either governmental or business-type. All of the DDA'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 a particular function. Property taxes and other items not included among program revenues are reported as general revenues.

See accompanying independent auditor's report.

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Notes to Financial Statements

Fund Financial Statements

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

The governmental fund is used to account for the DDA'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 DDA - *General Fund* - The General Fund is the general operating fund of the DDA. It is used to account for all financial resources. Funding is provided through charges for services from the Parking System and property tax 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 DDA 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 and rebated tax expenditures are recorded only when payment is due.

Assets, Liabilities, and Net Position/Fund Balance

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 DDA to invest in:

- Bonds, 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.
- 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.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

- 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.

Nonspendable - Includes items that are not in spendable form because they are either legally or contractually required to be maintained intact.

Restricted Cash and Cash Equivalents - Restricted cash and cash equivalents represents an amount restricted for the purpose of parking ramp 3 maintenance.

Capital Assets - Capital and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs typically exceed \$500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at their acquisition value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed.

Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets as follows:

<i>Asset category</i>	<i>Useful Life (Years)</i>
Leasehold improvements	10-15
Equipment	3-10

The DDA evaluates its capital assets for impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Properties held and in use are reviewed for impairment whenever indicators of impairment exist. If impairment is indicated, then an adjustment is made to the carrying value of the capital assets. No impairments have been identified as of December 31, 2020.

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

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums and discounts are reported as other financing sources (uses) while issuance costs are reported as expenditures.

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Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

Net Position - Net position represents the difference between assets and liabilities. Investment in capital assets consists of capital assets, net of accumulated depreciation. 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 consists of the net position not meeting the definition of either of the other two components. It is the DDA'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 DDA's fund balance is classified in the following categories:

Restricted Fund Balance - restricted for specific purposes imposed by grantors, bondholders, constitutional provisions, or enabling legislation.

Assigned Fund Balance - intended to be used for specific purposes imposed by the Board of Directors or management.

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

The DDA'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, committed amounts are spent first, then assigned, and finally 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 DDA. The DDA can levy taxes up to \$2.00 per \$1,000 of assessed value of property in the downtown DDA, which is the maximum permitted under P.A. 197. 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.

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, 2021 through June 29, 2021, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no recognizable subsequent event was identified.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan (A Component Unit of the City of Kalamazoo)

Notes to Financial Statements

Risks and Uncertainties

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 spread 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 of the impact that the pandemic will have on the DDA'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 DDA 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 DDA is still in the process of assessing the impact the CARES Act will have on the DDA for the year ending December 31, 2021.

Although the DDA cannot estimate the length or gravity of the impact of COVID-19, the outbreak could have a permanent effect on how the DDA operates in order to continue to achieve their mission to support the community.

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.

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

1. A budget is prepared by the staff and submitted to the DDA Board.
2. The DDA Board, at a public hearing, approves the submission of the budget to the City Commission of the City.
3. The City Commission approves the budget.
4. The DDA Board formally adopts the budget through a board resolution.

The budgets must be approved by January 1 if the DDA has not adopted an interim appropriation resolution authorizing the DDA 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.

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Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

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 DDA 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, 2020, the DDA incurred expenditures less than the amount budgeted of \$33,742 in the public works function and expenditures in excess of the budgeted amount of \$399 in the health and welfare function.

3. Note Receivable

The DDA previously managed Parking Ramp No.4 for the City of Kalamazoo. On April 17, 2017, the City sold Parking Ramp No. 4 for the purchase price of \$3,000,000, of which \$1,500,000 was paid in cash to the City and a \$1,500,000 note was issued to the DDA. The note is due in 60 monthly installments of \$25,000, including interest at 3.5%, with the balance due July 2022.

Changes in the note receivable at December 31, 2020 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities				
Note receivable	\$ 876,799	\$ -	\$ (57,730)	\$ 819,069

4. 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 DDA'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 DDA's deposits might not be recovered. The DDA does not have a policy to mitigate this risk. At December 31, 2020, \$1,015,550 of the DDA's bank balances of \$2,193,982 were uninsured and uncollateralized.

December 31, 2020

Uninsured and Uncollateralized	
Cash and savings	\$ 29,262
Money market	986,288
Total Uninsured and Uncollateralized	\$ 1,015,550

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

5. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance, December 31, 2019	Additions	Deductions	Balance, December 31, 2020
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 58,162	\$ -	\$ -	\$ 58,162
Capital assets depreciated:				
Leasehold improvements	684,881	-	-	684,881
General and administrative equipment	210,724	-	-	210,724
Equipment	655,335	1,629	-	656,964
Total at Historical Cost	1,609,102	1,629	-	1,610,731
Less: accumulated depreciation:				
Leasehold improvements	(439,071)	(29,824)	-	(468,895)
General and administrative equipment	(210,724)	-	-	(210,724)
Equipment	(622,586)	(7,399)	-	(629,985)
Total Accumulated Depreciation	(1,272,381)	(37,223)	-	(1,309,604)
Net Capital Assets	\$ 336,721	\$ (35,594)	\$ -	\$ 301,127

Depreciation expense was charged to governmental functions as follows:

Public works	\$ 37,223
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6. Rebated Tax Liabilities

Rebated tax liabilities represent amounts owed to the real estate property owners for taxes previously collected. Changes in rebated tax liabilities at December 31, 2020 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Rebated tax liabilities	\$ 532,864	\$ -	\$ -	\$ 532,864	\$ 333,040

Rebated tax liabilities at December 31, 2020 is comprised of the following:

	Final Maturity Dates	Interest Rates (%)	Outstanding Balance
Governmental Activities			
Rebated tax liability - Radisson	07/02/2024	2.59	\$ 532,864

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

Repayment Schedule

The annual principal and interest payments on the rebated tax liabilities as of December 31, 2020 are as follows:

<i>Year ending December 31,</i>	<u>Governmental Activities</u>		Total
	Principal	Interest	
2021	\$ 333,040	\$ 9,852	\$ 342,892
2022	66,608	9,852	76,460
2023	66,608	9,852	76,460
2024	66,608	9,852	76,460
	\$ 532,864	\$ 39,408	\$ 572,272

7. Notes Payable

Changes in notes payable at December 31, 2020 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Notes payable - direct borrowings	\$ 698,218	\$ -	\$ (71,625)	\$ 626,593	\$ 614,064

Long-term notes at December 31, 2020 are comprised of the following:

	Final Maturity Dates	Interest Rates (%)	Outstanding Balance
Governmental Activities			
The City of Kalamazoo Note	12/31/2021	N/A	\$ 459,000
Catalyst Development Co. 3, L.L.C. Note	12/31/2022	7	167,593
Total Governmental Activities			\$ 626,593

The City of Kalamazoo note is due in full in December 2021. The note bears no interest.

The Catalyst Development note is due in annual installments of approximately \$52,000, plus interest accruing at 7% annually. The final payment of principal and accrued interest is due in December 2022. The DDA was not required to make payments in 2020 or 2019. The schedule of future payments of principal and interest are detailed below.

See accompanying independent auditor's report.

Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

Repayment Schedule

The annual principal and interest payments on the notes payable as of December 31, 2020 are as follows:

<i>Year ending December 31,</i>	Governmental Activities Direct Borrowing		Total
	Principal	Interest	
2021	\$ 614,064	\$ 73,063	\$ 687,127
2022	12,529	5,969	18,498
	\$ 626,593	\$ 79,032	\$ 705,625

8. Parking System Lease Obligations

On April 20, 1989, the DDA entered into an operating lease agreement (Sublease) with the City to lease and operate the Kalamazoo Municipal Parking System (Parking System), which was restated by agreement dated December 6, 2002 (Restated Sublease). Terms of the Restated Sublease require the DDA to operate and maintain the Parking System, make annual payments of \$1, and fund the City's annual debt obligations on the Parking System. The term of the lease extends through the life of the outstanding bonds, effectively 2029. However, either party may terminate the lease at any time upon one year's written notice to the other party.

In 2005, the Kalamazoo Mall Ramp (KMR) was constructed and financed through a bond issue (KMR Bond Issue). The understanding between the DDA, City Building Authority, and the Brownfield Redevelopment Authority (BRA) was to enter into a formal written amendment to the Restated Sublease whereby the debt service on the KMR Bond Issue would be shared between the DDA, the BRA, and Meyer C. Weiner (MCW). The commitment of MCW has been fulfilled. The sharing arrangement between the DDA and the BRA was determined based on the projected TIF capture of both the DDA and BRA. Due to property tax appeals and changing commercial property values, the following debt service schedule is based on projections prorated on the actual original TIF captures.

The payments to the City by the DDA are charged to operations as a lease expenditure. As of December 31, 2020, the future debt service, inclusive of the BRA's portion, is as follows:

<i>Year</i>	Total KMR Debt Service	DDA Portion of KMR Debt Service (80%)	BRA Portion of KMR Debt Service (20%)
2021	\$ 782,000	\$ 625,600	\$ 156,400
2022	776,000	620,800	155,200
2023	778,000	622,400	155,600
2024	783,000	626,400	156,600
2025	780,000	624,000	156,000
2026-2029	3,132,000	2,505,600	626,400

See accompanying independent auditor's report.

**Downtown Development Authority of the City of Kalamazoo, Michigan
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Notes to Financial Statements

In conjunction with the Restated Sublease, the DDA entered into an agreement, through its service agreement with Downtown Kalamazoo, Inc. (DKI), with a management company to perform the day-to-day operations of the Parking System. Terms of the agreement require a minimum monthly management fee plus an additional 3% of the sum of the previous 12 months' fees. An agreement was entered into during January 2015, effective through December 31, 2018. Future minimum payments under the terms of the management agreement were \$180,000 annually, adjusted upward annually, to the lessor of 2.5% or the Consumer Price Index. The agreement is now on a month-to-month basis.

9. Service Agreement and Related Party Transactions

Business activities of the DDA, 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 DDA 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, 2020, approximately \$382,000 was paid to DKI under a service agreement which is approved annually by the board of directors. The annual service agreement was renewed for 2021.

For the year ended December 31, 2020, the DDA contributed approximately \$100,000 to the Development Economic Grow Authority of the City of Kalamazoo (DEGA) to assist with costs related to coalition programs.

10. Risk Management and Benefits

The DDA 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 DDA 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 Development Authority of the City of Kalamazoo, Michigan
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 Development Authority of the City of Kalamazoo, Michigan (the DDA), a component unit of the City of Kalamazoo, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the DDA's basic financial statements, and have issued our report thereon dated June 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DDA'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 DDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the DDA'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 DDA'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 DDA'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 DDA'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 DDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

June 29, 2021